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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 6, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

On the Secretary's instructions, I telephoned Dr. Feis at 3:40 p.m. today and asked him kindly to send a cablegram immediately for Ambassador Bullitt's confidential attention, letting the Ambassador know that Secretary Morgenthau plans to call him by telephone on Thursday, and suggesting that he have before him his cablegram #2742.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 6, 1939.

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Leroy-Beaulieu telephoned me from New York at 10:50 this forenoon, and again this afternoon at 3:00 o'clock. He desires an appointment with the Secretary on Thursday, or preferably Friday, to acquaint the Secretary formally with the decision of the Bank of France to open its special account with the Federal Reserve Bank of New York. Mr. Leroy-Beaulieu stated that one Bank of France official had arrived in New York this morning from Halifax, and that another Bank of France official, the one who is to be in charge of the special account in this country, should reach New York Monday on the Rex. Leroy-Beaulieu told me that he had let Pinsent know of these developments, and he thought this information would be helpful, since he was under the impression that there was some "hitch" in British arrangements.

Mr. Knoke telephoned me at 2:45 p.m. He stated that Mr. Osborne had told him today by telephone that Under Governor Catterns of the Bank of England had telephoned Osborne that he was going to cable the Federal Reserve Bank of New York to open the British account as planned.

Incidentally, Mr. Knoke mentioned that the Chase Bank in New York had today received a market inquiry from Amsterdam as to whether there is any possibility of this Government putting an embargo on gold of Russian origin.

I telephoned Mr. Leroy-Beaulieu's office at 4:00 o'clock and told his secretary, in his absence, that Secretary Morgenthau would receive him at 10:45 a.m. on Friday.

At 4:00 o'clock I talked with the office of Mr. Purvis in New York, upon confirming that Mr. Pinsent is at present in that city. With Mr. Purvis' secretary, I fixed an appointment for Secretary Morgenthau to receive Mr. Purvis at 11:00 a.m. Friday.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 6, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The rate for sterling in the foreign exchange market today showed considerable strength. The opening quotation was 3.90 and it was reported there was some commercial demand in the market. During the day, the rate improved steadily to 3.92, and closed there. From the turnover figures given below, it is evident that the banks took a considerable amount of the sterling offered into their own account, which had the effect of making a higher rate for sterling.

Sales of spot sterling by the four reporting banks totaled £632,000, from the following sources:

By commercial concerns.....	£ 185,000
By foreign banks (Europe, Far East and South America).....	£ 447,000
Total.....	£ 632,000

Purchases of spot sterling amounted to £491,000, as indicated below:

By commercial concerns.....	£ 375,000
By foreign banks (Europe and Far East).....	£ 116,000
Total.....	£ 491,000

Cotton bills totaling £362,000 were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£ 185,000	by the Guaranty Trust Company
£ 154,000	by the Bank of the Manhattan
£ 23,000	by the National City Bank
£ 362,000	Total

The other important currencies closed as follows:

French francs	.0222
Guilders	.5309
Swiss francs	.2242-1/2
Belgas	.1651
Canadian dollars	12-3/4% discount

The rate for the Cuban peso continued to improve to 10-3/4% discount.

The Federal Reserve Bank of New York purchased 100,000 belgas and 30,000 guilders for the Bank of Latvia.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$ 4,980,000 from the Bank of Norway
1,250,000 from the Netherlands Bank
585,000 from the National Bank of Belgium
\$ 6,815,000 Total

The Federal Reserve Bank of New York reported to us the following shipments of gold:

\$ 4,008,000 from Norway, shipped by the Bank of Norway to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of Norway.
1,099,000 representing two shipments from India, shipped by the National Bank of India to the Guaranty Trust Company, San Francisco.
425,000 from India, shipped by the National City Bank, Bombay, to the American Trust Company, San Francisco.
301,000 from India, shipped by the National Bank of India to Australian Bank, San Francisco.
245,000 from India, shipped by the National Bank of India to the Swiss Banking Corporation, San Francisco.
\$ 6,078,000 Total

All of the above shipments, with the exception of the first one listed, will be sold to the U. S. Mint in San Francisco.

We received from the State Department cables from the American Consuls at Calcutta and Hong Kong, stating that invoices were certified for the following gold shipments:

\$ 266,000 from India, shipped by the National City Bank of New York, Calcutta, to the National City Bank of New York, New York.
294,000 from India, shipped by the National City Bank, Bombay, to the American Trust Company, San Francisco.
1,235,000 from Hong Kong, shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco.
352,000 from Hong Kong, shipped by the Banque Belge pour l'Etranger, Hong Kong, to the Bank of America N.T.&S.A., San Francisco.
336,000 from Hong Kong, shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N.A., San Francisco.
163,000 from Hong Kong, shipped by the National City Bank of New York, Hong Kong, to the American Trust Company, San Francisco.
\$2,646,000 Total

Those shipments consigned to San Francisco will be sold to the U. S. Mint in that city and those sent to New York will be sold to the U. S. Assay Office there.

CONFIDENTIAL

The U. S. equivalents of the London spot and forward silver prices were 41.13¢ and 40.98¢, respectively. Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

We purchased a total of 460,000 ounces of silver, under the Silver Purchase Act, of which six purchases amounting to 300,000 ounces were purchased in New York. The remaining 160,000 ounces were purchased through the Crocker First National Bank in San Francisco.

We also purchased 60,000 ounces of silver from the Bank of Canada, under our regular monthly agreement.

The Bombay silver price figured out to an equivalent of 43.40¢, as compared to 43.55¢ yesterday. The steadiness of the price would indicate that the Bombay silver market is returning to more normal conditions.

J. W. F.

CONFIDENTIAL

December 6, 1939.
10:40 a.m.

H.M.Jr: How are you?
Admiral
Land:

H.M.Jr: I just got back from the White House this minute.

L: Yes.

H.M.Jr: And Mrs. Klotz tells me that you want to have a word with me on the phone if nothing else.

L: Well I've got, if it's convenient to you I'd come over at eleven o'clock and maybe we could -

H.M.Jr: No.

L: Would that be all right?

H.M.Jr: No, I've got the whole Navy Department coming here at eleven - Edison's coming over on a contract.

L: Huhhuh.

H.M.Jr: Edison's coming at eleven.

L: I see.

H.M.Jr: That's why I couldn't shift, you see?

L: Huhhuh. Well I -

H.M.Jr: You're going to New York, aren't you?

L: I've got to go, but - I've got this economic club thing that I've had on - I wish I didn't have but I've got it.

H.M.Jr: Are you speaking there?

L: Yes, sir.

H.M.Jr: Tonight. Won't you be back tomorrow morning?

L: I'll be back tomorrow morning.

H.M.Jr: Well is there something on your mind that won't wait.

L: Well yes, there's two or three things that - on this whole shipping situation that I'd like very much to go

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over with you and ultimately I think we may have to get - mix some other people in it and we'll take it up with the Big White Father.

H.M.Jr: Well, how about three o'clock Thursday. Hello.

L: Yes, that's all right. I was just looking it up to see -

H.M.Jr: How are you fixed?

L: I've got a Congressman coming in at two-thirty but I'll get rid of him. I can do it at three o'clock, and what - how long is it going to take you with Edison, do you know?

H.M.Jr: Oh, God, he's coming over with a big gang.

L: Well I guess I'd better not try it today then.

H.M.Jr: It's one of these closing agreements on the shipping - it's been going on for five months.

L: Well then we'll say tomorrow afternoon at three o'clock.

H.M.Jr: Yes, because Edison says this an argument that's been going on for five months.

L: I see. Well three o'clock tomorrow then Mr. Secretary.

H.M.Jr: Thank you.

L: O.K.

H.M.Jr: Goodbye.

December 6, 1939.
2:27 p.m.

H.M.Jr: Hello.
George Harrison: Hello.

H.M.Jr: Hello George.

H: Yes, Henry, I'm not meaning to bother you except that I told you I would.

H.M.Jr: Good.

H: About a thing like this. Another large payment that's been made by the Reich bank to the German Consular General.

H.M.Jr: Yes.

H: But in view of the recent arrangement that we have with the Chase National.

H.M.Jr: Yes.

H: Who gets all this information now and is collecting it.

H.M.Jr: Yes.

H: I didn't know whether you wanted me to give it to you direct or not.

H.M.Jr: Well if you didn't give it to me who would you give it to.

H: Well I think the person himself gets it here you see.

H.M.Jr: Well as long as you've got me on the phone, do you want to tell me what it is.

H: Yes. Well it is a payment of seven hundred thousand that was made last week.

H.M.Jr: I see.

H: Of which two hundred thousand was withdrawn from the Chase, in large bills.

H.M.Jr: I knew about that.

H: What?

H.M.Jr: I knew about that.

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H: Yes, so I think you -

H.M.Jr: I think I'm getting it.

H: I think you're getting it and I called you up - first I wanted to be sure and second to suggest that perhaps the best way to do it was go through on the regular routine way now through the Chief.

H.M.Jr: It's coming along nicely. Yes, thanks to your initiative. Well George, -

H: Yes.

H.M.Jr: Everything is quiet I want to do some financing Tuesday, I want to refund that March issue.

H: Yes.

H.M.Jr: So you might be thinking about it.

H: First rate.

H.M.Jr: I think that last issue settled down all right hasn't it?

H: Well I think it has, the market's been a little upset but it's not, it's very - very quiet and very - relatively steady.

H.M.Jr: Will you do this for me?

H: Yes.

H.M.Jr: Between now and ten o'clock tomorrow morning, do you know of any good reason why I shouldn't announce at my ten-thirty press conference that I'm calling - asking the open market committee to meet with me, see?

H: Yes.

H.M.Jr: I'd like to know that before ten-thirty tomorrow.

H: Yes.

H.M.Jr: When you have the committee meet with you?

H.M.Jr: Monday.

H: I see.

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H.M.Jr: But tell him that. Making that public would be notice of a thing you're financing.

H: Yes.

H.M.Jr: So -

H: All right, sir, well I'll talk it over with the fellows here and call you back if there's any change.

H.M.Jr: If you'd do it - let me know between ten and ten-thirty tomorrow.

H: Yes. If you don't hear anything -

H.M.Jr: If I don't hear anything I'll announce at ten-thirty that I'm going to invite the open market committee to meet.

H: All right.

H.M.Jr: Notice to the world that we're going ahead, you see.

H: Surely.

H.M.Jr: O.K.

H: Yes, all right.

H.M.Jr: Thank you.

December 6, 1939.
3:10 p.m.

Operator: Mr. Parker.

H.M.Jr: Right.

O: Go ahead.

Geo. B.
Parker: Hello, Mr. Secretary.

H.M.Jr: Hello Mr. Parker. How are you today? Hulloha to you.

P: Hulloha to you. Right back at you.

H.M.Jr: Yes.

P: I read that thing that you sent out to me, and I think what it's all about is very significant and has been explained adequately.

H.M.Jr: Yes.

P: I mean not only as it relates to the matter of profit on war contracts but it relates to the operation of that whole thing called the closing agreement.

H.M.Jr: Yes.

P: And I'm no expert on tax matters, it's pretty much of an Einstein proposition to me. I think I understand the principle involved and that is the allowance for operation instead of capital investment. That's the headline on it.

H.M.Jr: Just a second. Can I call you, the President is calling me.

P: Yes. I wish you would because I want - I don't want to head you off but I'll be here for an hour - Decatur 3084.

December 6, 1939.
3:16 p.m.

H.M.Jr: Hello

Geo. B.
Parker:

Yes, what I started to say was this that to spell out and have it accurate. The thing involving the intricacies of allowances for depreciation capital investment and all the tax angles is like - kind of like explaining to the average person the Einstein theory which you don't understand so well yourself.

H.M.Jr: Yes.

P: Now what I thought I'd like to do would be either to attempt - I think I get the point involved in this closing agreement thing. From my slight knowledge of the business operations of newspapers, if we buy a line-a-type that's a capital investment.

H.M.Jr: Yes.

P: Under certain circumstances a line-a-type might be allowed as an operating expense. The difference would show up in the taxation column.

H.M.Jr: That's right.

P: That's the guts of this thing.

H.M.Jr: Well let's put it this way. Your line-a-type machine might be used up in two or three years.

P: Yes.

H.M.Jr: A building might take twenty or twenty-five years.

P: That's right.

H.M.Jr: See?

P: Yes.

H.M.Jr: Now, in this particular case they have to put in jigs and dyes.

P: Yes.

H.M.Jr: Which they say will - only manufacture of this particular gun.

P: That's right.

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- H.M.Jr: Can't be used for anything else.
- P: Yes.
- H.M.Jr: We're allowing them the life of the contract which is either one or two years.
- P: In other words, as an operating charge instead of a capital investment that hangs on.
- H.M.Jr: That's right.
- P: Well I thought I got the point all right, but I'm no expert in taxation matters.
- H.M.Jr: Neither am I.
- P: I'm going to try myself to write an editorialexpository in its nature.
- H.M.Jr: Yes.
- P: From the material that you sent out.
- H.M.Jr: Yes.
- P: And I would like to check with you, Johnny Hanes or somebody else, before it goes, because as I say, I don't know the taxation intricacies or the Einstein theory and one's about as hard as the other.
- H.M.Jr: Well, Hanes is away.
- P: I mean when it comes to explaining.
- H.M.Jr: Yes.
- P: To the average reader what it's all about. The average reader doesn't have those things because he isn't conducting a business, and yet I think in this expression of policy that then what you sent out to me is probably one of the most hopeful things to the industry and business of the country that I've seen.
- H.M.Jr: Really.
- P: It isn't anything new I guess, I mean it's merely an expression of policy as it relates to war materials but applied to industry generally it might be a very hopeful stimulating thing but I wouldn't want to get

off on the wrong foot and be inaccurate in the exposition of it.

H.M.Jr: Well I tell you, we have got a man who worked on this, his name is Sullivan, whose assistant -

P: Yes, he's - he was in the conference.

H.M.Jr: Yes.

P: And he'd be available to you to come to see you at any time or any place. Well I'd be very glad to drop in and see him or if I could get a man like Raymond Clapper or Tom Stokes or somebody to spell this out in the news way first.

H.M.Jr: Well now -

P: Then editorialize on it, that might be a better plan.

H.M.Jr: I'll tell you what we'll do.

P: How's that?

H.M.Jr: I will tell Eugene Duffield who's in my office here, who handles public relations.

P: Yes.

H.M.Jr: About my conversation with you.

P: All right.

H.M.Jr: And that if he gets a call from you or your office he should arrange whoever you designate should get together with Sullivan.

P: That's fine. That's the way to handle it.

H.M.Jr: How's that?

P: That's fine and I appreciate it.

H.M.Jr: The young man's name is Duffield.

P: Duffield.

H.M.Jr: Yes.

P: And Mr. Sullivan is the other man.

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H.M.Jr: Yes, but I mean Duffield will arrange whoever you designate.

P: I thank you very much and I hope to see you soon.

H.M.Jr: Well it's terribly nice of you to bother to call me up.

P: Well I was very much interested in it but as I say I'm no tax expert.

H.M.Jr: It's very important because I spent one hour this morning, confidentially, on the same thing for the Navy.

P: Yes.

H.M.Jr: Trying to drive this thing into the head of the Navy what we can and cannot do, and I just couldn't get it into their heads.

P: Yes, which indicates that it's kind of a tough one for even experts to understand.

H.M.Jr: Well I tried my best for one hour, this is off the record, I shouldn't say it, to explain it to none less than Edison.

P: Yes.

H.M.Jr: And I said to Edison. I put it this way, "Now look Mr. Edison, you got out a new ediphone and you had an order for a hundred thousand ediphones and you wanted to build a plant, I couldn't do anything for you on the plant but I could on the machinery."

P: Huhhuh.

H.M.Jr: See?

P: I see.

H.M.Jr: And I went over and over and over and when he got through he still didn't understand it.

P: May I ask you this one question, if I'm not taking too much of your time.

H.M.Jr: No.

P: Suppose I'm in the business of manufacturing a certain type of armament and you have a sudden peak load of

war orders.

H.M.Jr: Yes.

P: And in order to do that I've not only got to create dyes that operate and yet are useless.

H.M.Jr: Yes.

P: Which I can understand under this program but I've also got to expand my plant, and that plant when the war is over is no good, and that's exactly what happened in the last war.

H.M.Jr: Right.

P: Now what do I do about that? Do I get any allowance on that?

H.M.Jr: We can't do it in advance, but we'd handle that just the way we did with some breweries when prohibition came along.

P: Oh, I see.

H.M.Jr: And they became obsolete, we let the fellows write it off.

P: I get you.

H.M.Jr: But the fellow's got to wait until the war is over or his orders are over and then come and say, "Now look I've got this plant on my hands, what are you going to do about it?"

P: Yes I see.

H.M.Jr: But we can't do it in advance.

P: But by that process he could advertise his plant by reason of the volume of business he would get during the so-called peak load.

H.M.Jr: Well, he'd have to wait until the end.

P: I understand that.

H.M.Jr: And we have precedent on that, as I say the best cases is a brewery.

P: Yes.

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- H.M.Jr: And we did let those fellows, when they were through, the plants became obsolete, we let them write it off.
- P: Don't you have the same principles in relation to the development of an oil well? I mean, an oil well is a thing that doesn't last forever.
- H.M.Jr: Well now that's another thing and that's something where we've got a hundred million dollar loop hole on this depletion thing.
- P: I see.
- H.M.Jr: We could collect a hundred million dollars a week and correct this depletion thing, but what - the Texas California delegation are too big for us.
- P: Is that so?
- H.M.Jr: There's a hundred million dollar loophole there.
- P: Is that a fact?
- H.M.Jr: Yes, and we just haven't got enough influence to get beyond the Texas and the California delegates.
- P: Yes, well they're pretty close.
- H.M.Jr: But isn't -
- P: That's another thing again but isn't the principle somewhat the same?
- H.M.Jr: Yes, but in that case, as I understand, they write it off over and over again.
- P: Yes I see. Sometime I'd like to have that spelled out to me.
- H.M.Jr: Well, the boys could do that any time, but we're getting away - we figure we lose a hundred million dollars a year on depletion of oil wells.
- P: I see. Well I can understand how there would be a loophole and still the principle is that if you find an oil well -
- H.M.Jr: Oh yes.

And that depletion felt in say a year.

H.M.Jr: Oh yes.

P: It's a different thing in establishing a newspaper which proceeds and publishes indefinitely.

H.M.Jr: That's right. It's the difference between a permanent structure and something which you wear out.

P: That's right.

H.M.Jr: See?

P: All right, I appreciate that very much and I'll have somebody check in or check in myself with Mr. Sullivan.

H.M.Jr: Right.

P: I think it's damned important, but nothing is important if you print it and it isn't understood.

H.M.Jr: Well you're right and that's why I appeal to you because I know you know how to use words.

P: Well thank you very much sir, and I hope to see you soon.

H.M.Jr: Righto.

P: Goodbye.

December 6, 1939.
3:29 p.m.

19

H.M.Jr: Tax?
Lauchlin
Curry: No. I'm not a great tax expert.

H.M.Jr: Yes, English taxes.

C: English taxes?

H.M.Jr: Yes.

C: Oh, oh that thing I had prepared for me. Yes -

H.M.Jr: Who did them for you?

C: Combe

H.M.Jr: Who?

C: Combe

H.M.Jr: Who's that?

C: He's down on leave of absence from the new school.
He's at Commerce now.

H.M.Jr: Oh, I see.

C: He's quite a good man I think.

H.M.Jr: I see.

C: And I called him in a rush the other day when I got
a request for some information what the British are
doing on taxes and he prepared that for me. I have -
if you're interested I have subsequent, an estimate
he put in on the eel of the National Defense Contri-
bution. Showed last fiscal year it was twenty
million pounds.

H.M.Jr: I used to have something to do with taxes.

C: (laughs) I have very little Mr. Secretary.

H.M.Jr: All right.

C: What I called you for was another matter of some
mutual interest and that's this obsolescence thing,
you know.

- 2 -

H.M.Jr: Yes.

C: To armament people.

H.M.Jr: Yes.

C: The President, some time back as you know asked me to acquaint myself with it and follow it and so I've been keeping in touch with you indirectly.

H.M.Jr: Yes.

C: And heartily approved of you - I heartily agreed with your reaction to the whole thing.

H.M.Jr: Yes.

C: And sent a note the other day, to the President.

H.M.Jr: Yes.

C: Summarizing the result of my investigations outlining about five different course of procedures.

H.M.Jr: Yes.

C: And coming to the conclusion that adequate remedies existed under existing laws and practices, and advising to make any special arrangements or even asking for special congressional action. But did suggest that I thought that in order to be in the clear that the Procurement people and Army and Navy should be thoroughly acquainted with what is possible under the present laws, because I was quite impressed when I got into it to find what is possible.

H.M.Jr: Huhhuh.

C: And so I just got this note back from the President - I'll read it to you, he says, "I like your ideas in this and wish you would take it up with the Secretary of the Treasury in person and also after talking with him lay down as definite rules and procedures as possible and have these sent to Army and Navy, etc. F.D.R."

H.M.Jr: That's all, uh?

C: That's all, yes. Now, I had an opportunity to see

- 3 -

a memorandum written by Mr. Kades over in your place.

H.M.Jr: Yes.

C: On what is possible on existing law which forms a very good basis I think for this. Of course I don't know whether these people over there really do know what is possible.

H.M.Jr: Well we had Edison over here for an hour and the answer is they don't know nothing.

C: That doesn't surprise me. (laughs) I had a talk with Admiral Furlong, I don't think he understood much.

H.M.Jr: Well, -

C: Possible though.

H.M.Jr: Let me - let me just see how this thing is running. I'll know within an hour. I've got two tentative appointments out for tomorrow.

C: Uhhuh.

H.M.Jr: And I'll get word to you see?

C: Fine.

H.M.Jr: Just as soon as I hear.

C: Fine.

H.M.Jr: And you say you've got five suggestions.

C: Well some of them were not - I mean I objected to most of them. Some -

H.M.Jr: Are they Kades' or part Kades -

C: No things that developed as in discussion with your people over there, the things that could be done. For instance drawing up a new regulation, permitting a more rapid rate of obsolescence of armament making equipment, and I advise against that.

H.M.Jr: Yes.

C: Free outright Government purchase and Diesel equipment to private concerns, and I felt there were lots of

disadvantage in that. That companies claim any obsolescence they wish and have final determination made by the Board of Tax Appeals. That's kind of messy and expensive to companies, and the - what I finally came out with was No. 5 as under present procedures the companies had the privilege of submitting amended returns for a period of three years. This can be extended by mutual consent of the companies and the Commissioner. This means that while companies would only claim normal obsolescence now they have the opportunity of securing what would be in effect retroactive readjustment of obsolescence allowances and should they later appear justified this closely resembles current British practice.

H.M.Jr: Well Sullivan suggested that this morning and I have another suggestion which I am making to the President in writing today on this thing.

C: Uhhuh.

H.M.Jr: Which I'll send you a copy of.

C: Fine.

H.M.Jr: But I'll see you anyway Thursday or Friday and would like to see you.

C: Fine.

H.M.Jr: Don't take my kidding on taxes too seriously.

C: No I'm not.

H.M.Jr: And I'll talk to you about that too.

C: Fine.

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

C: All right.

H.M.Jr: Glad you called me Lauch.

C: Not at all.

H.M.Jr: Fine.

C: Bye. Bye.

original to Mr. Bell
12/6/39 - as per Secy's
instructions. mas
-above orig. returned & destroyed.

December 6, 1939
4:44 p.m.

23

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

John K.
Otley, Sr: Mr. Secretary.

HMJr: Talking.

O: This is John Otley.

HMJr: Hello, Otley.

O: Ah - fine. I was going - knowing how busy you
were - ah - and I was going off for a two or
three days in the country shooting birds...

HMJr: Yeah.

O: ... and I've got everything on my desk cleaned up
except the one little thing that you were kind
enough to say to me last Saturday that you were
going to do Monday.

HMJr: Yeah. Well, they - I told Bell to do it.
I gave the orders on Monday.

O: Ah - well, ah - I haven't heard anything from it.

HMJr: Well, it may take a day or two to get it through
but you're going to get it.

O: I - well, that - that's all right. I was just
afraid you'd - ah -

HMJr: No, I gave the order...

O: ...a little thing like that might have gotten by.

HMJr: No. You know that we've got to do it a little
extra because we're not supposed to make deposits
in a town where there's a Federal Reserve Bank.

O: Yeah.

HMJr: So we've got to get you something a little special.

O: Fine. All right.

HMJr: But the orders were given and you go get yourself some birds and when you come back you'll find that an account has been opened.

O: Well, fine. Thank you a thousand times.

HMJr: No, but the orders were definitely given.

O: Yeah. All right. Well, thank you so much.

HMJr: I like sticktoitiveness.

O: What?

HMJr: I like the way you stick to getting business.

O: (Laughs) Well, thank you. I don't turn 'em loose.

HMJr: Well, you go out and get some birds.

O: Yes. All right, I'll get some. But I hope - ah - if it's during the season I have to come back up there I'll try and bring you some.

HMJr: All right. Thank you.

O: Yeah.

HMJr: Thank you.

O: Goodbye.

MEMORANDUM FOR THE SECRETARY:

Re: Delay in Increase on Cuban Sugar.^{duty}

OFFICE OF THE COMMISSIONER OF CUSTOMS

25

December 6, 1939.

TO MR. HARRIS, *M.H.*
FROM W. R. JOHNSON.

About five o'clock on the afternoon of September 11, 1939, a representative of the State Department advised me by telephone that action to increase the rate of duty on Cuban sugar was contemplated. He stated that the date of action had not been decided, but that it would probably be very soon. I said that the principal interest of the Customs Service would be to have the duty increase become effective at a time when all customs offices were closed so that there would be no confusion as to whether entries and withdrawals were effected before or after an increase occurring during office hours.

About six o'clock on the same day, we had received in the Bureau a tentative draft of a notice to be issued by the Secretary of Agriculture to make the duty increase effective. Under the law, the increase became effective when the notice of the Secretary of Agriculture was made public. At that time (about six p. m.) I talked by telephone with a representative of the Department of Agriculture, was advised that it desired to make the increase effective immediately, stated that our administration would be facilitated if the increase became effective after ten p. m., and before eight a. m., and received advice that the Department of Agriculture would make the change effective at 11 p. m., that night.

A final copy of the notice of the Department of Agriculture signed by Secretary Wallace was received shortly after this telephone conversation. "Effective 11:00 p. m., September 11, 1939" was typewritten at the end of the notice. (See T. D. 49962, attached.)

A circular telegram to all collectors of customs was prepared and signed by me, advising them of the increase in duty and that it would be effective at 11 p. m., September 11, 1939. This telegram was filed at the Treasury telegraph office at 6:52 p. m., September 11, indorsed for transmittal "Via Government Facilities" in accordance with the instructions contained in Bureau Office Memorandum No. 147, dated July 25, 1932 (copy attached).

Shortly after nine o'clock the following morning (September 12), the Assistant Collector of Customs at New York called me on the telephone to verify rumors that there would be a duty increase affecting Cuban sugar. He had not received the Bureau's telegram, the terms of which were then dictated to him over the telephone. I learned later that our telegram was received at New York, Baltimore, and Philadelphia

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at various times on the morning of the 12th between ten and twelve o'clock, eastern standard time (eleven and one, daylight saving time). Presumably there were like delays in receipt at the other ports.

The White House had announced during the afternoon of September 11 that the AAA quota limitations on importations of sugar were abandoned, and it was generally understood in the sugar trade that this would be followed promptly by an increase in the duty on Cuban sugar. Importers owning sugar in customs bonded warehouses and on ships in port attempted to clear as much of their sugars as possible on the morning of the 12th to avoid the expected increase in duty. In several cases entries or withdrawals were filed with deposits of duty at the lower rate of 0.9 cent per pound, but the collectors refused delivery except on increase of the deposit to 1.5 cents per pound when they received advice of the duty increase before actual release of the sugar. The importers protested to the Bureau and to the Department of Agriculture, claiming that no public notice had been given by the Department of Agriculture until the notice was actually filed with the Federal Register at 12:54 p. m., September 12, 1939. The Department of Agriculture finally decided that this claim was valid. (See T. D. 49977, attached) It seems clear that the Department of Agriculture overlooked the requirement of publication to make its notice effective when it advised us of the effective time.

It is an established rule in customs law that when an importer does all he can to enter or withdraw merchandise and is wrongly prevented from so doing, the entry or withdrawal will be treated as though it were effected at the time of the attempt. Applying this principle in the instant case, we have held that several large lots of sugar were entitled to entry or withdrawal at the lower rate of duty on the basis of the importers' attempt to enter or withdraw before 12:54 p. m., on September 12, notwithstanding that the lots were actually released after the effective time of the duty increase. The Department of Agriculture was informally advised, before it decided upon the 12:54 p. m., ruling, that this result would follow.

W. R. Johnson

USTOM
(T. D. 49962)

Cuban sugar—Change in rates of duty

Rates of duty increased on sugar and other products covered by item 501; schedule II of the Cuban Trade Agreement—TD 47232

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
Washington, D. C., September 12, 1939.

To Collectors of Customs and Others Concerned:

There are published below for your information a Public Notice of the Secretary of Agriculture, issued on September 11, 1939, and a telegram pursuant thereto issued on the same date and addressed to collectors of customs, regarding a change in the rates of duty on sugar and other products covered by item 501, schedule II of the Trade Agreement with Cuba.

BASIL HARRIS,
Commissioner of Customs.

NOTICE OF SECRETARY OF AGRICULTURE PURSUANT TO THE TRADE AGREEMENT WITH CUBA

WHEREAS the note to paragraph 501 of schedule II of the trade agreement between the United States of America and Cuba, signed August 24, 1934, provides as follows:

and when the quota provisions of the Act "to include sugar beets and sugarcane as basic agricultural commodities under the Agricultural Adjustment Act, and for other purposes," approved May 9, 1934, become inoperative, and the Secretary of Agriculture gives public notice that no equivalent limitation on the importation of any article subject to that Act has been imposed, the duty on any such article imported into the United States of America from the Republic of Cuba shall be determined as though such article were not enumerated and described in this schedule; provided, however, that such rate of duty shall not exceed that imposed on the day of the signature of this Agreement.

WHEREAS the President of the United States of America, acting pursuant to section 509 of the Sugar Act of 1937 (which continued, in substance, the quota provisions of the act "to include sugar beets and sugarcane as basic agricultural commodities under the Agricultural Adjustment Act, and for other purposes," approved May 9, 1934), has suspended the operation of the quota provisions of that act:

NOW, THEREFORE, I, H. A. WALLACE, Secretary of Agriculture, do hereby give public notice that no equivalent limitation on the importation of any article subject to the Sugar Act of 1937 has been imposed for the period of suspension of the quota provisions of that act.

Done at Washington D. C., this 11th day of September, 1939. Witness my hand and the seal of the Department of Agriculture.

(SEAL)

H. A. WALLACE,
Secretary of Agriculture.

Effective 11:00 p. m., September 11, 1939.

CUSTOMS
TELEGRAM

VIA GOVERNMENT FACILITIES

September 11, 1939.

Collectors of Customs:

(See attached list.)

Due to Public Notice by Secretary Agriculture accordance item 501, schedule II, Cuban Trade Agreement, T. D. 47232, sugars and other products covered thereby and entered for consumption or withdrawn from warehouse for consumption on or after 11 P M Eastern Standard Time, September 11, 1939, subject to duty at twenty per centum less than rates promulgated in T. D. 47044. Stop. No change in import compensating tax.

JOHNSON.

(T. D. 49963)

Port of entry

Extension of limits of the customs port of entry of Baltimore, Md., in customs collection district 13 (Md.), to include Sparrows Point, Md.

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
Washington, D. C., September 15, 1939.

To Collectors of Customs and Others Concerned:

There is published below for the information of customs officials and others concerned the following Executive Order, dated September 6, 1939, extending the limits of the customs port of entry of Baltimore, Md., in customs collection district 13 (Md.) to include Sparrows Point, Md., effective thirty days from the date of the order.

BASIL HARRIS,
Commissioner of Customs.

(192-13.1)

EXECUTIVE ORDER

By virtue of and pursuant to the authority vested in me by section 1 of the Act of August 1, 1914, 38 Stat. 609, 623 (U. S. C., title 19, sec. 9), it is ordered that the limits of the customs port of entry of Baltimore, Maryland, in Customs Collection District No. 13 (Maryland), be, and they are hereby, extended to include Sparrows Point, Maryland.

This order shall become effective thirty days from the date hereof.

THE WHITE HOUSE,
September 6, 1939.

FRANKLIN D. ROOSEVELT

CUSTOMS
(T. D. 49976)

Travel

Delegation of authority to direct travel by use of extra-fare trains. (T. D. 49885 amended)

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
Washington, D. C.

To Collectors of Customs and Others Concerned:

Reference is made to an amendment of section 15 of the Government Travel Regulations authorizing the use of extra-fare trains under certain conditions.

T. D. 49885 is hereby amended by adding at the end of paragraph 2 (a) thereof:

(III) Specific written travel orders for travel on extra-fare trains, or approval of such travel, where the cost thereof, taking into consideration salary and subsistence savings, is not in excess of travel by regular fare trains, or in emergencies where necessary for saving life or property.

BASIL HARRIS,
Commissioner of Customs.

Approved September 30, 1939:

HERBERT E. GASTON,
Acting Secretary of the Treasury.

(T. D. 49977)

Cuban sugar—Application of duty rates

Dutiable status of Cuban sugar entered or withdrawn for consumption before 12:54 p. m., Eastern Standard Time, September 12, 1939

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
Washington, D. C., October 5, 1939.

To Collectors of Customs and Others Concerned:

There is published below for your information a telegram addressed to collectors of customs regarding the rates of duty applying to Cuban sugars and other products covered by item 501, schedule 2, of the Trade Agreement with Cuba, entered or withdrawn for consumption before 12:54 P. M., Eastern Standard Time, September 12, 1939. Note in this connection T. D. 49962.

(343.1)

BASIL HARRIS,
Commissioner of Customs.

CUSTOMS
TELEGRAM

OCTOBER 5, 1939.

VIA GOVERNMENT FACILITIES

Collectors of Customs:

(See attached list)

Due to recent advice Secretary Agriculture concerning time of issuance public notice under note to item 501, schedule II, Cuban Trade Agreement T. D. 47232 sugars and other products covered thereby for which a warehouse withdrawal has been filed and a permit of delivery issued before 12:54 P. M. Eastern Standard Time September 12, 1939, or for which a consumption entry has been accepted prior that time are subject duty at rates listed opposite item 501, Cuban Trade Agreement. Bureau telegram September 11 modified accordingly.

BASIL HARRIS

(T. D. 49978)

Trade agreement notice

Public notice of intention to negotiate a trade agreement with the Government of Chile

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
Washington, D. C., October 7, 1939.

To Whom It May Concern:

Pursuant to section 4 of an act of Congress approved June 12, 1934, entitled "An Act to Amend the Tariff Act of 1930," as extended by Public Resolution 10, approved March 1, 1937, and to Executive Order 6750, of June 27, 1934, the Secretary of State has issued the notice published below of an intention to negotiate a foreign-trade agreement with the Government of Chile. Also published below is a relevant letter of the Committee for Reciprocity Information.

(012.)

FRANK DOW,
Acting Commissioner of Customs.

PUBLIC NOTICE

Trade agreement negotiations with Chile

Pursuant to section 4 of an act of Congress approved June 12, 1934, entitled "An Act to Amend the Tariff Act of 1930," as extended by Public Resolution No. 10, approved March 1, 1937, and to Executive Order No. 6750, of June 27, 1934, I hereby give notice of intention to negotiate a trade agreement with the Government of Chile.

All presentations of information and views in writing and applications for supplemental presentation of views with respect to the negotiation of such agreement should be submitted to the Committee for Reciprocity Information in accordance with the announcement of this date issued by that Committee concerning the manner and dates for the submission of briefs and applications, and the time set for public hearings.

CORDELL HULL,
Secretary of State.

OFFICE OF THE COMMISSIONER OF CUSTOMS

OFFICE MEMORANDUM NO. 147

July 25, 1932.

Office Memorandum No. 121, dated October 24, 1931, respecting the preparation and transmission of telegraphic and cable messages is hereby amended as follows:

All telegraphic messages and radiograms sent to Customs officers and others on official business and primarily in the interest of the service, the cost of which is to be borne by the Government, will hereafter be sent to the Treasury Telegraph Office, main Treasury Building, for transmission via Government communication lines. The words "VIA GOVERNMENT FACILITIES" shall appear at the top of all such messages.

The practice of preparing an extra carbon copy of a telegraphic message for signature by the Assistant Secretary, the Under Secretary or the Secretary, is extended to include all messages transmitted via Government facilities. (The extra copy in each case is for the Treasury Telegraph Office.)

All messages sent collect and in the interest of private individuals should be transmitted over the regular commercial lines as heretofore.

The Government maintains facilities for the transmission of such telegraphic and cable messages, without cost to the Bureau, to the following-named points:

<u>Alabama</u>	<u>California</u>	<u>Georgia</u>
Anniston	All points	Atlanta
Montgomery		Columbus
Birmingham	<u>Colorado</u>	Savannah
	Denver	
<u>Alaska</u>	<u>Connecticut</u>	<u>Illinois</u>
All points	New London	Chicago
		Great Lakes
<u>Arizona</u>	<u>Florida</u>	<u>Indiana</u>
Douglas	Key West	Indianapolis
Nogales	Pensacola	
Tucson		<u>Iowa</u>
Yuma		Des Moines

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<u>Kansas</u> Port Leavenworth Junction City	<u>Missouri</u> Kansas City St. Louis	<u>Pennsylvania</u> Philadelphia
<u>Kentucky</u> Louisville Newport	<u>Nebraska</u> Omaha	<u>Rhode Island</u> Newport
<u>Louisiana</u> New Orleans	<u>New Hampshire</u> Portsmouth	<u>South Carolina</u> Charleston
<u>Maine</u> Portland	<u>New Jersey</u> Lakewood Oceanport	<u>Tennessee</u> Chattanooga
<u>Maryland</u> Aberdeen Annapolis Baltimore Cumberland	<u>New York</u> Governors Island New York City West Point Wrightstown	<u>Texas</u> Brownsville Dallas El Paso Galveston San Antonio
<u>Massachusetts</u> Boston	<u>North Carolina</u> Fayetteville Fort Bragg	<u>Utah</u> Salt Lake City
<u>Michigan</u> Detroit Sault Ste. Marie	<u>Ohio</u> Columbus Dayton	<u>Vermont</u> Burlington
<u>Minnesota</u> St. Paul	<u>Oklahoma</u> Muskogee	<u>Virginia</u> Norfolk
		<u>Washington</u> Puget Sound Seattle

ALL POINTS IN - China, Japan, Panama Canal Zone, Puerto Rico, Cuba, Guam, Philippine Islands, Virgin Islands, Territory of Hawaii.

A telegraphic message routed "VIA GOVERNMENT FACILITIES", addressed to a place not enumerated in the foregoing list, is sent over the Government wire to the nearest point and there turned over to a commercial company. This results in a saving of fifty per cent or more on the price of each message.

All messages shall be delivered to the Chief, Division of Mails and Files, for dispatch.

F. X. A. ERLE
F X A ERLE
Commissioner.

File 12/6/39.

These were given to the President today.

Extra Copy

December 4, 1939.

Mr. Hanes

Mr. Blough

Subject: Possible method of raising \$500,000,000 additional revenue.

In this optional method it is proposed to raise approximately \$300,000,000 additional revenue from increases in the personal income surtaxes, and \$200,000,000 from increases in the estate and gift taxes.

The suggested rate schedules are attached. Formal estimates have not yet been made but a comparison with other rate schedules indicates that these schedules would raise approximately the indicated amounts.

I. Personal Income Surtax

The surtaxes at selected levels of income after deduction of exemption are shown in the following table:

Surtax net income (In thousands of dollars)	Total surtax		
	Present rates	Suggested rates	Increase
\$ 2	\$ -	\$ 20	\$ 20
5	40	100	60
10	300	480	180
20	1,260	2,500	1,240
50	7,700	16,120	8,420
100	30,000	43,420	13,420
500	286,000	299,420	13,420
1,000	641,000	654,420	13,420

It will be noticed that this rate schedule does not provide for any decreases in the higher surtax brackets. It does not increase rates on brackets of income above \$100,000.

- 2 -

II. Estate and Gift Taxes

The estate taxes under the present rates and under the suggested rate schedule are shown in the following table:

Net estate after specific exemption (In thousands of dollars)	Total estate tax		
	Present rates	Suggested rates	Increase
\$ 20	\$ 600	\$ 1,800	\$ 1,200
40	2,000	5,400	3,400
100	9,600	21,000	11,400
200	26,600	54,500	27,900
500	89,600	182,000	92,400
1,000	222,600	417,000	194,400
10,000	4,962,600	5,547,000	584,400

There have been no increases of the present scale in the estate brackets above \$6,000,000.

It is assumed that the gift tax rates will be increased to three fourths the proposed estate tax rates.

III. Note Regarding Other Income and Estate Tax Changes

For the sake of simplicity, the optional plan is limited to rate increases. The bulk of the additional revenue would probably have to come from such increases under any plan. Certain changes in exemptions, deductions, etc. which would increase the tax base, would no doubt be considered and to the extent adopted, would make possible smaller rate increases than those shown.

IV. Note Regarding Excess-Profits Tax

If it is desired to impose an excess-profits tax as part of the revenue plan, the increases in surtax rates and estate and gift tax rates could be kept smaller than those shown in the suggested schedules. A considerable amount of additional work would be necessary to develop a formula for an excess-profits tax sufficiently complete to make practicable an estimate of revenue yield.

**Estate and gift tax rate schedule designed
to raise approximately \$300 million
additional revenue 1/**

Tax base: Net estate after specific exemption (in thousands of dollars)	Bracket rate percent	Total tax
0 - 5	4	200
5 - 10	6	600
10 - 20	12	1,800
20 - 30	16	3,400
30 - 40	20	5,400
40 - 60	23	10,000
60 - 80	26	15,200
80 - 100	29	21,000
100 - 150	32	37,000
150 - 200	35	54,900
200 - 250	38	73,900
250 - 300	41	94,000
300 - 500	44	182,000
500 - 1,000	47	417,000
1,000 - 2,000	49	907,000
2,000 - 3,000	51	1,417,000
3,000 - 4,000	53	1,947,000
4,000 - 5,000	55	2,497,000
5,000 - 6,000	57	3,067,000
6,000 - 7,000	59	3,657,000
7,000 - 8,000	61	4,267,000
8,000 - 9,000	63	4,897,000
9,000 - 10,000	65	5,547,000
10,000 - 20,000	67	12,247,000
20,000 - 50,000	69	32,947,000
50,000. up	70	-

Treasury Department, Division of Tax Research

December 4, 1939

1/ It is assumed that present gift tax rates will be increased to three fourths the proposed estate tax rates.

(This schedule to accompany memorandum of December 4, 1939.)

LS:cbh
12/4/39

**Surtax schedule for individual income tax designed to
raise approximately \$300 million additional income**

Surtax net income (in thousands of dollars)	Rate percent	Total surtax
0	1	0
2	2	60
4	4	140
6	6	200
8	7	280
10	10	400
12	13	740
14	16	1,060
16	20	1,460
18	24	1,940
20	28	2,500
22	32	3,140
24	36	3,860
26	40	4,660
28	44	5,440
30	47	6,420
32	50	7,600
34	53	8,980
36	56	10,560
38	59	12,340
40	62	14,320
42	65	16,500
44	68	18,980
46	71	21,760
48	74	24,840
50	77	28,220
52	80	31,900
54	83	35,880
56	86	40,160
58	89	44,740
60	92	49,620
62	95	54,800
64	98	60,280
66	100	66,060
68	100	72,140
70	100	78,520
72	100	85,200
74	100	92,180
76	100	99,460
78	100	107,040
80	100	114,920
82	100	123,100
84	100	131,580
86	100	140,360
88	100	149,440
90	100	158,820
92	100	168,500
94	100	178,480
96	100	188,760
98	100	199,340
1,000-2,000	100	210,220
2,000-5,000	100	221,400
5,000, up	100	232,780

Treasury Department, Division of Tax Research

December 4, 1939

(This schedule to accompany memorandum of December 4, 1939.)

L:tab
12/4/39

**Comparison of present and suggested rates of
individual income tax**

SINGLE PERSON NO DEPENDENTS

Net income before personal exemption 1/	Maximum bracket rates (normal and surtax)		Effective rates	
	Present	Suggested	Present	Suggested
\$ 2,000	4%	5%	1.6%	2.1%
6,000	8	8	3.6	4.6
10,000	10	14	5.6	7.0
20,000	17	32	9.2	14.6
30,000	23	48	13.0	23.6
50,000	31	54	18.7	35.0
100,000	59	60	33.4	46.8
250,000	66	66	51.7	57.1
500,000	72	72	61.0	63.7
1,000,000	76	76	68.0	69.4

Treasury Department, Division of Tax Research December 4, 1939.

1/ Maximum earned income assumed.

Comparison of present and suggested rates of
individual income tax

MARRIED PERSON TWO DEPENDENTS

Net income before personal exemption and credit for dependents 1/	Maximum bracket rates (normal and surtax)		Effective rates	
	Present	Suggested	Present	Suggested
\$ 2,000	-	-	-	-
6,000	4½	6½	1.4½	2.0½
10,000	9	11	3.4	4.2
20,000	15	28	7.3	11.2
30,000	23	48	11.3	19.9
50,000	31	58	17.2	32.6
100,000	59	60	32.0	45.4
250,000	66	66	51.1	56.5
500,000	72	72	60.7	63.4
1,000,000	76	76	67.8	69.2

Treasury Department, Division of Tax Research December 4, 1939.

1/ Maximum earned income assumed.

LS:ah
12/4/39

**Comparison of present and suggested rates
of estate tax**

Net estate before exemption	Maximum bracket rates		Effective rates	
	Present	Suggested	Present	Suggested
\$ 50,000	2½	5½	4½	1.2½
100,000	12	23	4.2	10.0
200,000	17	35	9.9	20.3
300,000	20	41	12.9	25.9
500,000	23	44	16.1	32.9
1,000,000	29	47	21.1	39.8
3,000,000	41	51	31.2	46.6
5,000,000	53	55	38.0	49.5
10,000,000	65	65	49.4	55.2
50,000,000	69	69	64.7	65.8

Treasury Department, Division of Tax Research December 4, 1939.

**Present individual surtax rate schedule under
the Revenue Act of 1938**

Amount of surtax net income (Thousands of dollars)	Rate percent	Total surtax cumulative
0 - 4	-	-
4 - 6	4	\$ 80
6 - 8	5	180
8 - 10	6	300
10 - 12	7	440
12 - 14	8	600
14 - 16	9	780
16 - 18	11	1,000
18 - 20	13	1,260
20 - 22	15	1,560
22 - 26	17	2,240
26 - 32	19	3,380
32 - 40	21	4,640
40 - 48	24	6,080
48 - 50	27	7,700
50 - 56	31	9,560
56 - 62	35	11,660
62 - 68	39	14,000
68 - 74	43	16,580
74 - 80	47	19,400
80 - 90	51	24,500
90 - 100	55	30,000
100 - 150	58	59,000
150 - 200	60	89,000
200 - 250	62	120,000
250 - 300	64	152,000
300 - 400	66	218,000
400 - 500	68	286,000
500 - 750	70	461,000
750 - 1,000	72	641,000
1,000 - 2,000	73	1,371,000
2,000 - 5,000	74	3,591,000
5,000 up	75	

Treasury Department, Division of Tax Research.

December 4, 1939.

Estate Tax Rate Schedule
 (Revenue Act of 1932 as amended in 1935)
 (Dollars in thousands)

Net estate	Bracket rate	Cumulative tax on higher amount
\$ 0 - 10	25	\$.2
10 - 20	4	.6
20 - 30	6	1.2
30 - 40	8	2.0
40 - 50	10	3.0
50 - 70	12	5.4
70 - 100	14	9.6
100 - 200	17	26.6
200 - 400	20	66.6
400 - 600	23	112.6
600 - 800	26	164.6
800 - 1,000	29	222.6
1,000 - 1,500	32	382.6
1,500 - 2,000	35	557.6
2,000 - 2,500	38	747.6
2,500 - 3,000	41	952.6
3,000 - 3,500	44	1,172.6
3,500 - 4,000	47	1,407.6
4,000 - 4,500	50	1,657.6
4,500 - 5,000	53	1,922.6
5,000 - 6,000	56	2,482.6
6,000 - 7,000	59	3,072.6
7,000 - 8,000	61	3,682.6
8,000 - 9,000	63	4,312.6
9,000 - 10,000	65	4,962.6
10,000 - 20,000	67	11,662.6
20,000 - 50,000	69	32,362.6
50,000 -	70	

Treasury Department, Division of Tax Research, December 4, 1939.

December 1, 1939.

COPY

Mr. Hanes

Mr. Flough

The memoranda of Mr. Randolph Paul which were submitted to the Treasury Department contain 31 points involving possible tax changes which would increase revenues, 15 points involving changes which would decrease revenues, and a plan for an excess profits tax. The following suggestions appearing in the memoranda have not been under active consideration by the Treasury Department during the last eighteen months:

- I. The problems involved in the following recommendations appear not to have been considered at least in recent years:
 1. Clarify the law to make taxable any excess of the principal sum of insurance installments above the principal sum of the life insurance policy at the time of the insured's death.
 2. Authorize the courts and the Board of Tax Appeals to relax the rule of res judicata in meritorious tax cases.

- II. With respect to each of the following items, the problem has been actively considered in recent months but the solution proposed by Mr. Paul has not been considered:
 1. Impose income taxes on stock dividends heretofore considered to be nontaxable.
 2. Establish a conclusive presumption that gifts made after the decedent reaches sixty years of age are made in contemplation of death.
 3. (a) Eliminate the tax on intercorporate dividends where stock ownership gives no control.
(b) Stiffen the tax on intercorporate dividends in cases of inexcusably complicated corporate structures.
 4. No plan for an excess profits tax has been prepared in such detail as that presented by Mr. Paul, although the general problem has been considered.

- 2 -

III. The following problems have not been actively considered during the last eighteen months but were actively considered in 1937, 1938, or both years.

1. Eliminate the deduction for nonbusiness casualty losses or restrict them to a fixed percentage of the taxpayer's net income, or treat them as capital losses.
2. Limit the allowance for the deduction of interest on noninterest borrowings to \$500.
3. Limit the allowance for the deduction of nonbusiness bad debts to \$1,000 in the case of each debtor.
4. Limit the allowance for the deduction of taxes on nonbusiness property to taxes on small homes.
5. Allow a deduction of perhaps \$100 a year for medical or dental expenses.
6. Limit the deduction for payments by the employees to pension trusts to perhaps \$5,000 for any one employee.
7. Limit exempt building and loan associations to those of a genuine cooperative character primarily related to financing home ownership.
8. Tax nonresident aliens and foreign corporations upon income from sources within the United States in such a way that there is no discrimination in their favor.
9. Provide that all tax suits and proceedings shall be brought against the United States, eliminating the highly artificial distinction between suits involving the United States, the Commissioner and the Collector.

EB:fab

12-1-39

COPY

INCOMING CABLEGRAM

Copy for Mr. Cashes

London, Dec. 6, 1939. 43

Federal Reserve Bank of New York

New York

No. 1180/39 FOR KNOKE

ONE Your No. 904/39 Please open another Special Account for us on your books designated Bank of England Account A and transfer \$5,000,000 to this account by the debit of G Account

TWO We have authorized the following to sign cheques on our behalf drawn on such Special Account A:

Arthur B Purvis
Colonel JHN Greenly
Sir James Rae
J.A.C. Osborne

any two to sign.

Such cheques should be signed "Bank of England _____ Account A by".

Please have cheques in this form imprinted and delivered to J.A.C. Osborne

THREE You already have specimen signature of J.A.C. Osborne and he will furnish to you specimen signatures of the other persons listed in paragraph two.

FOUR We authorize you to pay and charge to such Account A any cheques drawn on you signed as described in paragraph two.

FIVE May we take it you will complete outstanding instructions or do you prefer all future payments should be made through new account.

RECEIVED

BRANCH OF THE FEDERAL RESERVE BANK OF NEW YORK
RECEIVED IN THE BRANCH

Bolton
Bank of England.

DEC 8 1939

TREASURY DEPARTMENT

THE WHITE HOUSE
WASHINGTON

44

December 6, 1939.

My dear Mr. Secretary:

I have created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

(a) The Director of Procurement, Treasury Department; (b) The Quartermaster General of the Army; (c) The Paymaster General of the Navy.

This committee will serve as the exclusive liaison with reference to procurement matters between this Government and the interested foreign governments. It will hold sessions at least once weekly, and at such more frequent intervals as may be necessary. At these sessions, it will receive an accredited representative of the embassy of any interested foreign government for the purpose of giving consideration to the requirements of such government for supplies, equipment, and materials, in relation to: (a) availability of the desired articles, (b) priorities, and (c) prices. The committee will submit a complete report of its proceedings, acts and recommendations, at least weekly, to the President through Mr. McReynolds.

The Secretary of State has informed the British and French Ambassadors of this arrangement.

Will you please inform the Director of Procurement of his designation as a member of this committee and ask him to serve as its chairman.

Sincerely,



The Honorable,

The Secretary of Treasury.

CONFIDENTIAL

THE WHITE HOUSE
WASHINGTON

45

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Sincerely,



The Honorable,

The Secretary of Treasury.

STRICTLY CONFIDENTIAL

46

June 4, 1940

Customs Bureau (Attention: W.S.C.)

H. Harle Graham, Technical Assistant to the Secretary

JH

The attached draft of a letter to the Secretary of State reached me yesterday. Since I have constant contact with the Department of State, and was formerly Assistant Chief of the division in that Department which distributes consular reports, I took the liberty of telephoning the State Department and obtained the loan of the report in question, which is attached hereto. This original copy should be returned to me for further transmission back to the Department of State. Incidentally, a copy of this report is also on file in Dr. Harry White's office in the Treasury Department.

If the Bureau of Customs may desire, I shall be very glad to be of any possible assistance in the future in obtaining reports informally for them from the Department of State.

B. M. R.

Rec. State
Callahan BK 227
47

THE WHITE HOUSE
WASHINGTON

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The Secretary of Treasury.

THE WHITE HOUSE
WASHINGTON

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Sincerely,



The Honorable,

The Secretary of Treasury.

December 6, 1939.

49

Dear Mr. Tyler:

I appreciated very much having your telegram of December 3rd, and have noted the contents with interest. Thank you for this dispatch. I shall look forward to hearing from you after you make the trip you are planning.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Royal Tyler,
c/o League of Nations,
Geneva, Switzerland.

GEF/dbs

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Geneva

NO.: 300

DATE: December 3, 1939

FOR MORGENTHAU FROM ROYAL TYLER.

"I have returned to Geneva. I met the Director General of the National Bank of Hungary while I was in London. He stated that whatever may happen Hungary will go on transferring service of League loan in accordance with the agreement of 1937 and it will also continue to make payments on corporate relief credits as offered by that country. The foreign exchange losses of the National Bank during 1939 amount to approximately \$18,000,000, leaving about \$35,000,000 of gold and utilizable exchange. Barring accidents, it is Hungary's intention to keep on making payments to foreign creditors with the exception of the League loan and corporate relief credits as offered for a period of three years beginning in the summer of 1937. However, Hungary is afraid that if the war continues, she may not be able, after the summer of 1940, to renew on the same scale. At the present time Hungary's difficulties are securing access to markets for her exports so that she can obtain foreign exchange which she can use to purchase raw materials and importing the raw materials through the

blockade

^{ads} block established by the British. It is Germany's desire to reduce Hungary to the status of an agrarian colony. For that reason, in exchange for food^{from Hungary}, Germany is trading no raw materials except coal. Therefore Hungary is asserting that her industry is important to her national independence and she is appealing to Great Britain to permit imports into Hungary to go through the blockade on the strength of certificates stating that they are for Hungarian consumption. However, it is said by the British that they have proof that imports which Hungarian firms have certified as being for Hungarian consumption are being slipped to Germany by those firms. Some of these shipments have been blocked by the British. It seems possible that a deal may be arranged whereby an annual amount of each key commodity will be agreed upon, with the British permitting imports up to the amounts agreed upon and no further questions asked. But the British are refusing to accept certificates even though they contain official endorsements to the effect that a check cannot be made by officials. I am planning to be in Budapest from December 8 to December 14. From there I will go to Italy. I shall report to you upon my return."

TITTMANN

EA:EB

NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

Op-38-E-MH

6 December 1939

Memorandum relative to assignment of PBV
airplanes to Coast Guard:

Reference: (a) Secy of Treasury Memo. of
30 November 1939, with
President's endorsement.

1 As reference (a) was not quite understood by the Navy Department, clarification was requested by telephone from Admiral Wessche, as a result of which it appears that Mr. Morgenthau is under some misapprehension as to the nature of the operations undertaken by the Coast Guard in the North Atlantic in connection with the neutrality patrol. By agreement between Admiral Stark and Admiral Wessche, the Coast Guard took over the Grand Banks patrol, a rectangular area defined by the following points: Lat. 43-15 N - Long. 64-30 W; Lat. 43-15 N - Long. 55-00 W; Lat. 40-50 N - Long. 64-30 W; Lat. 40-50 N - Long. 55-00 W, which area was to be covered by surface craft only. In addition, the Coast Guard agreed to cover by both surface and aircraft, as necessary, a small in-shore area along the coast of Maine and a somewhat larger area included between the shore line and lines joining the following points: Block Island, Lat. 38-10 N - Long. 71-15 W, and Cape May, N. J. The Navy is re-assuming the task of patrolling this last area, to seaward of the 25-fathom curve.

2. The off-shore aerial patrol is being carried on with all the patrol aircraft which can be made available without weakening below a certain point the patrol-plane squadrons on the West Coast and at Panama, although some aircraft have had to be taken from both these locations to augment our Atlantic squadrons for this purpose.

Op-58-E-MW

3. It should be noted that of the type of plane requested (PBV-4's) there are but three in continental U. S., one squadron being in the Philippines and another in Hawaii. Of these three planes, one is at the Consolidated Company as the "Dog Ship" for new production which it is hoped will soon be under way, another is assigned a special and important project, and the third is being operated in a West Coast squadron as a replacement. Other planes of the PBV type could be furnished the Coast Guard, but only by either reducing West Coast squadrons below what is considered the safety point under present conditions, or diluting the present aerial patrol to a point where it would be generally ineffective. Several weeks ago Admiral Waesche contacted the Chief of Bureau of Aeronautics with regard to the possibility of obtaining some planes from the PBV-5 production when it eventuates and was assured that this was possible. One such plane, for which the Coast Guard has funds, has been so earmarked with the possibility of seventeen additional planes of this contract, dependent upon Coast Guard funds being available therefor. Production, however, is not expected prior to May 1940.

Copy to:
Admiral Waesche

-2-

C-O-P-Y

TREASURY DEPARTMENT

54

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE December 6, 1939

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Setting for the Refunding of the March Notes

SUMMARY

- (1) Treasury obligations were strong last month (Chart I). A reaction started last week, however, as the Finnish crisis developed. Long-term Treasuries are far above their crisis lows but in the upswing have done less well than have other high-grade bonds (Chart II).
- (2) A large proportion of the March notes are probably held by commercial banks. The Federal Reserve banks hold \$162 millions of these notes in their Open Market Account. A larger than usual proportion of the maturing notes may be held by wealthy individuals who obtained them in the first instance for First Liberty 3-1/2's and want only fully tax-exempt securities. Neither the banks nor these individuals are likely to desire a long bond in exchange.
- (3) Data on the maturity distribution of the Government portfolio of the major classes of holders indicate that banks tend to concentrate their holdings in the shorter maturities. Insurance companies, on the other hand, invest a large proportion of their portfolio in longer bonds (Chart III).
- (4) Bids for the rights on the March notes are at a high level when compared with bids for the rights on previous note maturities (Chart IV). These high bids would seem to indicate that the market anticipates a liberal pricing on the new issue and, accordingly, the inclusion in the offering of a long or medium-long bond, which would be likely to carry a higher premium than a note.
- (5) The size of the March note issue focuses attention on the desirability of issues having optional call periods. There are already appreciable amounts of fixed maturity obligations coming due in every year through 1948, except 1946 (Chart V).
- (6) British and French Government securities remained practically unchanged last week. Finnish bonds dropped very sharply and other Scandinavian issues somewhat less sharply.

I. Condition of the Market

The refunding of the March 1940 notes -- the largest re-funding operation to face the Treasury since the Liberty bond refinancings -- will come, if carried out in the next week or so, at a time when the market for new capital issues has been thoroughly awakened from the state of virtual inactivity that existed during the outbreak-of-war crisis. This awakening has not been limited to offerings of Government securities alone, but has extended itself successfully to the field of municipal and corporate obligations. During the past few weeks, for example, relatively large amounts of long-term bonds have been floated by the City of New York and the Public Service Company of Colorado.

During the past seven weeks, the Federal Government and its agencies have floated \$1.5 billions of notes and bonds in the market. Each new offering has gone well in the market, and, with the exception of the March 1944 note, each new issue is selling in line with other securities of comparable term and character. The March 1944 note, as has been pointed out previously, is still somewhat out of line, selling at the close on Tuesday, December 5, to yield one basis point more than the note maturing three months later, instead of a number of basis points less, as might ordinarily have been expected.

Treasury obligations, as a class, have shown considerable strength in the market during the past month, and, at the close on Tuesday, December 5, long-term bonds were about two points above the prices obtaining a month earlier (Chart I). The reaction which started during the middle of last week at the time of the development of the Finnish crisis, however, caused long bonds to lose about a point.

It is important to note that long-term Treasuries have done less well in the upswing from the September lows than have either high-grade municipal or corporate issues. This relatively poor performance is brought out in Chart II, which shows the downward price swing (upward yield movement) experienced by each type of issue between its summer high and its September low, and the upward price swing from that low to yesterday's close (December 5).

Treasury bonds, it is noted from the chart, started to decline earlier than either municipal or corporate issues. Their decline covered a somewhat longer period, and amounted to a little less than the decline of the other issues. This was probably due to the support given the Government bond market early in September by the Federal Reserve banks and the Treasury. On the upswing, Treasuries started later, and, when

compared with the other issues, have recovered a smaller proportion of the ground lost. Municipal bond prices, for example, are not far from their summer highs (reached June 24), and corporate bonds have recovered about three-quarters of their decline. Long-term Treasuries, on the other hand, have recovered only a little more than half of the decline experienced between June 5, the summer high, and September 25, the crisis low.

II. Who Holds the March Notes?

In view of the large amount of the March note maturity, it would be particularly desirable to know at this time who holds the March notes. There is a very limited amount of information with respect to the actual amounts held by the various classes of security holders, however. The available statistical data do not break down holdings by issues, and no system of direct inquiry to obtain this information is available at the present time. The figures that we have been able to obtain from various sources and for various dates are shown in the following table:

Holder	Date	Amount (millions of dollars)	Percent of total
Federal Reserve Open Market Account	11/29/39	162	11.8
3 national banks in New York City	Various dates in 1939	70	5.1
10 national banks outside of New York City	Various dates in 1939	48	3.5
First National of Baltimore..	10/28/39	53	3.8
Total, 14 large national banks		171	12.4
800 insurance companies	12/31/38	59	4.3
200 savings banks	12/31/38	12	.8
Total accounted for		404	29.3
Not accounted for		974	70.7
Total outstanding		<u>1,378</u>	<u>100.0</u>

Note: National bank figures from Comptroller of the Currency. Insurance company and savings bank figures from Poor's Manual.

In addition to the above figures, we have some information provided by Mr. Rouse of the Federal Reserve Bank of New York. He estimates that from \$450 millions to \$750 millions of the maturing notes are held in his Federal Reserve district with his "best guess" at \$650 millions. This amount includes the \$162 millions held by the Federal Reserve Open Market Account and probably about \$100 millions held by other holders included in the above table.

Inadequate as they are, the foregoing figures indicate that commercial banks as a class are probably the most important holders of maturing notes. They indicate also that New York City banks probably hold a significant proportion of the total holdings of all banks.

There is another factor besides bank holdings, however, which may be quite important at this financing. About 55 percent of the March notes was issued in 1935 to refund the 3-1/2 percent First Liberty bonds. The income from these bonds was exempt from Federal surtaxes, and, accordingly, many of these bonds were held by wealthy individuals, who wanted to take advantage of their fully tax-exempt status.

It is quite possible, therefore, that on the occasion of the coming refunding, a much larger than usual proportion of the maturing notes will be in the hands of individuals who do not want, and will not permanently hold in their investment portfolios a Treasury bond which is not exempt from surtaxes. If the Treasury offers these holders a choice between a new bond and a new note in exchange for their holdings, they are likely to prefer the note, unless it is priced too unattractively as compared with the new bond. If the Treasury should not offer a note option, or if such option should be merely nominal because of the relative pricing of the issues, these individuals might be inclined to sell the rights to the new issue, or to sell the bond acquired in exchange. Heavy selling so engendered might place the market in a rather weak technical position, particularly if it happened to coincide with unfavorable foreign developments.

The fact that commercial banks, especially those in New York City, hold a considerable proportion of the maturing notes also contributes to the possibility that the exchange offering, if it includes an attractively priced long bond, might place the entire Government securities market in a weak technical position. These banks are quite likely to undertake an important secondary distribution operation if they obtain long bonds in exchange, and this operation might be disturbing to the market.

III. Maturity Preferences of Holders of the Public Debt

Although our information on the holdings of the March notes is quite limited, we do have information the the maturity distribution of the holdings of all direct Government securities by the principal classes of holders. These data are presented in Chart III. They are in terms of the "privately held marketable supply" of the direct public debt, a definition which excludes United States Savings and Adjusted Service bonds, and securities held by the Federal Reserve banks and Federal governmental corporations, credit agencies, and trust funds.

The chart emphasizes the fact that banks tend to concentrate their holdings in the shorter maturities. About 46 percent of the direct public debt has a maturity of more than ten years, for example. Banks in New York and Chicago, however, hold only 36 percent of their Government portfolio in such maturities, and all other insured commercial banks outside of these cities, only 41 percent. Insurance companies, on the other hand, have 56 percent of their portfolios in the longer bonds.

IV. Rights Values of Maturing Notes

At the close on Tuesday, December 5, the bid price for the rights on the March notes stood at the high level of 1-10/32 points. Rights have been moving upward for about three weeks, the gain having amounted to 6/32 of a point.

The high level of bids made for the March rights would seem to indicate that the market anticipates a long or medium-long bond will be included as one of the vehicles for the approaching refunding. In past refundings of Treasury notes, it is observed, the market has assumed that the Treasury would be likely to price its issues so that a larger premium would be carried by a long than by a short issue offered in exchange. Accordingly, the market has allowed its anticipation of the length of the exchange issues to control, to a considerable extent, the level of the bids made for the rights. Bids as high as those obtaining at present have, accordingly, been made only when the market has been anticipating a relatively long issue. This was the case during the fifteen months preceding the war crisis, when the market generally expected long bonds and was usually correct in its expectation.

Secretary Morgenthau - 6

Chart IV compares the value of the rights on the maturing issue with the premium carried by the issues offered in exchange in each of the Treasury note refunding operations engaged in since the beginning of 1934. The rights values have been taken on a date about fifteen days preceding the day of issuance of the new securities, so as to eliminate, as far as possible, the influence of official intimations as to the characteristics of the new offerings. For simplicity, the highest right value bid has been taken when two notes were refunded at the same time, and the highest premium available at the close of the first day of trading on any security offered in exchange has been taken when alternative exchange securities were offered.

It appears, as shown in the bottom grid of the chart, that the premiums carried by the new issue (or by one of the new issues, if two or more were offered) were in excess of the market's bid for the rights in eight of the nineteen refundings. In each of these cases, the Treasury offered new bonds in exchange for the maturing issue. On the other eleven occasions, the premiums carried by the new issue were less than the market's bid for rights. In five of these cases, the Treasury issued new notes in exchange without the option of a bond, and in three other cases, added to issues of securities already outstanding. Premiums carried by such offerings have ordinarily been lower than those carried by new issues of bonds.

It is interesting to note in connection with these nineteen refundings that, in the aggregate, the excess of premiums over rights values just about balances the excess of rights values over premiums. In other words, a speculator who purchased an identical amount of each of the maturing notes at the prices shown would have come out just about even if, on each occasion, he had availed himself of the exchange offering, and then had sold the new issue at the close of the first day of trading.

V. Composition of the Public Debt

The large amount of the March notes -- the largest amount of Treasury debt with the exception of the Third Liberty Loan ever placed in a single issue of fixed maturity obligations -- focuses attention again on the intrinsic superiority from the point of view of the Treasury of issues having optional call periods. Large fixed maturities such as the one to be refunded might be quite embarrassing to the Treasury should they come due at an inopportune time.

Secretary Morgenthau - 7

The present composition of the public debt classified with respect to the amount of debt callable and maturing in each calendar year is presented in Chart V. This chart differs from somewhat similar charts which we have submitted previously, partly in that it includes guaranteed as well as direct debt, but more importantly in that it is primarily classified on the basis of whether the securities have fixed maturities or optional call provisions.

The chart shows that there are now fixed maturities of appreciable amount in every year through 1948, except 1946. Beyond 1944, however, these fixed maturities are never greater than three-quarters of a billion dollars in any one year.

VI. Foreign Government Securities

British and French Government securities underwent little change this week. British 2-1/2 percent consols closed on Tuesday, December 5, at 67-7/8, to yield 3.68 percent, as compared with a yield of 3.70 percent last Tuesday. French 3 percent perpetual rentes closed at 71.95.

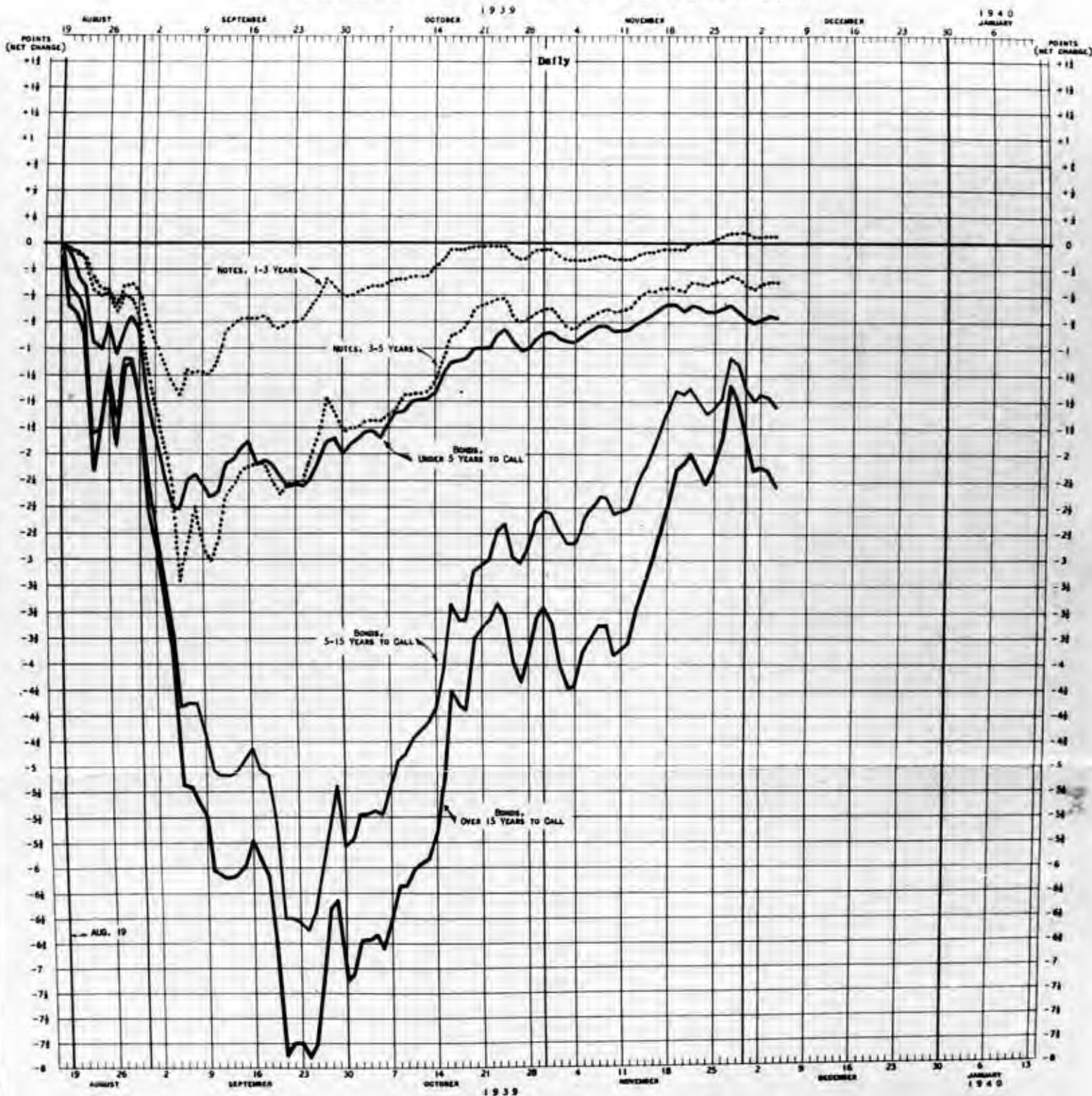
The Russian invasion of Finland has been followed by a severe decline of Finnish bonds on the New York Stock Exchange and some weakening of most of the loans of other Scandinavian countries. The present levels of representative Scandinavian issues, as compared with their levels just before the crisis and their highs for the year, are shown in the following table:

	: High for:	: Tues.,	: Tues.,	: Net
	: 1939	: Nov. 28	: Dec. 5	: decline,
	:	:	:	: Nov. 28-
	:	:	:	: Dec. 5
	(closing prices)			
Finland, 6's of 1945.....	107	88	36-7/8	51-1/8
Norway, 4-1/4's of 1965...	103-7/8	83-1/4	69-1/4	14
Denmark, 4-1/2's of 1962..	97-1/2	59-1/4	50-1/2	8-3/4

Attachments

CHANGES IN THE PRICES OF U.S. SECURITIES AFTER AUG. 10, 1939

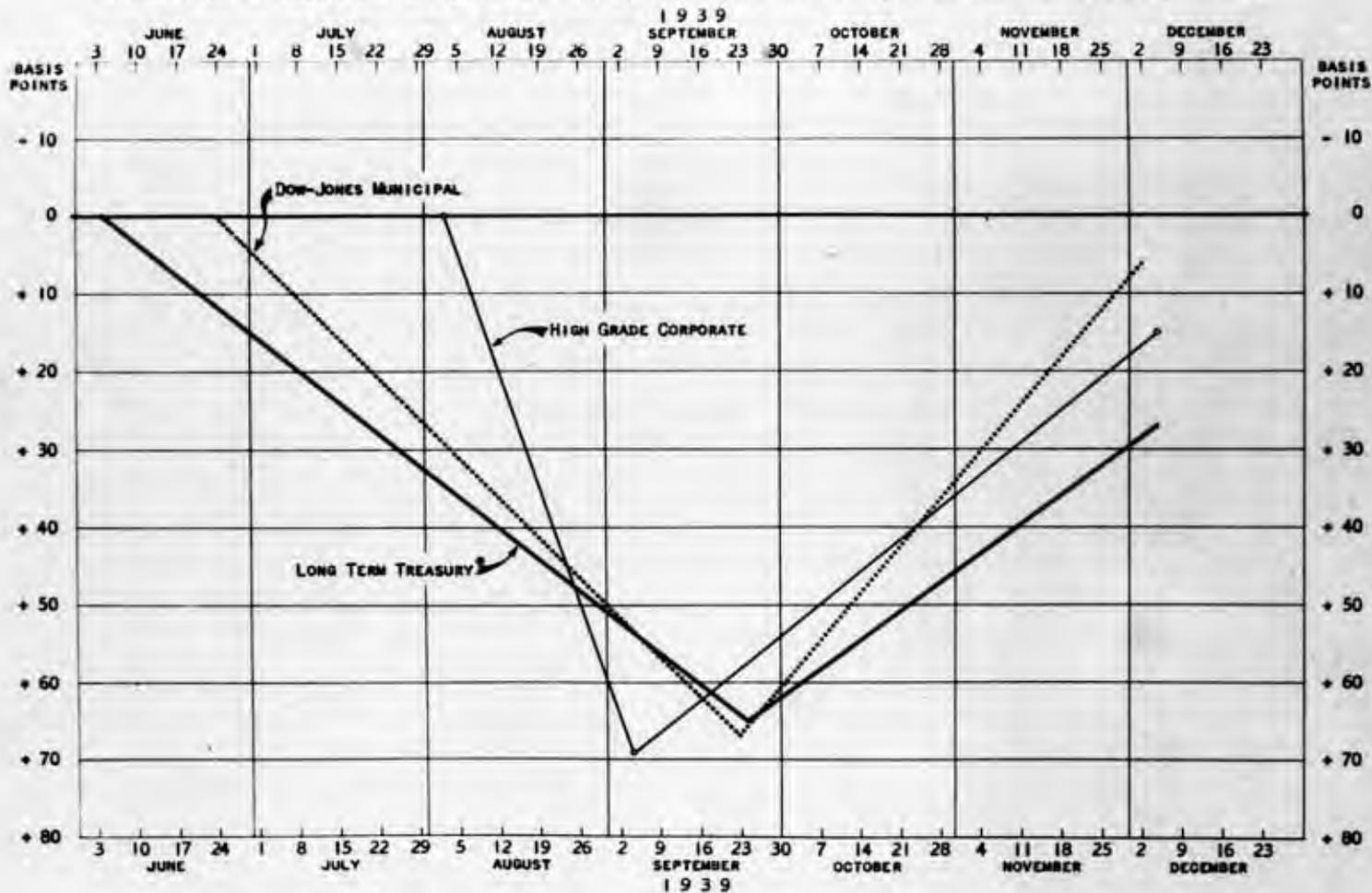
Points Plotted Represent the Difference from Aug. 10 Price of Each Maturity Class



NOTE: BREAK IN LINE INDICATES CHANGE IN COMPOSITION OF A MATURITY CLASS

MAJOR MOVEMENTS OF THE YIELDS OF TREASURY, HIGH GRADE CORPORATE AND MUNICIPAL BONDS

Points Plotted Represent Changes from the Lowest Yield Reached by Each Class of Security in 1939

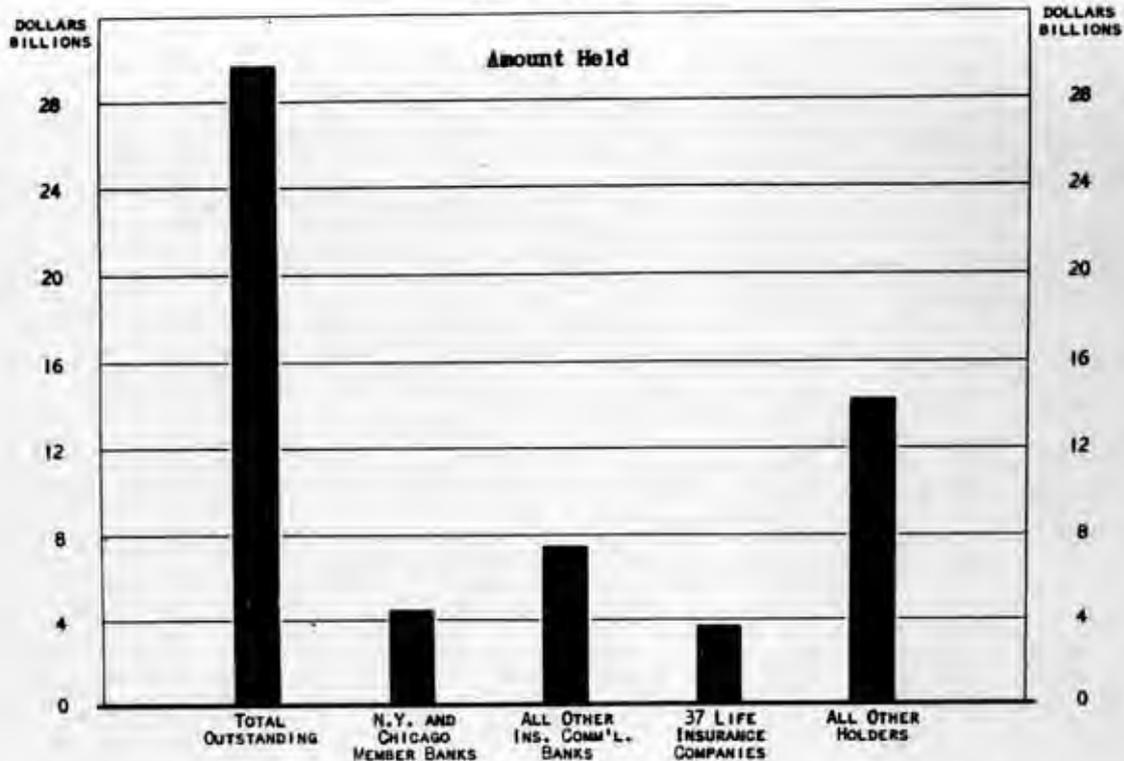


* ADJUSTED TO ALLOW FOR CHANGES IN COMPOSITION OF TREASURY AVERAGE.

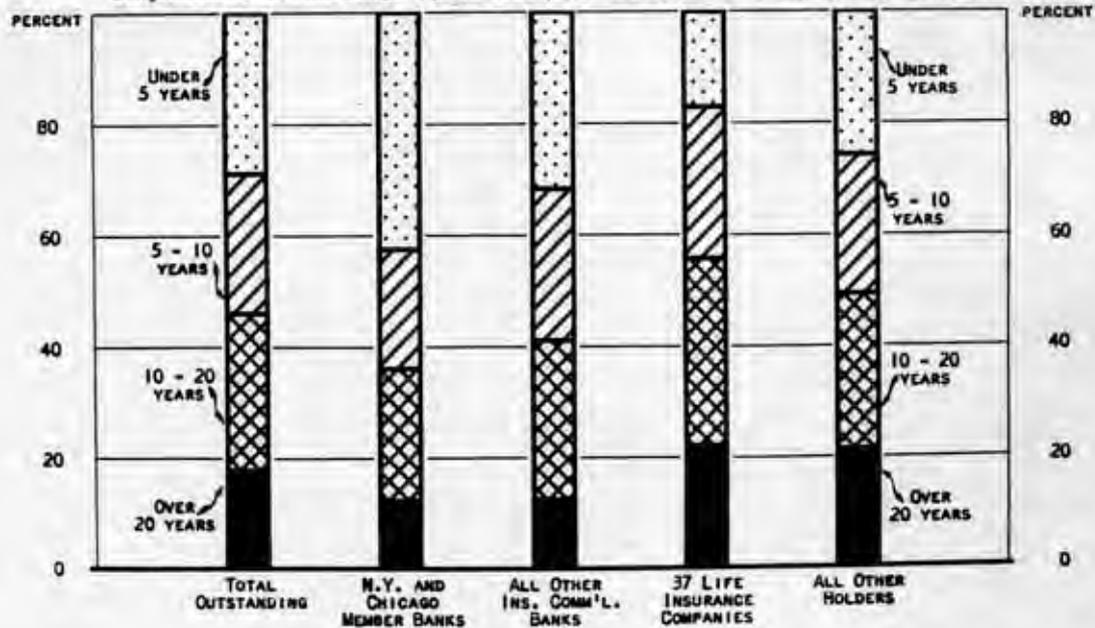
Chart III
**PRIVATELY HELD MARKETABLE SUPPLY OF
 DIRECT U.S. OBLIGATIONS**

By Classes of Holders

June 30, 1939



Composition of Holdings by Maturity Classes, In Percent of Total Held



EXCLUDES U.S. SAVINGS AND ADJUSTED SERVICE BONDS AND SECURITIES HELD BY THE FEDERAL RESERVE BANKS AND FEDERAL GOVERNMENT CORPORATIONS, CREDIT AGENCIES AND TRUST FUNDS.

Chart V

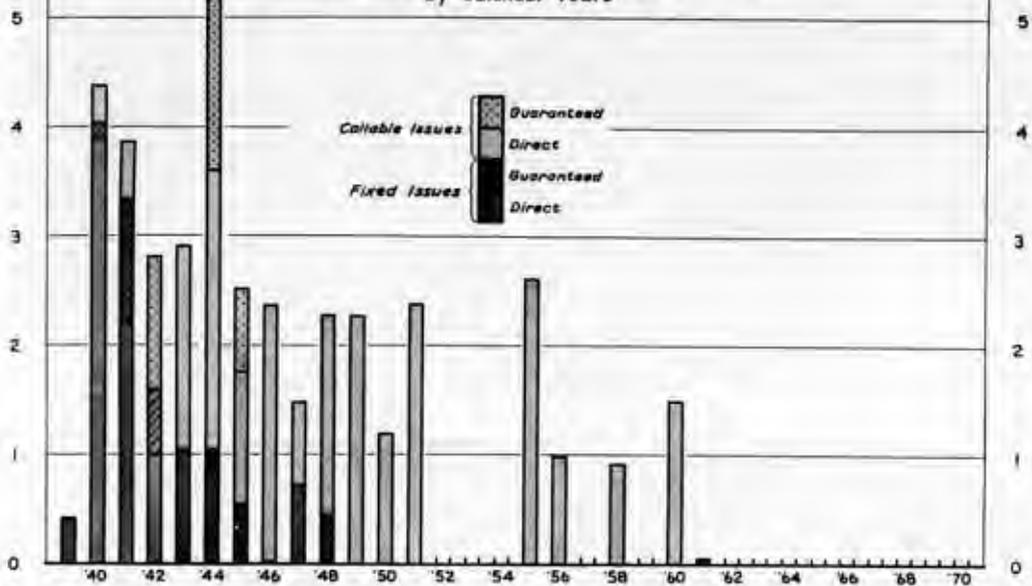
INTEREST BEARING PUBLIC DEBT - NOV. 30, 1939 Including Guaranteed

Adjusted to give effect to the new issue to be dated Dec. 8, 1939

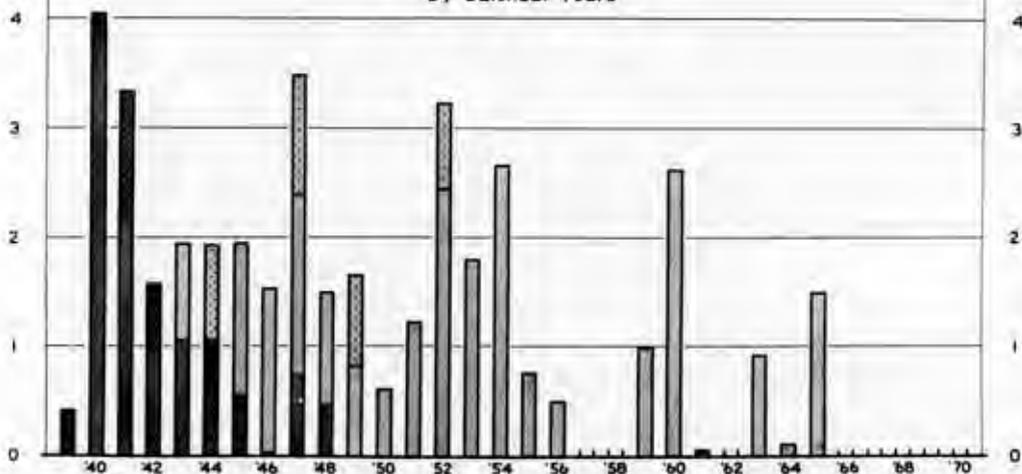
DOLLARS
Billions

DOLLARS
Billions

Amount Due or First Becoming Callable
By Calendar Years



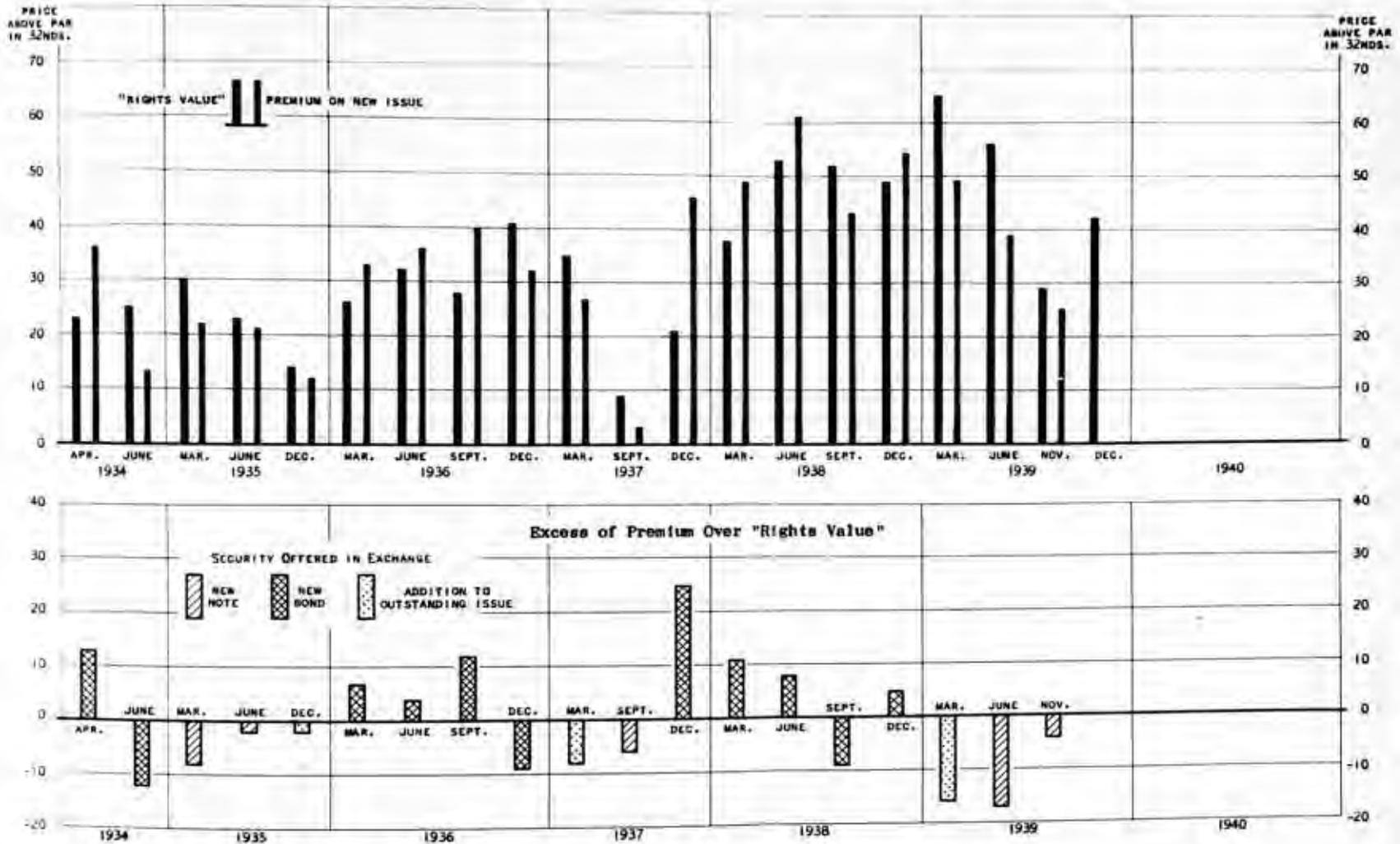
Amount Maturing
By Calendar Years



Excluding (1) Postal Savings Bonds; (2) U.S. Savings Bonds; (3) Adjusted Service Bonds; (4) Special issues to Government Agencies and Trust Funds.

Chart IV

"RIGHTS VALUES" COMPARED WITH PREMIUMS ON NEW ISSUES *
Exchange Offerings on Treasury Note Refundings, 1934 to Date

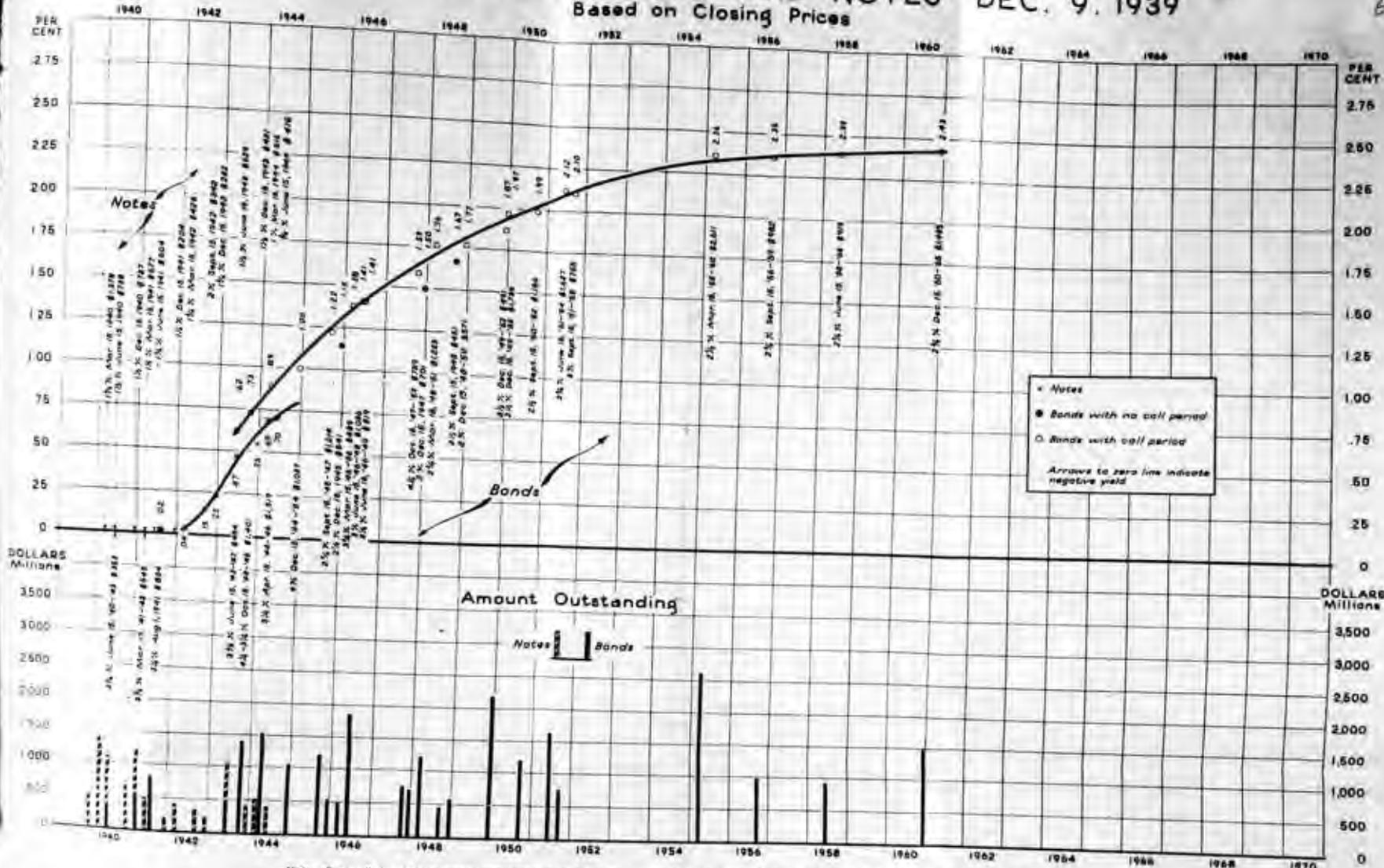


* WHEN MORE THAN ONE NEW ISSUE WAS OFFERED THE HIGHEST PREMIUM IS SHOWN

YIELDS OF TREASURY BONDS AND NOTES DEC. 9, 1939

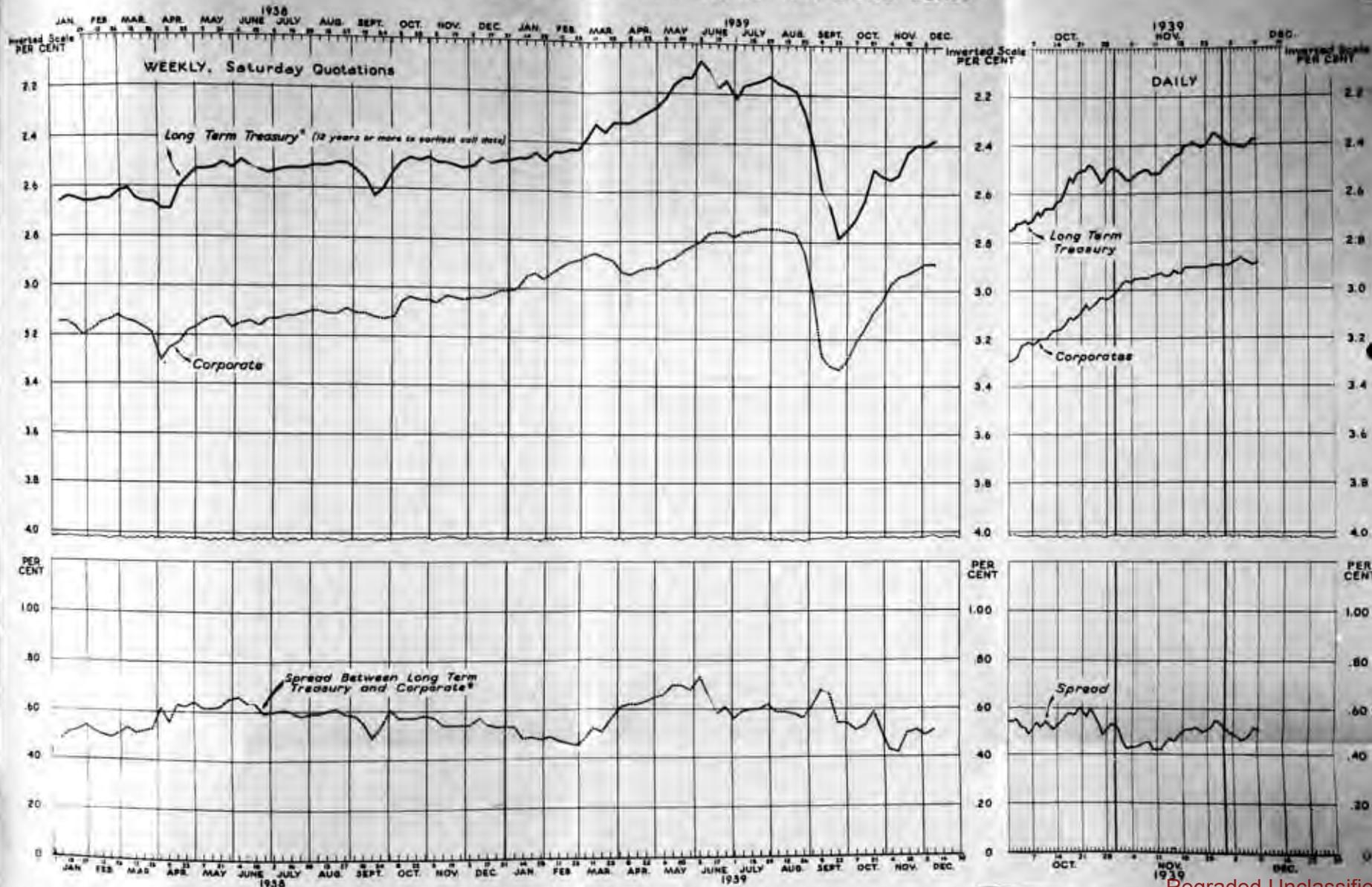
Based on Closing Prices

66



Note: For callable bonds, yields are computed to, and issues plotted as of, the earliest call date if the bond is selling above par, and as of the final maturity date if the bond is selling below par. The smooth curves are fitted by eye. Dollar amounts shown in descriptions of issues are in millions. Issues for which an exchange offer has been made and has expired are excluded.

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



INTEREST BEARING PUBLIC DEBT - NOV. 30, 1939

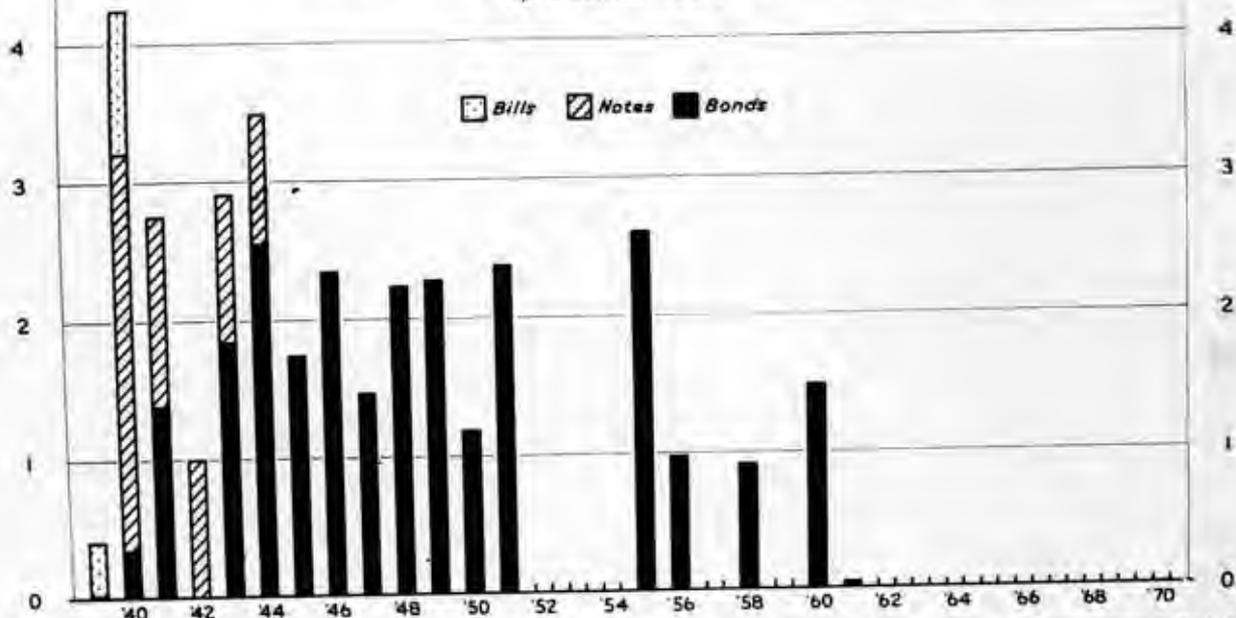
Daily Treasury Statement Basis

Adjusted to give effect to the new issue to be dated Dec. 8, 1939

DOLLARS
Billions

DOLLARS
Billions

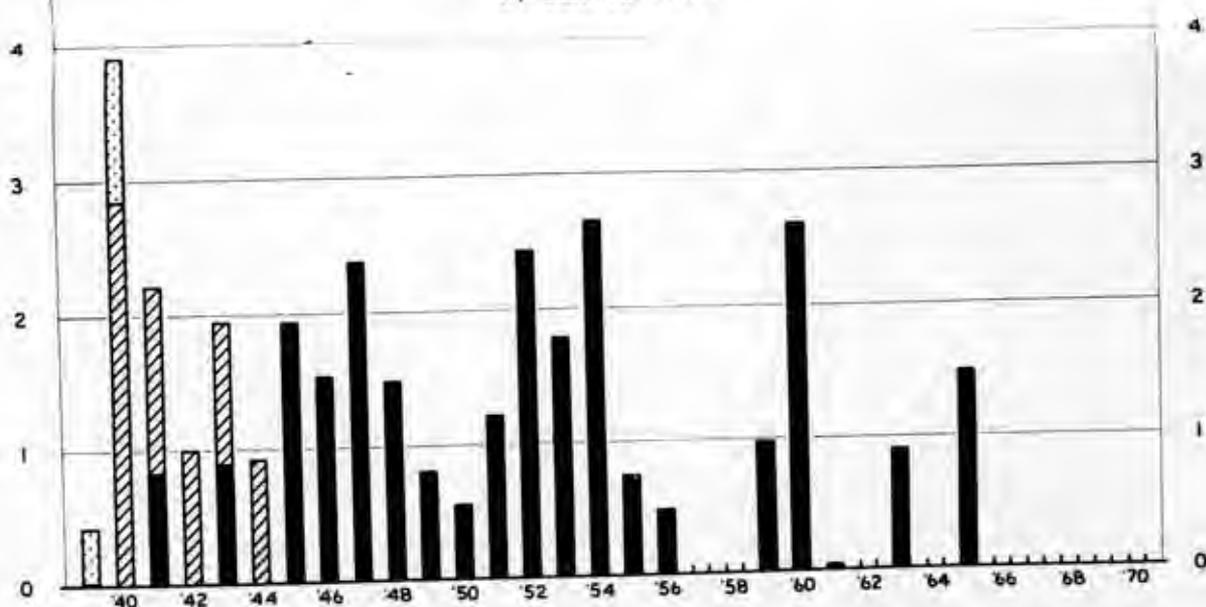
Amount Due or First Becoming Callable By Calendar Years



DOLLARS
Billions

DOLLARS
Billions

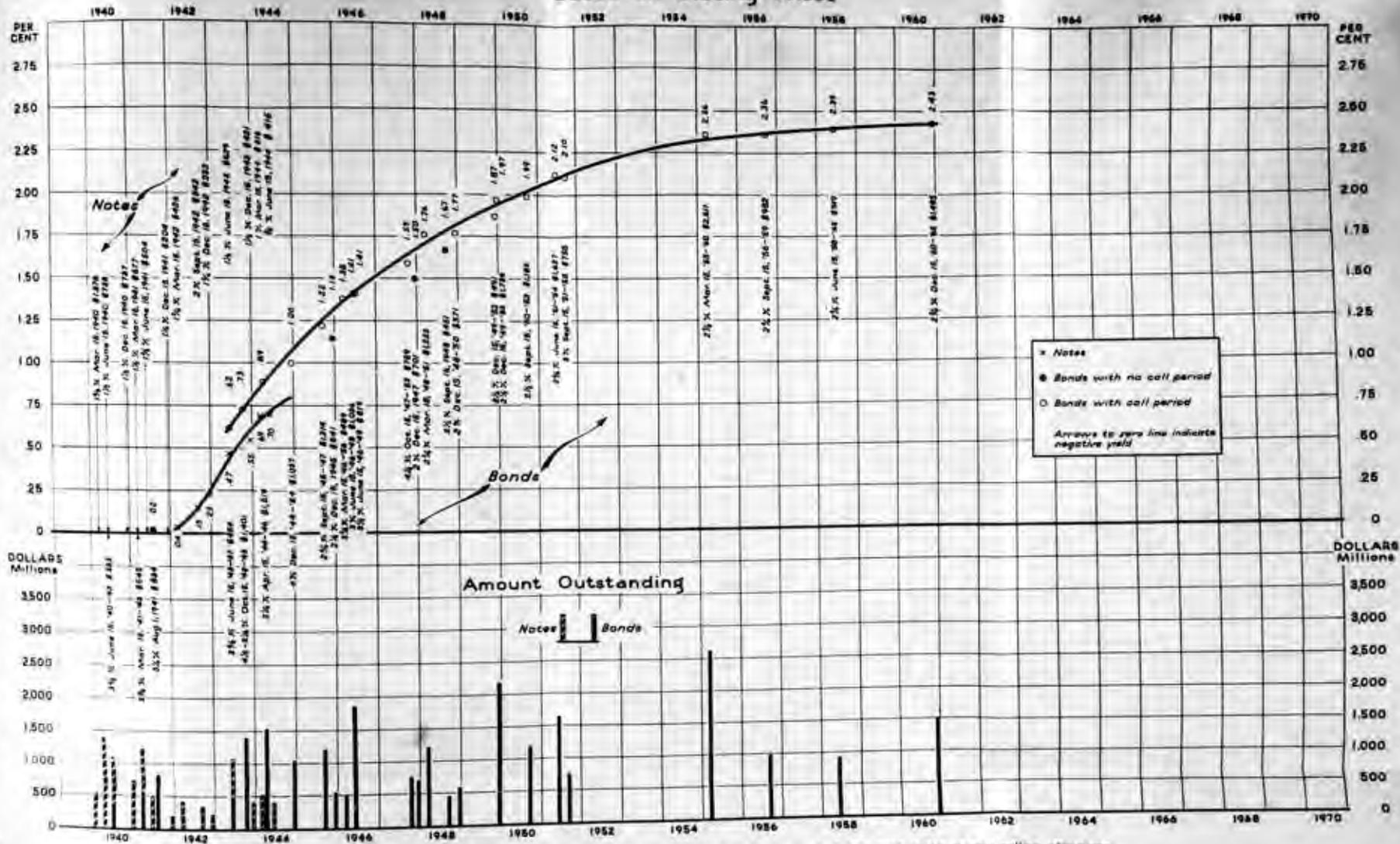
Amount Maturing By Calendar Years



Excluding: (1) Postal Savings Bonds; (2) U.S. Savings Bonds; (3) Adjusted Service Bonds; (4) Special issues to Government Agencies and Trust Funds

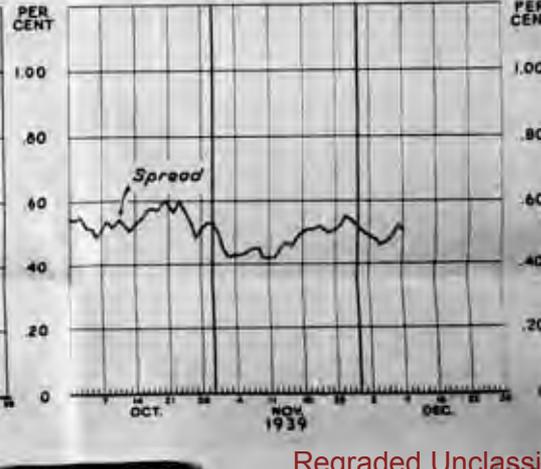
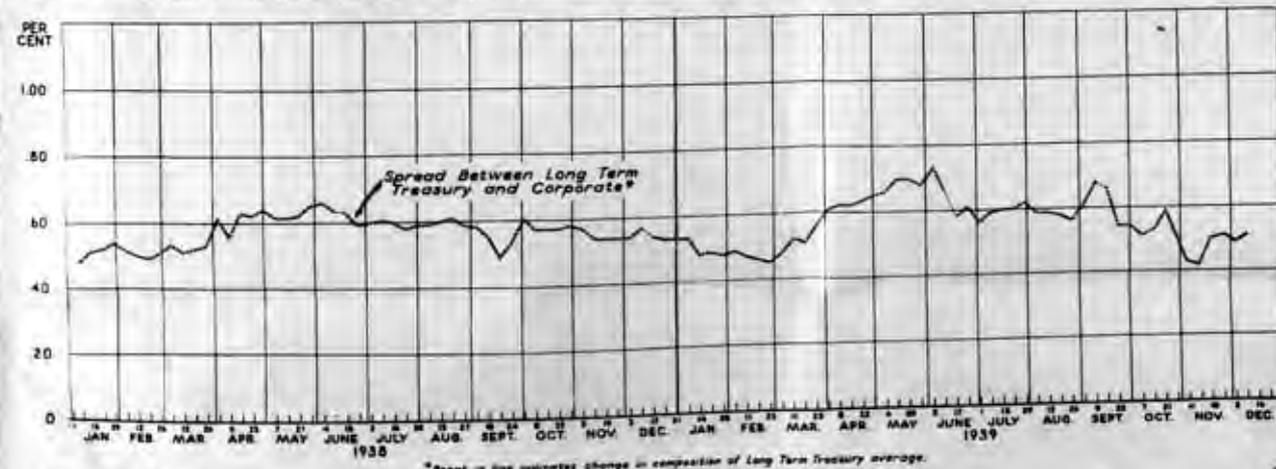
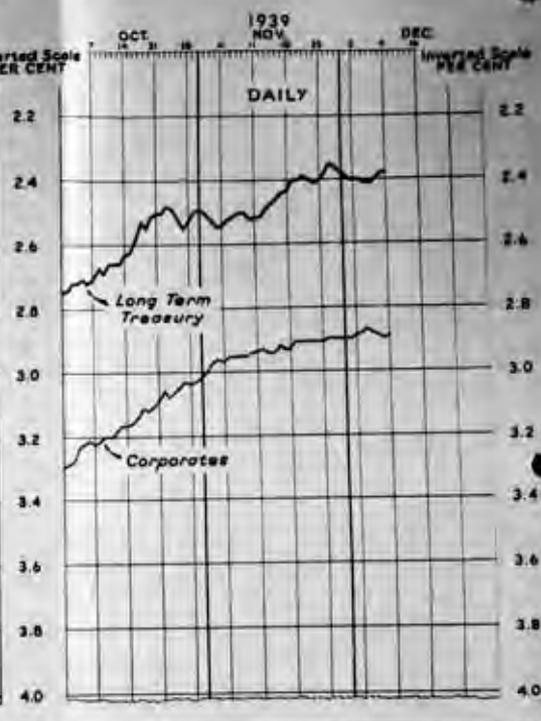
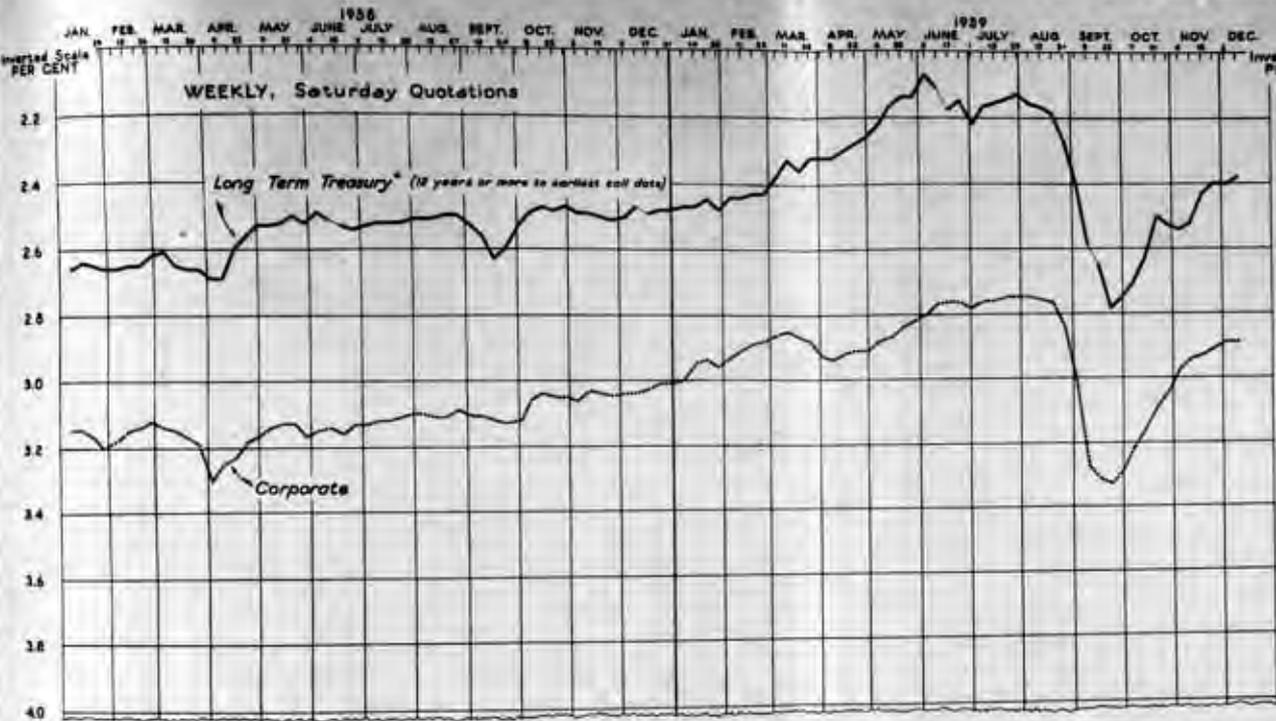
YIELDS OF TREASURY BONDS AND NOTES DEC. 9, 1939

Based on Closing Prices



Note: For callable bonds, yields are computed to, and issues plotted as of, the earliest call date if the bond is selling above par, and as of the final maturity date if the bond is selling below par. The smooth curves are fitted by eye. Dollar amounts shown in descriptions of issues are in millions. Issues for which an exchange offer has been made and has expired are excluded.

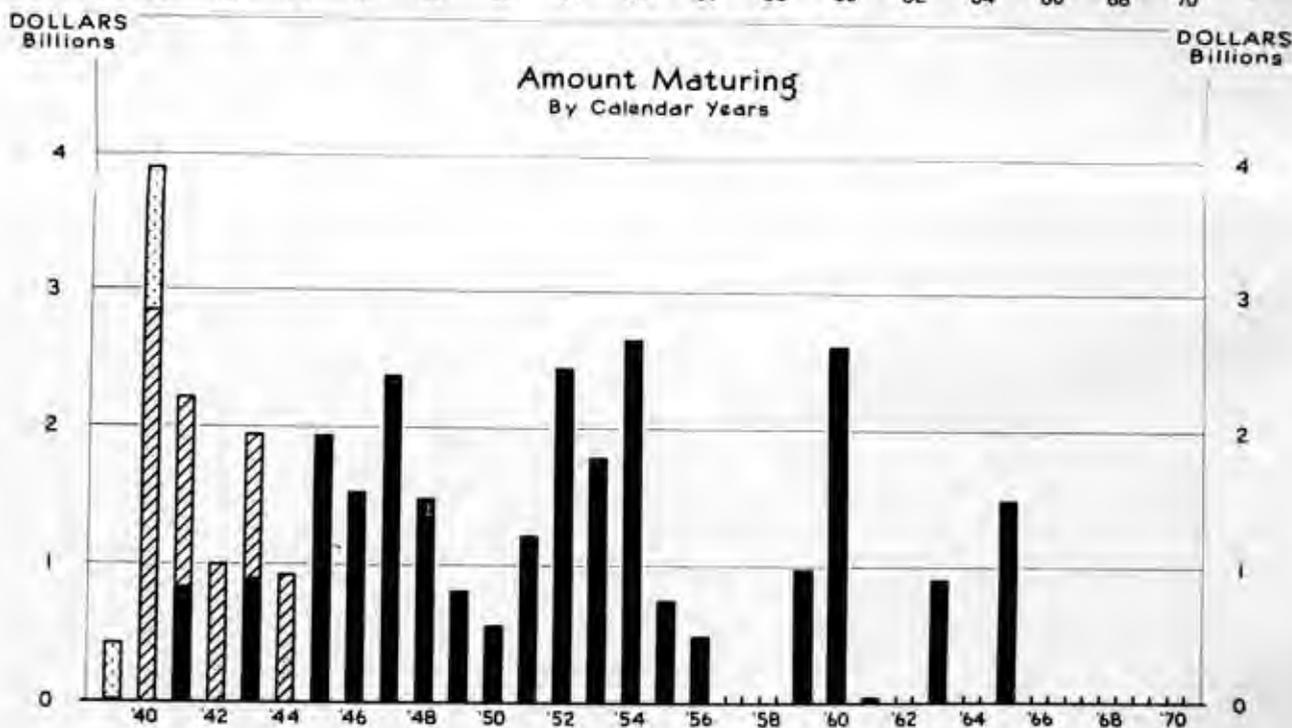
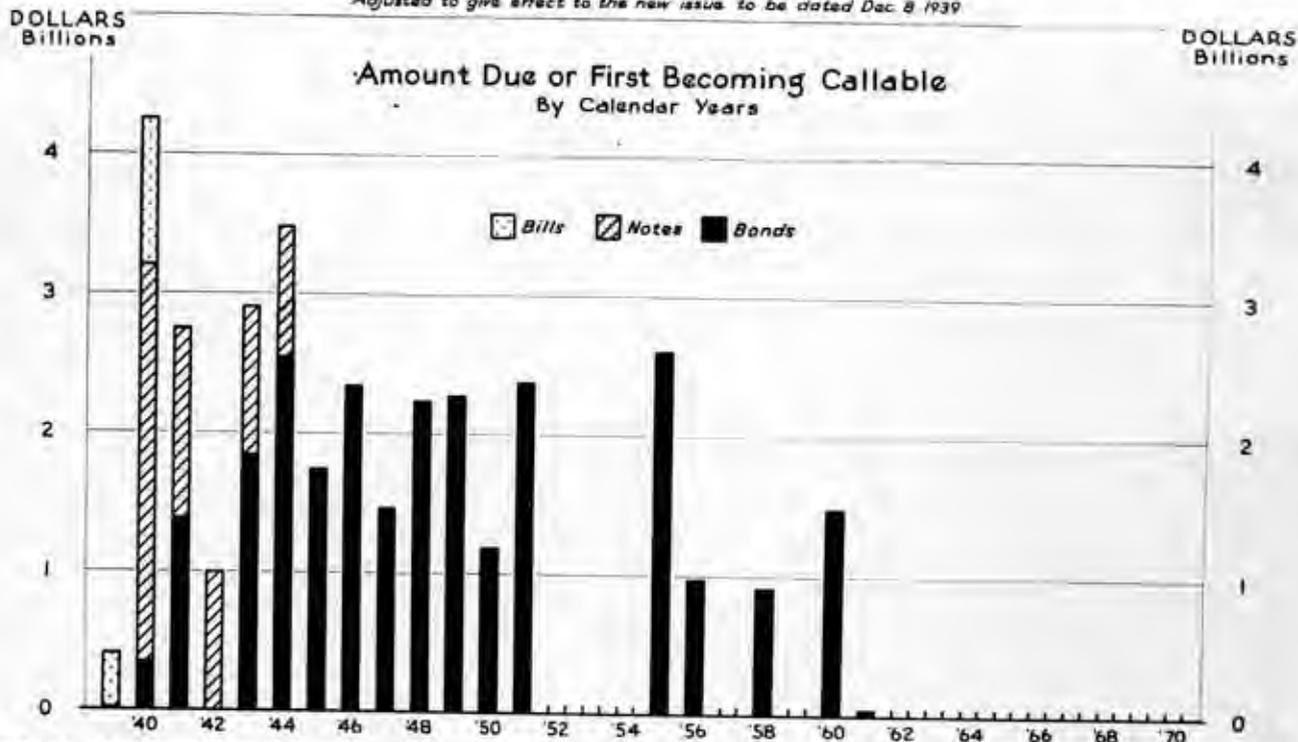
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



INTEREST BEARING PUBLIC DEBT - NOV. 30, 1939

Daily Treasury Statement Basis

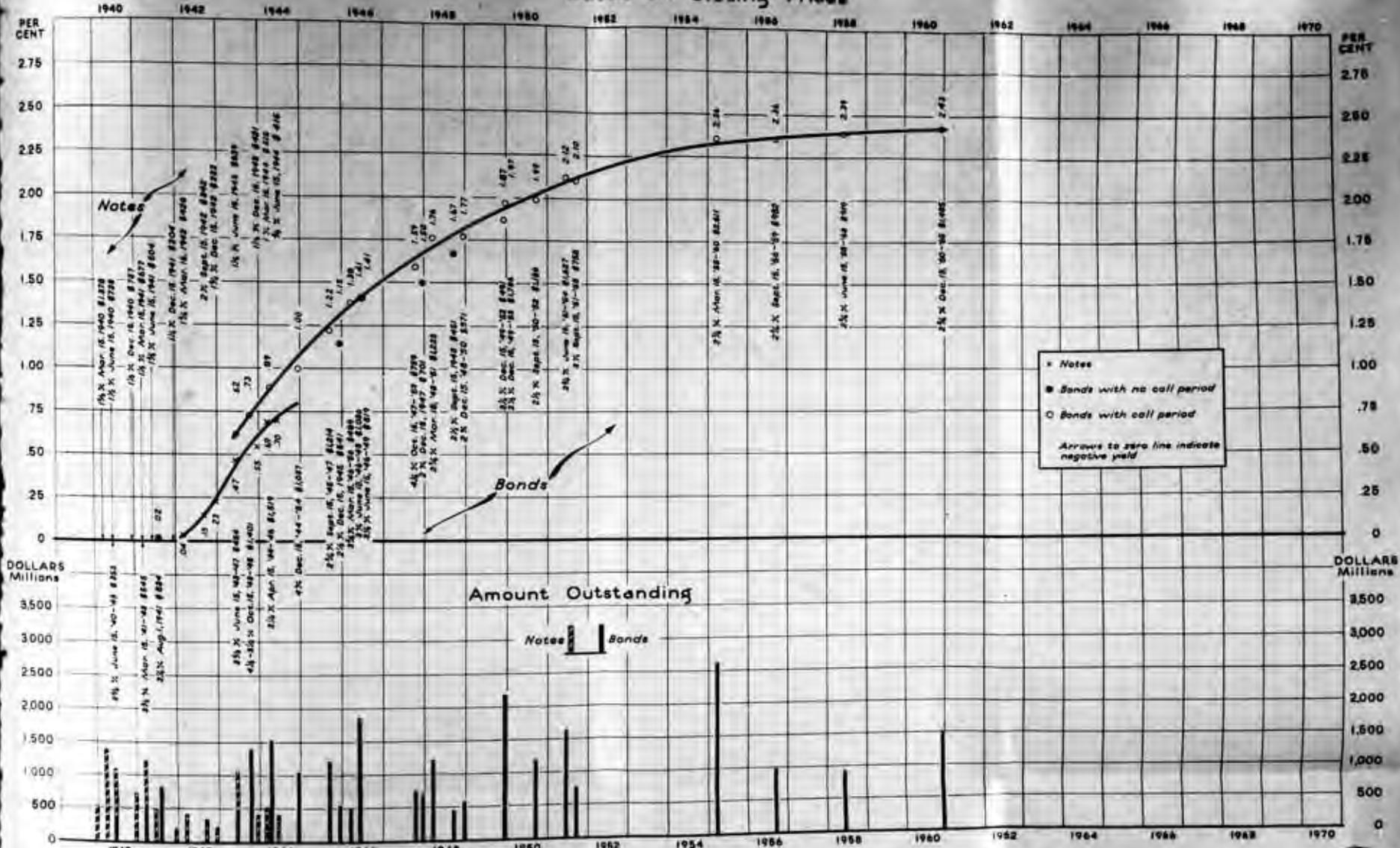
Adjusted to give effect to the new issue to be dated Dec. 8, 1939



Excluding (1) Postal Savings Bonds; (2) U.S. Savings Bonds; (3) Adjusted Service Bonds; (4) Special issues to Government Agencies and Trust Funds.

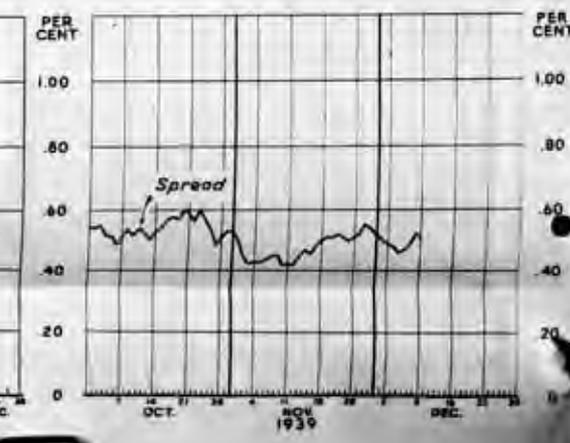
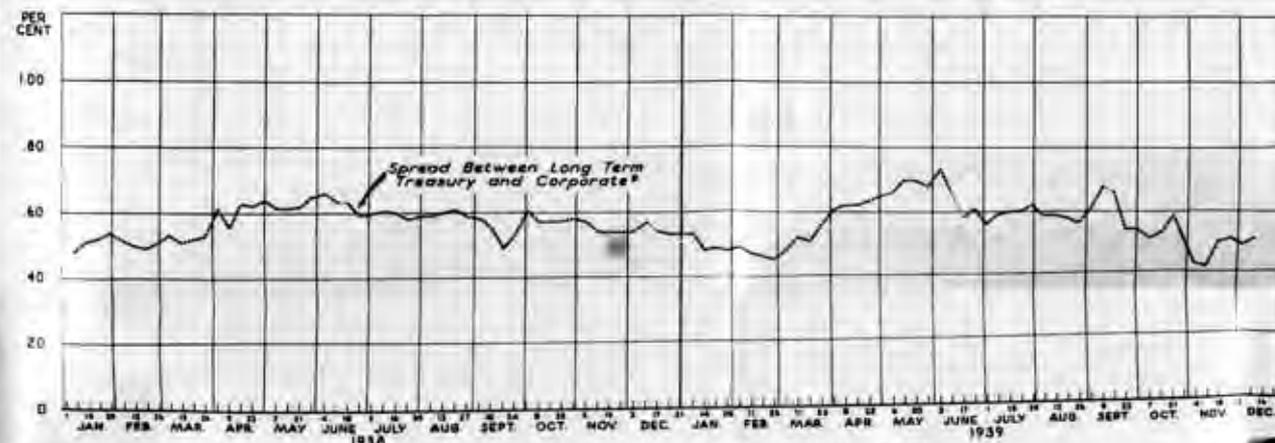
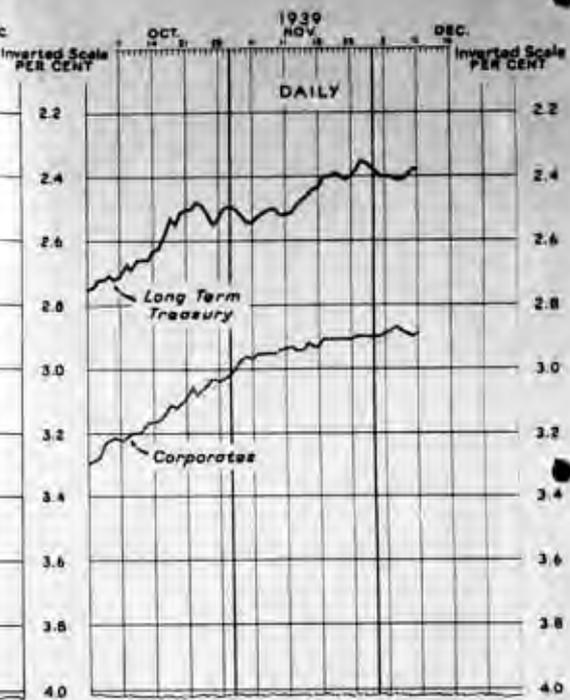
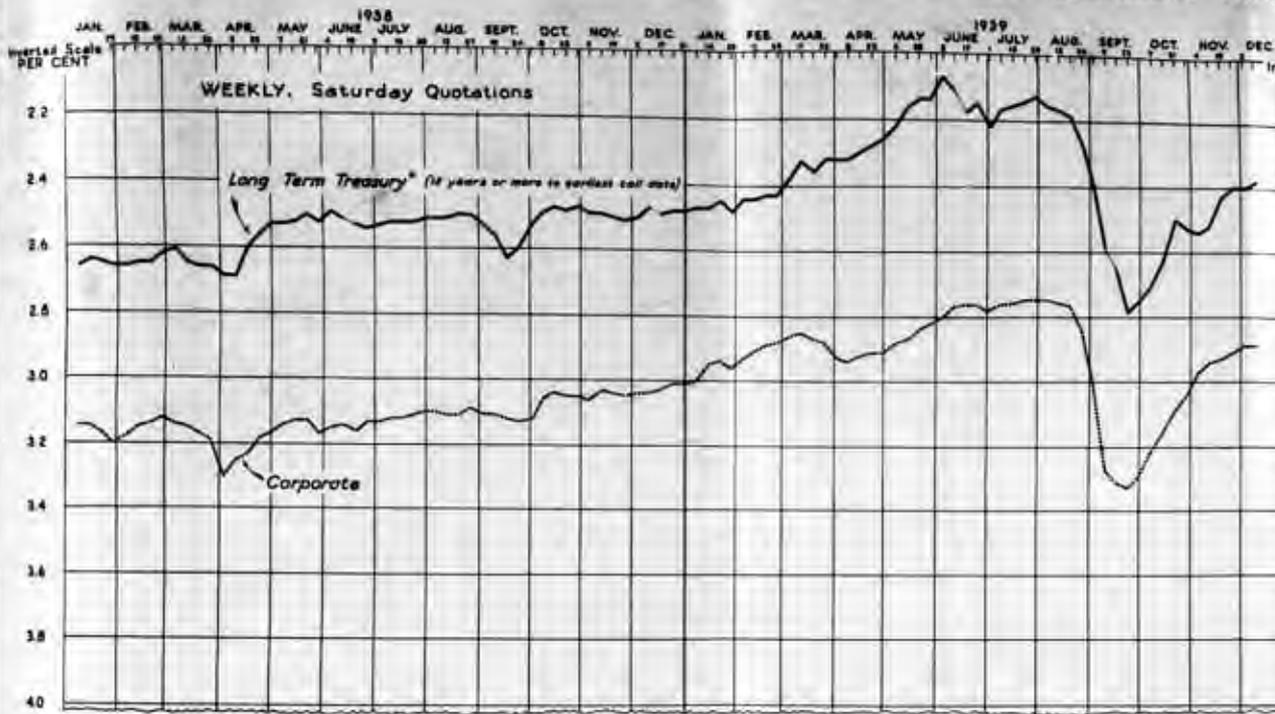
YIELDS OF TREASURY BONDS AND NOTES DEC. 9, 1939

Based on Closing Prices



Note: For callable bonds, yields are computed to, and issues plotted as of, the earliest call date if the bond is selling above par, and as of the final maturity date if the bond is selling below par. The smooth curves are fitted by eye. Dollar amounts shown in descriptions of issues are in millions. Dollar amounts shown in descriptions of issues are in millions. Issues for which an exchange offer has been made and has expired are excluded.

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



*Break in line indicates change in composition of Long Term Treasury average.

INTEREST BEARING PUBLIC DEBT - NOV. 30, 1939

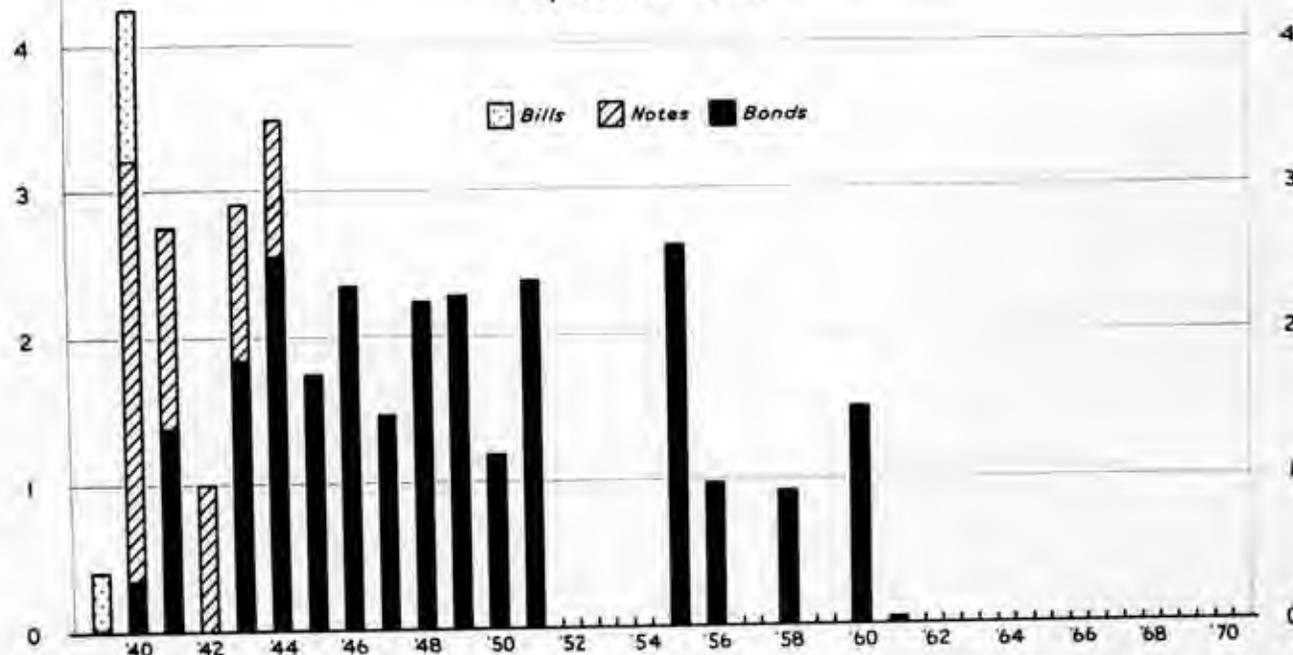
Daily Treasury Statement Basis

Adjusted to give effect to the new issue to be dated Dec 8, 1939

DOLLARS
Billions

DOLLARS
Billions

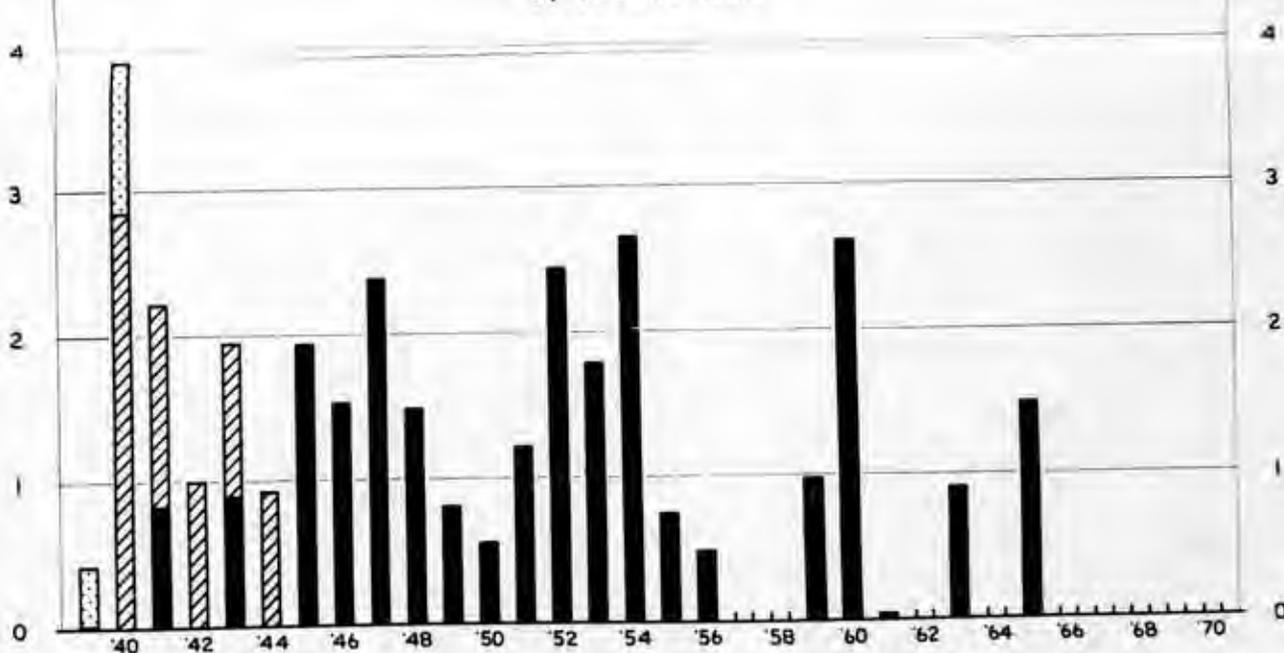
Amount Due or First Becoming Callable By Calendar Years



DOLLARS
Billions

DOLLARS
Billions

Amount Maturing By Calendar Years



Excluding: (1) Postal Savings Bonds; (2) U.S. Savings Bonds; (3) Adjusted Service Bonds; (4) Special issues to Government Agencies and Trust Funds.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Dec. 6, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: An Important Technical Consideration in Connection
with the Refunding of the March Notes

It is emphasized in the accompanying "setting" memorandum that the most important holders of the March notes are commercial banks, and that many of these banks do not desire long-term bonds at the present time as a permanent addition to their portfolios.

It is also pointed out that 55 percent of these notes were originally issued in exchange for First Liberty 3-1/2's -- an issue which, at the time of its call, was largely held by wealthy individuals because of its complete tax-exemption feature. A much larger than usual portion of the "rights" may, therefore, be held on the present occasion by wealthy individuals who originally acquired them in this manner. Such individuals are not likely to be interested in acquiring a partially tax-exempt security such as a Treasury bond for permanent holding, irrespective of maturity.

These considerations suggest that, if a predominant proportion of the original exchanges should go into a long-term bond, a great deal of secondary distribution might be required; and that even a medium-term bond might require in this instance a more than usual amount of such distribution.

A two- or three-way exchange offering of the ordinary sort is very apt to result in just such a lopsided distribution, even if a conscious effort is made to avoid it. This is because the premium on a note can be cut shorter than that on a medium-term bond, and that on a medium-term bond shorter than that on a long-term bond, with an equal degree of safety. If this is done -- and it is difficult to avoid it -- the banks, and, to a lesser extent, the wealthy individual holders, will "go" for the big premium, irrespective of their intentions with respect to permanent holding. In this way the market might be placed in a very vulnerable position technically.

The Treasury, in brief, is in the anomalous position that the holders of rights -- who, for the most part, have no interest in acquiring long-term bonds for permanent holding -- stand between it and the real long-term bond market.

Secretary Morgenthau - 2

It is suggested as a means of avoiding this difficulty, at least in large part, that we might explore the possibility of making the exchange offering in fixed proportions, say, one-third notes, one-third medium-term bonds, and one-third long-term bonds -- or, one-third notes and two-thirds medium-long bonds. If this were done, commercial banks as a class would tend to retain permanently their allotments of notes and medium-term bonds, while wealthy individuals would tend to retain permanently their allotments of (fully tax-exempt) notes. The required amount of secondary distribution might be substantially reduced in this manner, and the market so placed in a stronger technical position.

It is true, of course, that in certain cases some secondary distribution would be required under this plan which would not otherwise have been necessary, because some individuals would be "forced" by the arbitrary allotment to accept securities which they did not desire. It is not likely, however, that the secondary distribution so made necessary would be an important offset to that avoided. This is because the classes of investors who would be most likely to offer their shorter-term securities for secondary distribution -- insurance companies, for example -- hold relatively few rights.

The factor of safety on a "fixed package" offering of the type suggested would, of course, be determined by the composite premium on the combination of securities offered, and could be adjusted somewhat more easily than that on an offering of the usual sort. The larger the proportion of this "composite" premium which was apportioned to the shorter securities, the greater would be the factor of safety for the entire offering on original issuance -- but the greater also would be the possibility of the long-term bond going below par in the event of a subsequent general market decline.

The suggested procedure appears to have sufficient a priori merit to warrant an inquiry into the likely market reaction which it would arouse. While it is without precedent (at least since the World War) for an exchange offering in the case of a direct security, it has a recent precedent in that of a guaranteed security. This precedent is in connection with the HOLC 1-1/2 percent bonds which matured on June 1 of this year. The holders of these bonds were given the privilege of exchanging them in the fixed ratio of 40 percent in new 1-year 3/8 percent bonds and 60 percent in new 2-year 5/8 percent bonds. This division -- which met the requirements of the HOLC much better than they could have been met by a haphazard exchange determined by the relative

Secretary Morgenthau - 3

pricing of the two maturities -- seems to have been well received by the market. It should be pointed out, however, that the present proposal -- involving as it does a much wider spread of maturities -- might meet with some adverse criticism not foreshadowed by this relatively slender precedent.

December 5, 1939

Lunch with Harold Hochschild.

Told him what I had in mind about molybdenum. He showed me a telegram from Mr. Beattie, in England, one of his principal stockholders in Climax Molybdenum, suggesting they stop selling Russia any more molybdenum.

Their contract with Amtorg expires the end of this year and on Friday he plans to take it up with his Board of Directors and suggest that they do not enter into another contract with Russia for the sale of any molybdenum. He says he will be very glad to do this, simply as a result of my conversation.

He is also going to talk with the President of Kennecott, who produces about 4,000,000 pounds a year, and ask them if they will do the same.

He pointed out to me that they make considerable sales to Japan and if we make a similar request on Japan they will be glad to take it up with the Board.

I then told him that I would take it up with the English and the French and ask them whether they could not increase their purchases of molybdenum, based on the telegram that I got from Bullitt about the 16th from Bullitt, where Professor Rist said molybdenum was the one thing that Germany needed more than anything else that we could stop her from getting.

I also told him that we would see whether we could buy any molybdenum as a war stock for our own Government. My understanding with Hochschild was that this was not to be quid pro quo and that he would go ahead independently, and he agreed to that.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: November 13, 1939, 7 p.m.

NO.: 2742.

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

Our no. 2736, November 13, 3 p.m.

Matthews was informed last evening by Rist that there was one vulnerable spot in the German armor--molybdenum. Rist said he understood molybdenum to be essential to the manufacture of armaments and shells. He also understood that although it is to be presumed that Germany has sufficient stock to meet present needs it cannot last forever. He said that the United States produces far more than any other country in the world (approximately 92.5 percent of world production for 1938; 85 percent of this was produced by (7) molybdenum company -- Minerals Year Book, 1939).

The French blockade authorities have had recent information that Russia is making preparations for near-future purchases from us of substantial amounts for transshipment to Germany (according to the Year Book we export from 50 to 75 percent of production annually, although there is no separate classification for this in our trade statistics). He wondered whether the United States needs of molybdenum for national

national defense purposes were great enough to require exchanging exports of this metal; of course he greatly hoped that this would be the case.

Rist added that France might also be in need of supplies of molybdenum which might possibly be purchased immediately from us. (The other major producers are Mexico, Morocco and Norway in the order of their appearance.) He stated that in any event it would be impossible for him to overestimate the importance from the standpoint of the allies of preventing arrival of molybdenum in Germany. He further stated (as in telegram 2571, October 24, 5 p.m.) that fats, oils and sugar likewise are recognized weaknesses in the war economy of Germany and he hoped only small amounts of these materials would reach Germany. END MESSAGE

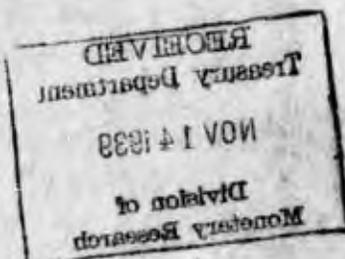
BULLITT

RECEIVED

NOV 14 1938

TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary

NOV 14 1938



December 6, 1939.

My dear Mr. Secretary:

I have created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

(a) The Director of Procurement, Treasury Department; (b) The Quartermaster General of the Army; (c) The Paymaster General of the Navy.

This committee will serve as the exclusive liaison with reference to procurement matters between this Government and the interested foreign governments. It will hold sessions at least once weekly, and at such more frequent intervals as may be necessary. At these sessions, it will receive an accredited representative of the embassy of any interested foreign government for the purpose of giving consideration to the requirements of such government for supplies, equipment, and materials, in relation to: (a) availability of the desired articles, (b) priorities, and (c) prices. The committee will submit a complete report of its proceedings acts and recommendations, at least weekly, to the President through Mr. McReynolds.

The Secretary of State has informed the British and French Ambassadors of this arrangement.

Will you please inform the Quartermaster General of his designation as a member of this committee.

Sincerely,

D.igned by President

The Honorable.

The Secretary of War.

December 6, 1939.

My dear Mr. Secretary:

I have created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

(a) The Director of Procurement, Treasury Department; (b) The Quartermaster General of the Army; (c) The Paymaster General of the Navy.

This committee will serve as the exclusive liaison with reference to procurement matters between this Government and the interested foreign governments. It will hold sessions at least once weekly, and at such more frequent intervals as may be necessary. At these sessions, it will receive an accredited representative of the embassy of any interested foreign government for the purpose of giving consideration to the requirements of such government for supplies, equipment, and materials, in relation to: (a) availability of the desired articles, (b) priorities, and (c) prices. The committee will submit a complete report of its proceedings, acts and recommendations, at least weekly, to the President through Mr. McReynolds.

The Secretary of State has informed the British and French Ambassadors of this arrangement.

Will you please inform the Paymaster General of his designation as a member of this committee.

Sincerely,

Signed by President

Hon. Charles Edison,

Acting Secretary of Navy.

December 6, 1939.

My dear Mr. Secretary:

I have created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

- (a) The Director of Procurement, Treasury
- Department; (b) The Quartermaster General of the Army; (c) The Paymaster General of the Navy.

This committee will serve as the exclusive liaison with reference to procurement matters between this Government and the interested foreign governments. It will hold sessions at least once weekly, and at such more frequent intervals as may be necessary. At these sessions, it will receive an accredited representative of the embassy of any interested foreign government for the purpose of giving consideration to the requirements of such government for supplies, equipment, and materials, in relation to: (a) availability of the desired articles, (b) priorities, and (c) prices. The committee will submit a complete report of its proceedings, acts and recommendations, at least weekly, to the President through Mr. Wedgwood.

The Secretary of State has informed the British and French Ambassadors of this arrangement.

Will you please inform the Director of Procurement of his designation as a member of this committee and ask him to serve as its chairman.

Sincerely,

Signed by President

to be Honorable.

The Secretary of Treasury.



DEPARTMENT OF STATE
WASHINGTON

December 5, 1939.

My dear Mr. Secretary:

I submitted to the President today the question of the most satisfactory means and methods of contact between the purchasing missions which are being created in this country by foreign governments, and the American Government. In doing so I called to his attention the suggestion put forward by you in your memorandum of November 10.

He has approved the creation of the committee therein suggested, to report to him through Mr. McReynolds.

The French and British Embassies have been accordingly informed today, and I am attaching copies of the memoranda given to them.

The matter of the selection of the chairmanship of the committee and the despatch of the necessary letters asking these officers to assume these duties requires attention and I shall consult you about it today.

Sincerely yours,

Enclosures:
Memoranda.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

A large, stylized handwritten signature in black ink, appearing to read 'H. K. Kelly'.

December 4, 1939.

MEMORANDUM TO THE BRITISH AMBASSADOR

In discussion with the Under Secretary on November 30, the British Ambassador inquired as to the manner in which contact should be established between the Anglo-French Purchasing Board in the United States and the authorities of the United States Government to avoid any unnecessary disturbance to the American economy. This Government plans to set up in the very near future an informal committee made up of representatives of the Treasury, War and Navy Departments, which committee will report directly to the President through his Administrative Assistant, Mr. McReynolds. When established, this committee will be glad to discuss with the Anglo-French Purchasing Mission any questions which involve interference with the purchases to be made by the Government of the United States in connection with its preparedness program, any questions which involve priorities, and any questions cognate to the question of fair prices and which thus affect the internal economy of the United States.

EA:HF:EB

MEMORANDUM

Responsive to the inquiry contained in the French Embassy's memorandum of December 2, 1939 as to the method by which the American Government wishes to establish contact between itself and the Anglo-French Purchasing Mission, the Embassy is informed that this Government proposes to establish in the very near future an informal committee made up of representatives of the Treasury, the War Department and the Navy Department, which committee will report directly to the President through his Administrative Assistant, Mr. McReynolds. When established, this committee will be glad to discuss with the Anglo-French Purchasing Mission any questions which involve interference with the purchases to be made by the Government of the United States in connection with its preparedness program, any questions which involve priorities, and any questions cognate to the question of fair prices and which thus affect the internal economy of the United States.

Department of State,
Washington,

UISW:IJ 12/4

December 5, 1939.

RE CLOSING AGREEMENTS

December 6, 1939.
11:00 a.m.

- Present:
- Mr. Irely
 - Mr. Foley
 - Mr. Helvering
 - Mr. Kades
 - Mr. Sullivan
 - Mr. Edison
 - Mr. McLaine
 - Admiral Furlong
 - Captain Kraus
 - Mr. Speer

Edison: I think the quickest way to crystallize this thing is to mention one problem and then see where we stand on that. Perhaps that will bring out the points on the others.

Now, here is what the problem is that we have had. We are very anxious to quickly build up some small boats for harbor and coastal defense, because in the last war we had to make very quick use of a lot of yachts and pleasure boats and one thing or another, so we have been experimenting both with American design and with an English design of boat. The English design is all finished, the boat is ready. The American designs are still in the process of building and are purely experimental. We don't know yet what they will do. We hope they will beat the English design, but still we can get that and we have been turning on all the heat to get it quickly.

We made a deal with the Electric Boat Company which Mr. Sutphen represents here today to fabricate some of these boats.

H.M.Jr: He has gotten so handsome as he gets older that I didn't recognize him.

Sutphen: We used to talk boats.

H.M.Jr: He is an old pal of my father's, is that right?

Sutphen: That is right.

H.M.Jr: He is so handsome I didn't recognize him.

- 2 -

Edison: Well, incidentally, he is one firm - the Electric Boat Company - that has been actually sending checks back on the Vinson-Trammell Act and he did it without waiting for the order - without its being pulled away from him, so the reluctance against paying anything back on the Vinson-Trammell Act has not existed in the case of the Electric Boat Company.

Sutphen: Thank you.

Edison: But we made this arrangement. We have these boats over here and we have been trying to get them tested and we tried to obtain 23 or 24 boats as rapidly as possible, because we want to get a group of them to try out practically, for one thing as a group, then we also wanted to develop a method of building them in quantity production, wanted to develop a factory unit that can turn them out, not only those boats but other boats too. So, as I say, we have been turning the heat on in every direction to get this thing closed up fast.

In order to make these boats cheap and fast and to develop this technique of quantity production, they have to build an addition to the plant at Bayonne at a cost of some \$600,000, which is going to be built solely for this purpose and is not needed by the Electric Boat Company for any business they may get in Bayonne and it is really a unit solely for this purpose, to give us the kind of unit we want and to build these boats.

The only thing left now, in the negotiations, except actually signing the contract, is the question of whether all or any part of this \$600,000 will be granted to them as a part of the cost in a closing agreement such as we discussed previously. Now, that is the problem and the answer to that, I think, will bring out the points that we want to discuss.

H.M.Jr: Well now, Guy, who do you want to talk - Mr. Edison suggested we use this as a formula and explain to them what the President's provision is on depreciation. Do you want to do it or do you want somebody....

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Helvering: You mean relative to this contract?

H.M.Jr: Let's use this as an example. Mr. Edison wants to use this one.

Edison: In other words, we have a different case in Aeronautics, but we have an exactly similar case in ordinance.

Helvering: Well, on this particular case, we have no information at all on the Bureau except what was handed us this morning.

H.M.Jr: Well, as you fellows can think fast, ask Mr. Sutphen any questions. Let's just develop for Mr. Edison what we would do. Let's find out what he wants and just go through the motions and use this as an example. Ask him what he is going to do, and so forth, and give him an approximate ruling on how we would handle it, that is what Mr. Edison wants and that is what I would like.

Edison: I was under the impression....

H.M.Jr: I think you said that you had been at this, hadn't you - wasn't this the one you said you had been waiting for weeks or months on?

Sutphen: It has been a year, I think.

H.M.Jr: Mr. Helvering says he got the first thing on it this morning. Let's call a spade a spade, see, so we find out where we are wrong and if, by any chance, the Navy is wrong.

Helvering: I will correct that to this effect, that the gentleman called yesterday but the only written statement is what we received this morning.

H.M.Jr: Did you get that, Charlie?

Helvering: I haven't even read that. It was given to me since I came here.

H.M.Jr: It is a compliment to us. They think that we can look in the stars and get the answer, but anyway....

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Edison: I understood from the talk we had the other day and from this letter, that all closing agreements were out.

H.M.Jr: No.

Edison: Then I have got the wrong impression.

Foley: Mr. Secretary, I was handed this as I came in the door, too. From just glancing at it, this is the same situation as the Consolidated. There is a conditional bid submitted to the Navy based upon a closing agreement being entered into with the taxpayer by the Treasury.

H.M.Jr: Sit up next to Mr. Edison, will you, Ed?

Foley: This was just handed to me as I came in the door and as I read it this situation is practically the same as the Consolidated case upon which the letter was written the other day that you have reference to now. In other words, there is a bid conditioned upon \$600,000 being written off. That \$600,000 is the cost of the plant?

Foley: That is right.

H.M.Jr: Do you want to write off the whole business?

Sutphen: What we asked for was whether we would have the privilege of writing off one half of it.

H.M.Jr: Do you mind my interrupting you a minute? Nobody here in the Treasury has had a chance to read this thing. Could Mr. Sutphen state what the proposal is and then one of my people will tell you what we can or cannot do. How would that be? It gives us a chance to do our homework in the open. What is the proposal, Mr. Sutphen?

Sutphen: Well now, Mr. Secretary, I appreciate the fact that your department hasn't seen this, but during the period of negotiating the matters with the Navy, it has been discussed time and again how we would prepare to build these units. In other words, it is not an ordinary boat building job, it is half airplane and half boat.

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They are equipped with over 3,000 horsepower and I went to England at the request of the Secretary and acquired this boat over there for the Navy's account and offered my services gratis for all of them. When we decided on the proposal of the type of boat they would want - they want to duplicate the British boat completely and the President has also had conferences with us. I met the President over this with the Secretary within the last six weeks. The President's remarks to me - he said, "How are we going to take care of an emergency of the boat builders, small firms all over the country?" He had gone through in the last war the building of 110-footers and I had preceded him by building for England and France some 580 to 600-foot boats before we entered the war, so the President and I understand this small boat problem of production and quantity.

I said, "Mr. President, if the Department sees its way clear, we have in mind building a separate unit." We have at Bayonne now a plant where we build cruisers, and the Secretary knows it. We have been there for forty years. But this is a secret job in a way. The Department wants to keep all this job more or less a secret and I strongly urge that. To mix it up in our own plan, take part of one building and part of another, it wasn't practical. There has never been, I don't believe, in the history of the United States, a really planned boat building plant ahead of production and this is what we are trying to do here, plan it in advance and make it economical as a building unit and to build expeditiously.

The President said, "How am I going to take care of these other builders in case of emergency?" I said, "We have thought that out. We can sublicense them under our agreement with this English firm and we can fabricate in this building probably faster than they can assemble in these smaller yards." He said, "I am perfectly satisfied, but I just wanted you to bear in mind I want the facilities, if we go into this thing, so we can reproduce fast."

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Well, I think we have got kind of a reputation in the last war of reproducing things when we built 150 ships at Newark, a complete ship every three days.

H.M.Jr: May I interrupt you?

Sutphen: Yes.

H.M.Jr: Do you mind - get right down - let's get down to this thing.

Sutphen: The point is this, Mr. Secretary, that I figure - and I made my bid conditional, that this plant unit would cost \$600,000. We asked that we be permitted to charge off at least one-half of that amount on account of building these boats under this contract. We don't know what the boats will cost, no one knows. We hope, though, that we can clear ourselves and write that off so that in the future we can make better prices to the Navy or to the Coast Guard, whoever wants to use the facilities.

H.M.Jr: You want to build a building to cost \$600,000 and you want to write off half of it - how quickly?

Sutphen: Within the next two years, during the life of these two contracts.

H.M.Jr: That is the proposal?

Sutphen: Yes, sir.

H.M.Jr: Now, can you (Foley) or the Commissioner - we can answer very easily what we can or cannot do. Now, Mr. Helvering or Mr. Foley, who will answer that?

Helvering: Well, our depreciation rates on buildings, of course, are very well established. Upon the proper certification of the Navy that this building will be used for this purpose only, and that the use - at the end of the useful period it will either become the property of the United States or will be continued in other contracts - we only allow one hundred percent depreciation.

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It doesn't matter so much to us whether it is written off in two years or four years.

H.M.Jr: One hundred percent depreciation?

Helvering: That is all we can take on this building. As far as we are concerned, it doesn't matter so much how much of that goes in, but it is inconceivable that 50 percent of it will depreciate in one year, that the use of it would be 50 percent gone in one year, because I have an idea this is a firm, substantial building.

Sutphen: Oh yes, the Austin people would construct it. It is very similar to an airplane plant in the details of construction.

H.M.Jr: This isn't any different than the Consolidated?

Foley: No, this is the same as the Consolidated, Mr. Secretary.

Edison: Yes, but in the case of the Consolidated, they wanted us to advance the money to build the plant. In this case, he is going to build the plant and all that but he merely says, "Please let me, in figuring the profit on this thing for Vinson-Trammell business, I would like to know now that I can put half of that in the cost before you make me turn some money back."

This isn't a question of financing in advance like it is in the Consolidated.

Foley: No, but in so far as our problem is concerned, the use of the closing agreement to determine in advance the rate of depreciation of this plant construction, it is the same problem as we had in Consolidated and from our point of view it doesn't represent any different kind of a tax problem than Consolidated did. Where we are talking about jigs and dies and tools, and equipment of that character that is acquired especially for the contract and won't be used except on that contract and it is reasonable to assume when the contract is completed that it won't be usable again, we can agree now as to what he would be entitled to at the completion of the

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contract in so far as the write-off of the cost of that kind of equipment, but where we are talking about writing off the cost of a building, and what that building can be used for and what its value is at the end of this contract, we are in the realm of conjecture and we are just guessing and I don't think we can safely use the closing agreement to tell now what the value of this building is going to be, either in two years or three years or four years. We will be perfectly willing to sit down with Mr. Sutphen at that time and determine what depreciation he can take in so far as profit under the Vinson-Trammell Act is concerned and in so far as his tax problem is concerned, but how we can do that now, when we have no facts upon which to go, is something that I think is unreasonable for them....

Edison: Is it a matter of law or a matter of policy?

Foley: I think it is a mixed matter of law and policy.

Sullivan: We are bound by reasonableness anyway.

H.M.Jr: May I just try to be helpful? The President was in complete sympathy on our turning down the Consolidated boat thing because it hinged on a write-off on the building, you see, irrespective of where the money came from. If this thing is on a building, we can't do anything, but now let me make a suggestion. In contemplating the construction of these boats, are you going to put in any special machinery?

Sutphen: No, just ordinary woodworking machinery.

H.M.Jr: You see, in the case of the Colt Arms, there they had to put in a lot of special jigs and dies which would only be used for the production of this particular gun, couldn't be used for anything else but that one gun and the Army certified that those jigs and dies would be completely used up and would be useless at the end of the life of the contract. Now, in that case we could go along and I am right in saying that we permitted one hundred percent depreciation, I believe. Is that right?

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Foley: That is right.

H.M.Jr: On the jigs and dies, and the production of this gun, which could only be used - I mean this machinery they put in could only produce that and nothing else.

Foley: And then there was a condition there that if that - those same tools and machines were used on additional contracts, the cost of that wouldn't be included in the bid.

H.M.Jr: They wouldn't include the cost of the dies and jigs twice. I am giving you this example to try to be helpful. Mr. Edison wanted to know where the Navy stood. Now, we can do something with you on special machinery but on buildings, no.

Edison: What I am trying to get in my head is, what stymies you on building? I mean, if you have a building and it costs so much and you charge it all off in ten minutes, I mean right on the first boat or right - you make no profit but you make twice as much the next year. I don't see why....

H.M.Jr: The point is this: The purpose of this meeting was to try to explain our attitude. We don't consider that we should give any special treatment to a manufacturer who is manufacturing something for armament purposes than we should to a manufacturer who is manufacturing a dictaphone and the practice of write-offs on buildings is something which goes through the whole history of Internal Revenue and our own factory - I don't know what the write-off is, but if you were going to build a new factory to manufacture the new Ediphone and came in here and said, "We have got a brand new Ediphone and we have got a wonderful market; we have got 100,000 sold, but we have got to build a new building, but before we do it we want to know whether you will let us write this thing off on this one order which we have for 100,000 Ediphones. Will you - it will take us three years to produce it, will you let us write it off in three years? We have this order, a firm order." Well, the answer would be no.

Mr. Edison, you go ahead and build your building, and your building will be treated, depending upon

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whether it is steel or whether it is concrete or whether it is brick or whether it is wood, depending upon the material. We will base our write-off on what we think is the life of the building. But you say, "Well, I don't want to start on this thing, because here I have got this wonderful order and I can complete it in two years and I don't know whether I will get another order, somebody will maybe get a better machine than I." I would say, "I am very sorry, Mr. Edison, all I can do is depending upon the materials that go into this building; we will tell you what the write-off will be and we will give this to you in writing, but you have got to go ahead." Now, whether the man who gives you the order gives you the money or whether it is out of your own treasury or whether you go to the public has no bearing on the facts. Whether the financing comes from any one place for that building and whether you are manufacturing an Ediphone or whether you are manufacturing some electric device for a shell or a mine or something, or a boat, it wouldn't make a bit of difference. I want to explain our attitude. We would treat you - we might even give you a little bit more of a break, because we think that you are manufacturing something for peacetime. We might even give you a little bit of a break over this fellow who is going to manufacture something for war. You might get the edge on him.

- Foley: That is especially true, Mr. Secretary, when Congress says that you can't make....
- H.M.Jr: Does that explain it?
- Edison: It does, except that it isn't the case, I don't think.
- H.M.Jr: Just a minute. Have I missed....
- Sullivan: That is right.
- H.M.Jr: Is that right?
- Sullivan: Fine.

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H.M.Jr: Would I treat him that way if he was going to put up a new plant for this new Ediphone which looks so pretty?

Sullivan: I think you would have to.

H.M.Jr: And I would give him the same treatment, depending on the material that goes in the building?

Sullivan: That is right.

Edison: Let me ask you this: Suppose you were going to build Boulder Dam and the contractor put in a price and said, "I am going to take ten years to build this thing," and the Government said, "No, you build that in two years." Well, "In that case, I will have to build a town and as soon as the Dam is over, that town is just a desert waste, it is no good." The Government says, "All right, I want your people properly housed on this Dam and I want you to build it in two years." He says, "Well, this town is going to cost me 10 million dollars. I don't want the town. It is no good to me. After it is built it is worthless. Can I charge that into the cost?" "No, those are buildings, you can't put that into your cost."

"Well then, I don't want the contract."

Helvering: That very thing is already - that very thing you mentioned, Boulder Dam, has been handled in the Bureau, but it wasn't handled when they made the contract. It was handled when they became obsolete, just as we would do with Mr. Sutphen here if at the end of two years this boat didn't prove to be what you thought it would and there was no more manufacturing on it, then this plant would become obsolete and it would be charged off.

Sutphen: Mr. Secretary, can I just bring up one point here? I appreciate the difficulty and the die and tool expense of a manufacturing plant where they have to make something especially for the Army and the Navy and where those tools wouldn't be used in ordinary commercial work. In this plant unit, we are trying not only to build the boats in a

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rapid time - one a week - but we have to lay twelve boats down. The machinery is very simple machinery, woodworking machinery, but the plant is the tool that we want. In other words, to have space to lay twelve of these boats down at one time takes an enormous space, 420 feet long, 240 feet wide, headroom of 26 feet, and that is the tool that we have to have for this special work. It is a building tool, it is a plant tool. It is not just a small tool but it is a special tool.

Well, I am just trying to show you, Mr. Secretary, that here is the program. We don't know whether the Navy will want many of these boats or only a few. We couldn't afford to go in and build ourselves a plant of \$600,000 for 23 boats. It would just be improper. The Department wanted to have me study that end just as the President did. How can we insure ourselves that in case of emergency - I said this is the first thing to do, to build a plant and the plant is a tool. Imagine the space....

- H.M.Jr: Just a second - it is impossible. You can't sell me the idea. You can't sell me a factory building as a tool, not as long as I have got any gray matter left.
- Sutphen: I am trying to illustrate....
- H.M.Jr: No, it is a very pretty thought but I have got to defend what I do here in the Treasury on the Hill and for me to go up and explain that a factory was a tool - I don't want to be laughed at.
- Sutphen: I wouldn't want to have you....
- H.M.Jr: I just....
- Sutphen: But you see my point, that we are trying to accomplish here a rapidity of production.
- H.M.Jr: All right, but you can't use the Treasury as a device to do something which we feel, and which the President is in complete sympathy with, that a....

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- Foley: That we can't do for anybody else.
- H.M.Jr: That we can't do for Mr. Edison or Mr. Smith or Mr. Jones.
- Sutphen: That is right.
- H.M.Jr: And the policy is that anything we are going to do we are going to make public, and I, personally, have got to defend this - Mr. Edison does, as Secretary of the Navy, and I have got to defend it and I can't defend that. Now, again trying to make a suggestion which is no good or maybe of use, what it gets down to, it seems to me, is that you have got to do this, you have got to do what we did in England and that is build these shadow factories and the Government will have to go and build a \$500,000 plant and lease it to Mr. Sutphen.
- Edison: What good is it? Why have the Government pay a lot of extra money?
- H.M.Jr: You are paying it anyway in your depreciation.
- Foley: You are going to do it this way, by indirection, what you would do by direction, because the Treasury wouldn't be getting this income that it would normally be getting.
- H.M.Jr: I would have to raise \$600,000 in taxes out of your income and mine in order to pay for this plant or I lose \$600,000 worth of income. It is the same thing. It all comes out of the Treasury in the long run.
- Edison: You might not pay a cent this way.
- H.M.Jr: Well, look, we have had this thing now for five months. We have been over it very, very carefully and the question of permitting the depreciation of a factory in excess of normal depreciation for any manufacturer - we just can't do it. You wanted to know where we stand. This is important for you and it is important for the country and I think the sooner the Navy knows where we stand, the better.

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We just can't do it. I think if you want these boats and you can't make a dicker, you will find that you will have to build this plant for Mr. Sutphen just the way....

- Edison: Then the Government has got a plant it doesn't want, that won't be any good to it. You will have a lot of tunnels and pipes and walls and things, and what good is it, and it has paid the whole works.
- H.M.Jr: But we pay it the other way.
- Edison: If you do it under this closing agreement, there is a chance you might not pay anything.
- H.M.Jr: You wanted to know this morning where we stood.
- Edison: Yes.
- H.M.Jr: Well, now you know.
- Edison: What you are saying is this: You are saying we will have to delay our battleships two years; you are saying that we don't get airplanes.
- H.M.Jr: Oh, no.
- Edison: You are saying that we won't get these boats.
- H.M.Jr: If you don't mind, may I be frank in front of these gentlemen?
- Edison: Sure.
- H.M.Jr: You are being very unfair and unjust, because it isn't my fault that there is a Vinson-Trammell Act and it isn't my fault that Senator Nye has expressed himself as - in his Committee, how he feels about this and Senator Couzens investigated this very thing at the end of the World War. It is all on the records of Congress. Just because you can't use a device - if you don't mind saying - to circumvent Congress doesn't mean we are to blame if you can't build your battleships. You have still got your six million dollars, or 99 percent of it.

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Edison: That was only for armor plate.

Furlong: Where I used it was on good Government ground where I could recover it and use it. We would have to build here for about five million dollars for these other companies.

H.M.Jr: What was on that ground?

Furlong: Other parts of the plant.

H.M.Jr: Owned by whom?

Furlong: The United States Navy.

H.M.Jr: And who was Assistant Secretary of the Navy when it was built?

Furlong: Mr. Edison.

H.M.Jr: And he built a Government plant which he was very, very proud of at Charleston, and by spending \$750,000 you again put it in order.

Furlong: Yes, and that is where I like to put it.

Foley: Then you leased it, didn't you?

Furlong: No, I just leased the furnishings in it.

H.M.Jr: He is very, very proud of it. If it was good then, why....

Furlong: That is fine.

H.M.Jr: Why isn't it all right to build a plant for Mr. Sutphen?

Furlong: But this other thing that we have in the Army - we have about two million dollars that Bethlehem wants and a couple of million that Midvale wants. If we put that stuff up for them, we can never use it. We can use it at Charleston.

H.M.Jr: Right on that, I want you to say before Mr. Edison that there is nothing before the Treasury now on

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the armor plate situation, we have no proposal from you.

Furlong: Yes, we wrote a letter to you on November 22, asking for a closing agreement with the Midvale people.

H.M.Jr: On November 22?

Furlong: The appointments here, over that subject, previous to that - and it has been put off from time to time.

H.M.Jr: Then it is November 22, but that was quite recently.

Furlong: That is right.

H.M.Jr: It hasn't got to me yet, but that goes back to last July, from July to November.

Edison: We have got to find out first what is needed. They have to get estimates and bids and drawings and then we had a careful check to make sure we wouldn't be rocked and then we had to certify to you that these things were so and it all took a little time, but we did have this all in process. Also we had the money being worked out with the Midvale Company in South Charleston. But I said at the Treasury the other day, I thought I had been misinformed, it was all in the mill.

H.M.Jr: All I am trying to say is this, there are two different things we are talking about. One is, let's call it the Electric Boat type of thing which you brought over here and which we "no can do."

The other thing, the Midvale, hasn't been brought to me yet. Now, I would be delighted to ask for a joint appointment for you and me to see the President and bring it to his attention, just where you are at with the Treasury, where you are at with Mr. Sutphen, and then - because I am not going to let you even think that we are holding back your proposal because - it is a device that you can't use, it is just - you will have to get some other device than the Treasury.

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- Edison: What isn't clear in my mind is, you can use it on that desk but you can't use it on the waste basket.
- H.M.Jr: Oh, no.
- Edison: That is what I can't see.
- H.M.Jr: You can use it on the desk, you can use it on the waste basket, but you can't use it on the four walls, because the four walls have been here for 100 years and this waste basket may last six months. That is the difference. That may be good for six months, but these four walls - I guess they have been here for 100 years and that is the difference.
- Furlong: Say, Mr. Secretary, you know there is a funny thing came up about this. After we got this authority from you to ask for a closing agreement, I then, of course, told these steel companies that we wanted them to ask for these agreements, but the Bethlehem Company, those fellows, they don't want to do it and they won't do it because they want all the money right away, they want us to hand it out to them. They know there will be some chance when the Treasury goes around to tell them that, "Here, some of this you can use in the next ten or fifteen or twenty years," and they won't write this off for them and they know that, so they want me to give them the whole thing. That is the reason I was holding back on this six million, I didn't want to give it to that crowd.
- Sullivan: I think, Mr. Secretary, I should tell you that the Midvale people yesterday were in about this same thing and we wrote them that we had entertained serious doubts as to the propriety of our executing a closing agreement relating to a subject upon which Congress had expressly authorized the Navy to spend six million dollars, and the reason we wrote them to that effect was because we did not care to have anybody think that we were engaging in anything that might be interpreted as an effort to evade the Congressional desire and intent. That is the situation on Midvale today.

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- Furlong: I carefully explained to the Committee of Congress when I got the six million that we were trying to arrange it with the Treasury to get this but that I wasn't sure that the negotiations between the Navy and the Treasury would come out all right, because I wasn't quite sure how the Treasury would stand on it. We have had a lot of talk on it with the Treasury. So I asked them, so this program wouldn't fall down entirely, to give me the six million and the six million has been taking out of the shipbuilding, which is authorized for 1940 and we have to go up and ask for a deficiency because it has taken away from the shipbuilding, so that was the reason it came up, because the negotiation hadn't been absolutely settled with Mr. Morgenthau and he was negotiating with this Secretary at the time.
- Sullivan: But that is now earmarked to eight private industries to manufacture armor plate.
- Furlong: Right.
- Sullivan: And what each one of those three plants are asking for is about \$600,000.
- Furlong: No, Bethlehem has in for \$1,806,000....
- Sullivan: Their request....
- Furlong: Navy has spent over a million and Midvale is asking for six hundred fifty-three. They are asking for \$653,000. They had spent a million - over a million on battleships, 57 to 60 and there, on that, they are going to take their chances with the Treasury on the general run of the mine business as you usually make the arrangements, as you say, with anybody. They will have to do that. But that is how the six million came in, is because I wasn't sure; we were at the same time negotiating with the Treasury.
- So I got it for armor, only, but the rest of these fellows that make everything else - I am the only fellow that got it because - well, I have been working on this for two years. But the rest of the industry, there are lots of other things besides armor.

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- Edison: There is one point I want to make and if I am wrong on it - I would like to speak direct, but if we spend this six million dollars, we will have spent six million dollars that you had to raise by getting taxes. If we make a closing agreement, there is a chance we won't have to spend a nickel.
- H.M.Jr: Answer that.
- Sullivan: No....
- Edison: Now wait. Suppose the company made a profit of five percent. If you don't let them write this off, if you don't make a closing agreement, you just throw that out. Suppose, on the other hand, that you do make a closing agreement, they make a profit of seven percent. Now, how much does it cost the Government?
- Sullivan: I am afraid I don't understand the case. We are allowing them to take out of their gross profits, under your suggestion, six hundred thousand dollars. That comes off the top.
- Edison: Yes. Suppose their profit was seven percent. They have made seven percent on this thing and they are allowed ten.
- Sullivan: That is right.
- Edison: They make seven percent. Now then, the question comes up whether you should allow this to be written off or not. If you don't allow it, they make more profit, or they make either more or less profit, but it is within the ten percent, that is what I am trying to say. In either case, it doesn't turn any money back to the Government. Therefore, in that case the Government - it hasn't cost the Government anything. Whether you allow it or not is purely academic.
- Sullivan: If they establish a loss they can carry that over against their return the next year.
- Edison: If they establish a loss.

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There is a case where it won't cost the Government anything.

Sullivan: But if the deficiency in profit technique is changed in the Walsh bill to apply to naval craft, then your case would fail because then in the succeeding contracts they would be able to make up the difference between the ten percent and the seven percent and in that way....

Edison: But that isn't the law.

Sullivan: No, not yet, sir.

Edison: I am saying, what we are working with now, there is a chance of its not costing the Government a cent. In the case of spending the six million, it is going to cost definitely six million.

H.M.Jr: Well, to get back to Mr. Sutphen, I am willing to go across the street with you and recommend that in cases like Mr. Sutphen's and cases like the Consolidated and cases like some of the airplane engines where we need the production, that the President include in his "B" budget sufficient money for the Government to build these factories and lease them to the manufacturer. Now, I am willing to recommend that and I am willing to go with you and recommend it.

Edison: I think, Henry, that is going to cost the Government an unnecessary sum of money for a lot of stuff they don't want.

H.M.Jr: The President and I are together on this thing, see, and I am sure that we are together with the Congress and the public on this, see, so if you don't mind my saying it, there is no use pleading on this question of excessive depreciation on buildings for a munitions maker, because as long as I sit here I don't O. K. it. In order not to be the kind of fellow that says no and not be helpful, I am willing to go across the street and recommend "X" millions of dollars for the Government to put in the plant where you need certain things and the Army needs certain things to prepare them. Now, I am willing to recommend it

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and I am willing to put the influence of the Treasury behind it.

Not to be an obstructionist, but in order to get this thing done and get it done rapidly, I will do that.

Edison: That is what we did the last time, you remember.

H.M.Jr: I know what the engine situation is.

Edison: We said, of the worst of the two bargains that we would spend the taxpayers' money by getting the appropriation and we got six million, but it is going to cost the Government a lot of money which I was trying to save.

Foley: The alternative is to repeal the Vinson-Trammell Act.

H.M.Jr: Well, that is ridiculous.

Foley: Surely.

H.M.Jr: I will go across with you and let you fellows....

Edison: I will make that bargain with you if you will also let me come back after we get the deal and say, "Well now, I have got a way - I recommend a way of saving all this money."

H.M.Jr: But not through the depreciation route.

Edison: Well, I would like to recommend that.

H.M.Jr: What?

Edison: I would like to recommend that.

H.M.Jr: You heard what he said at Cabinet. I don't want to repeat what he said.

Edison: I don't think he understands the problem.

H.M.Jr: Yes he does. I don't think you do. The President has got it all right. I sent him a copy of the letter I wrote you. I wasn't jumping off the

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deep end. He understands perfectly and is in complete sympathy with what we are doing here and I think that the quicker the Navy appreciates that they can't use the Treasury route, the quicker they will get their armor plate, the quicker they will get the boats from Mr. Sutphen, the quicker we will get the airplane engines.

- Furlong: It is an eternal headache, Mr. Secretary, for us to have those plants up there at the end of the contract.
- H.M.Jr: It is no headache....
- Furlong: They are no good to us.
- H.M.Jr: We just disposed of the buildings - residences that were built to house people during the war in connection with a shipbuilding corporation. We just finally sold those the other day. War is a headache anyway. If you want this stuff and you want it fast, I am convinced the way to do it is for the Government to build these things and lease them at a nominal rate to the manufacturer alongside....
- Edison: And that will hold everything up until we get legislation out of Congress next May or June, won't it?
- H.M.Jr: Well, you haven't made very fast progress with six million dollars in your pocket on armor plate.
- Edison: This is a different problem.
- Furlong: The reason we didn't is because they were trying to get this closing agreement. They have gone ahead with the plants and hope to get them.
- Sullivan: Couldn't these trial boats be made in the present yards?
- Edison: No.
- Sullivan: They had quite a lot of room there.
- Edison: I suppose you could.

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- Sutphen: Yes, you could, of course, but the point was that we couldn't accept it as a secret and keep it as secret as we want to keep it and when we want to demonstrate....
- Foley: That point was made at the hearings and I think Admiral Land's reply to Senator Vandenberg's question was that all your stuff was known all over the world and there were no secrets. Isn't that correct?
- Sutphen: I don't remember.
- Foley: I can show it to you in the hearings.
- Sutphen: Not in reference to this.
- Foley: In reference to your company.
- Sutphen: I don't agree with Admiral Land today. I think we are keeping things pretty secret.
- H.M.Jr: Don't you think we have gone as far as we can today?
- Edisunt: I guess so, yes. I guess we aren't very clear about our problem because I think if you understood some of the figures of it, you would see what we are trying to do, driving at, and that one point about its costing the Government to use the six million, I still maintain it is just a waste of Government funds.
- H.M.Jr: Captain Kraus would like to say something.
- Kraus: I would just like to say this, Mr. Secretary. In order to separate my pet project, consolidate it, from this general situation, a good many things have transpired at high speed in the last few days and we have in hand a modification of the consolidated proposal which eliminates all the inside financing and in which the bidder, although he still makes a conditional bid, a bid conditioned on a closing agreement, has put his request for a closing agreement in a form that I believe is right down to the Treasury's groove. Now, whether he will agree to such

closing agreement as the Treasury may offer remains to be seen, but I am just telling you this at the moment to indicate that there has been a change in that situation and that the Treasury Department may be confronted with that question again, but it is in quite a different form, with no inside finance, and a straightforward request for a closing agreement defining in the Treasury's language what treatment will be accorded to the variety of items; in other words, it is wide open now and it is wide open now and it is not tied up with the write-offs specifically on buildings. In other words, we made an effort to regularize this from the point of view of existing law.

H.M.Jr: Well now, Captain Kraus, in order to save time, instead of the manufacturers seeing you alone and then seeing our Treasury people alone and not always telling them the same story, if you have got the Consolidated in town....

Kraus: They are.

H.M.Jr: And Mr. Helvering, I understand you let Mr. Sullivan handle this.

Helvering: Yes.

H.M.Jr: With Mr. Helvering's permission, I will tell him to drop everything else he is doing and go to work on this one, but let him see them together so that they don't play one of us off against the other.

Kraus: Yes.

Sullivan: I think we should stress at this meeting, sir, the fact that we can make progress using this technique of a conditional bid. The original idea was that the closing agreement, if any, was to be executed before the bid was made and we afforded that facility to the contractor so that at the time he made his bid he would know as well as anyone can know what his tax situation is to be and hence would be able to bid in an enlightened manner. A bid that is conditioned upon our executing this, that or the other kind of a closing

- 25 -

agreement, as the Electric Boat has done, as Consolidated has now done for the second time, is just wasting time for the Navy and for us and for the bidder.

H.M.Jr: Now look, as Mr. Edison - I don't know just the Navy set-up. I don't know whether Captain Kraus has this exclusively or not, but whoever has, if he will instruct whoever has authority to talk to you and let us give Consolidated a straight from the shoulder talk on what we will do and what we can do, it will save time. Let's use this as a model and try to get a model contract out of this so that you can multiply it as many times as you want. We will take all the time that is necessary if somebody representing you will bring him in so Sullivan and - they may change it more, but let's try to make a model contract out of this so then you can multiply it by a hundred times, but if you designate whoever handled Consolidated to go to Mr. Sullivan's office, he will sit there and lock the door and we either get a contract or not.

Edison: There is a peculiar arrangement in the Navy. We have different bureaus handling different matters. Admiral Furlong handles Ordinance. Kraus is handling Consolidated and other bureaus handle other things. It might have to be two or three.

H.M.Jr: That is all right. All they have got to do is call up Mr. Sullivan and he will sit down with them and he will lock the door and he will work day and night. But let us explain once and for all what the Treasury's position is, and we take this just as seriously as you do, because we have got to collect six million dollars from 130 million people. We can do something for Kraus. If you can't get somewhere, bring them in here and I would like to talk to these babies, Consolidated.

December 8, 1939

Commissioner of Internal Revenue
Internal Revenue Building
Washington, D. C.

Attention of I.T.P.: CA-GAA

S I R:

We hereby make application for a closing agreement in pursuance of Section 606 of the Revenue Act of 1928 as amended by Sections 801, 802 of the Revenue Act of 1938, covering the construction and equipment of a new boat-building plant to be located on our property, Bayonne, N. J.

On December 4, 1939 we submitted to the Chief of the Bureau of Supplies and Accounts, Navy Department, Bids for constructing twelve (12) Submarine Chasers - Schedule No. 900-2930 and eleven (11) Motor Torpedo Boats - Schedule No. 900-2939 at a total cost of \$4,999,963.00. Our bid being conditioned on the following:

a. A satisfactory closing agreement with respect to the special plant unit which we propose to install for the construction of these boats. The estimated cost of this plant unit is \$600,000. It is our understanding that the closing agreement will provide an allowance as a part of the cost of the work under these contracts of at least one-half the cost of the plant unit.

b. An allowance as a part of the cost of the work under the contract of the amount paid by us to others for engineering fees, not however to exceed five percent (5%) of the contract price.

We give herewith a description of the special plant unit and equipment thereof, which we propose to build if we are awarded the contract for the construction of twenty-three (23) motor boats as described above.

Main building: 240 by 420 feet.
Office building adjacent: Approximately 50 by 150 feet.

Main building with office adjoining \$425,000
Launch ways, docks and basin 76,000

December 6, 1939

Headway	\$8,500
Blowing system and steam boxes	12,600
Machinery:	
Joiner use	12,000
Boat Building use	15,000
Machine shop	21,000
Coppersmith	1,000
Engine shop	1,500
Hand tools	3,000
Installation	2,600
Office furnishings	5,000
Store room fixtures	5,000
Allowance	<u>20,000</u>
Total estimated cost	\$605,200

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Respectfully submitted,

ELECTRIC BOAT COMPANY

Henry R. Dwyer

Vice-President

DEC 6 1939

MEMORANDUM FOR THE PRESIDENT:

A conference was held in my office this morning in which Acting Secretary of the Navy Edison, Admiral Furlong, Capt. Kraus and Warren Molaine represented the Navy, and Mr. H. R. Sutphen and Mr. Spear represented the Electric Boat Company of New York. Commissioner Guy T. Selvering, John L. Sullivan, Ed Foley and Charles Kades also participated.

The general position of the Treasury Department in relation to the closing agreement technique as applied to contracts under the Vinson-Trammell Act was discussed. The primary question was whether or not the Internal Revenue Bureau would execute a closing agreement permitting the Electric Boat Company to charge off as obsolescence one half of a construction cost of a new building and new plant facilities estimated to cost slightly over \$600,000. Mr. Sutphen stated that all machinery and equipment to be installed in the new building was standard and that no special tools or equipment were required for this contract.

After stating what we would be willing to do in regard to obsolescence of special tools and equipment acquired for the particular contract, I then explained to them that under the law we could not allow any other rate of charge-off for depreciation and obsolescence than the standard rates in force in the Bureau and now applied to factory construction of all types.

The Acting Secretary of the Navy stated that our refusal to enter into such a closing agreement would postpone for a long while the construction of these boats, although subsequently Mr. Sutphen acknowledged that the 23 boats provided for in this contract could be manufactured in the existing plant but without the secrecy that would be assured by the construction of the addition to the plant. When I suggested to the Acting Secretary of the Navy that the proper solution was for the government to build these plants and then lease them to private industry, the Acting Secretary of the Navy remonstrated that this would be far more expensive for the government because under the closing agreement the government would not be obliged to pay any part of the construction costs. Repeatedly it was explained to the Acting Secretary of the Navy that any deduction for unreasonable depreciation or obsolescence would result in the government paying for such construction because a proportionately larger amount of actual excess profit would be retained by the contractor. I constantly reiterated that we could not treat one taxpayer differently than we treated all taxpayers.

-3-

At this point the representatives of the Navy Department reverted to the case of the Consolidated Aircraft Corporation and stated that they had just received new proposals contemplating an entirely different type of closing agreement. I explained to the Acting Secretary of the Navy that the appropriate officials at the Internal Revenue Bureau would suspend any other work they are now engaged in and hold themselves in readiness to consult with the representatives of the Navy Department and representatives of the Consolidated Aircraft Corporation on any new proposals the contractor wished to make. And I further stated to Mr. Edison that at the conclusion of these negotiations I would be glad to meet with the representatives of the Navy and the Consolidated Aircraft Corporation if that was deemed desirable.

At the close of the meeting I again emphasized the fact that the closing agreement technique could not in any way be used to circumvent the clear intent of the Vinson-Trammell Act and afford to any taxpayer more than he was legally entitled to, and offered to Mr. Edison the support and influence of this Department in any legislation he might see fit to propose to Congress to provide funds for the erection of needed additional facilities to expedite the national defense program.

Although this matter was not discussed in the meeting, it is submitted that the problem which faces the War and Navy Departments can be solved in either of two ways:

- (1) By erecting plants similar to the "shadow factories" in Great Britain and leasing such plants to private industry and by expanding existing navy yard and arsenal facilities; or
- (2) By constructing or financing the construction of such plants as part of a federal public works program under the Federal Works Agency.

It is my considered opinion that it would be far better to spend billions for defense than to use the tax laws to subsidize private munitions makers.

(Signed) H. Morgenthau, Jr.

JLS:CLK:EHFJr:t
12-6-39

REB

GRAY

Paris

Dated December 6, 1939

Rec'd 7:40 p. m.

Secretary of State,
Washington.

2912, December 6, 7 p. m.

FOR THE TREASURY.

The entire French press carries prominently this morning the proposal of the President and the Secretary to carry for the time being in a separate suspended treasury account Finn's war debt payment due December 15 and the suggestion that Congress may subsequently make it available in some form to Finland. There has been as yet no editorial comment but the move has of course met with popular approval here.

This morning's JOURNAL OFFICIEL carries a decree and arrete concerning the required declarations of holdings abroad. You will recall from our telegram No. 2765, November 15, 7 p. m. that the time-limit for filing such declarations was postponed from December 1 to January 15, 1940. The present decree brings into line the extension of time for filing of provisional declarations by those serving with the colors from February 1 to April 1 (our telegram

REB -2-#2912, From Paris, Dec. 6, 7 p. m.

telegram No. 2028, September 18, 1 p. m., paragraph two) and those subject to force majeure are given until March 15. Today's JOURNAL OFFICIEL likewise contains the delayed monthly report of Treasury operations during August 1939. It reveals that the Treasury had a balance of 8,807,000,000 francs on hand at August 31 compared with 10,976,000,000 at July 31. This included the Treasury deposit of 1,492,000,000 at the Bank of France (compared with 3,647,000,000 at July 31) and funds available at its various paying agencies, in colonial banks, and abroad. Expenditures of the Treasury during August totalled 56,940,000,000 francs and receipts 54,772,000,000.

(END SECTION ONE)

BULLITT

Repetition requested on underscored figures.

NPL

EDA

GRAY

PARIS

Dated December 6, 1939

Received 7:55 p.m.

Secretary of State

Washington

2912, December 6, 7 p. m. (SECTION TWO)

The monthly statement of the situation of the public debt at August 31 is also published in the Journal Officiel of today. It reveals a net increase during the month of August of 1100 million francs to a total of 445,742 million chiefly as concerns the 4 $\frac{1}{2}$ % 1937 loan with exchange guarantee (935 millions) and the three year armament bonds (1733 millions).

The Netherlands National Bank statement for the week ended December 4 reveals gold holdings of 1,024,000,000 florins as against 1,029,000,000 the previous week. Demand liabilities totalled 1,353 as against 1,394, millions. Note circulation rose materially from 1,143,000,000 to 1,158,000,000. Gold coverage rose from 73.81% to 75.68%.

BULLITT

RR

JT

GRAY

PARIS

Dated December 6, 1939

Rec'd 8:15 p.m.

Secretary of State,
Washington.

2912, December 6, 7 p.m. (SECTION THREE).

The AGENCE ECONOMIQUE ET FINANCIERE carries a report that "the Financial Counselor of the British Embassy at Washington has denied rumors that the British Government intends to create a holding company designed to obtain advances against American securities held by the English". (Please see my telegram No. 2896, December 4, 7 a.m.). "These securities, he said, are at present sold for the account of individual holders". The article adds that the rumors were occasioned "by the arrival at Washington of two high British officials to confer with the Federal Reserve Board and the Securities and Exchange Commission concerning the problem of liquidation of American securities in British hands".

BULLITT

EMB

REB

GRAY

Paris

Dated December 6, 1939

Rec'd 7:25 p. m.

Secretary of State,
Washington.

2912, December 6, 7 p. m. (SECTION FOUR)

The article continues that "large New York banks feel that Washington will send up some trial balloons to ascertain the popular reaction on the Johnson Law and the Neutrality act. Public opinion is certainly very favorable to the Allies and Washington will do all that is possible to facilitate their transactions in the United States. But in Congress any attack on the Johnson Law or the Neutrality Act would come up against opposition". Meanwhile it concludes "banks and certain private groups are buying portfolios of American securities from foreign holders at prices below Wall Street. The opinion prevails at New York that if any plan is adopted for the liquidation of securities it is the Government of the United States in accord with that of London that will take the initiative."

BULLITT

NPL

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GRAY

Paris

Dated December 6, 1939

Rec'd 8:50 p.m.

Secretary of State

Washington

2912, December 6, 7 p.m. (SECTION FIVE)

The press gives an estimate of the total losses in the Credit Anverois failure at 200,000,000 of which 60,000,000 must be borne by shareholders.

Funds set up in the months of June, July, and August it is announced today, will permit payment to French holders of Young loan obligations of the semi-annual coupon due December 1 on the basis of twelve francs 50 net per 25 franc coupon. The coupon is to be paid today.

The French financial press reports that the Official Gazetta in Italy has published new rules concerning the import and export of Italian bank notes and tourist checks. These rules provide that banknotes of 50 and 100 lira which are now abroad will not be permitted to be brought into Italy unless their holders within a period of 20 days for those in Europe and 40 days for others, present them to the Italian Foreign Exchange Office which will set up in the name of each owner a non-interest bearing account to the value thereof. Any provisions with respect to the

owners'

CK 2-No. 2912, December 6, 7 p.m (section five) Paris.
owners' utilization of such "account" are not mentioned
in the press.

The securities market was strong and active today and
most French industrial and bank shares registered sub-
stantial gains. Rentes, however, were almost stationery.
Suez shares were up 480 and Royal Dutch 145 francs.
Scandinavian securities were steady. (END OF MESSAGE)

BULLITT

EMB

RECEIVED

DEC 1 1938

RECEIVED
DEC 1 1938
U.S. DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: December 6, 1939, 5 p.m.

NO.: 1490

CONFIDENTIAL FOR THE AMBASSADOR.

On Thursday Secretary Morgenthau plans to telephone to the Ambassador, and suggests that the Ambassador have telegram No 2742 of November 13 from the Embassy at hand.

WELLES

Acting

(HF)

EA:LWW

AMERICAN CONSULATE
Hanoi, Indochina, December 6, 1939

No. 24

SUBJECT: Transit of Commodities to China during November 1939.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to my despatch no. 13 of November 10, 1939, in regard to the quantity of freight transitted to China via Indochina during the month of October, 1939, and to submit the following information concerning the month of November, 1939.

It is reliably reported that approximately 32 thousand tons of freight were transitted to China via Indochina during November. Of this amount, 18.5 thousand tons were transported over the Dong Dang-Nanning road and 13.5 thousand tons were transported by the Indochina-Yunnan Railway. During the latter part of the month under review the road was not usable because of the Japanese activities in Kwangsi and during the early part of the month the railway did not operate at full capacity.

A part of the 18.5 thousand tons transitted by road was returned to Indochina, following the closing of that road and to prevent this cargo being captured or destroyed by the Japanese. It is estimated that about 5 thousand tons were or are being returned to Indochina. This gives a net transit to China of about 27 thousand tons, or 13 thousand more than in the month of October.

As in the preceding month, at least from 80 to 85 per cent of this tonnage was destined directly or ultimately for the Chinese National Government or for semi-governmental organizations. Petroleum products amounted to slightly over 7 thousand tons.

As a result of this increased traffic, stocks at Haiphong were reduced by from 8 to 10 thousand tons, even including the cargo returned to Indochina in the latter part of the month. This is the first month in which any appreciable inroads have been made in the accumulation at Haiphong. Accordingly, it may be estimated that at the end of November there were 190 thousand tons of cargo at Haiphong, including some 3000 motor vehicles, and perhaps 7 thousand tons in other parts of Tonkin, chiefly at Dong Dang.

It is to be regretted that, just as positive results were being obtained in solving the transportation problem, the Japanese advance rendered useless the main route of transportation to China.

Respectfully yours,

CHARLES S. REED II
American Consul

Original and 2 copies to the Department
Copies to Embassy, Chungking and Peiping
Copy to Consulate General, Hong Kong
Copy to Consulate, Saigon
615.4 CSR:csr

HSM

PLAIN

London

Undated

Rec'd December 6, 1939

12:55 p. m.

Secretary of State,
Washington.

2551.

FOR TREASURY.

1. In reply to a question in the House of Commons last night as to whether the Dominion Governments had been approached with a view to forming a joint Empire exchange control the Financial Secretary of the Treasury stated that "each of the Dominion Governments has imposed exchange control under its own legislation and every effort is made to ensure coordination and cooperation between the authorities concerned both as regards the Governments and the central banks". In reply to a further question as to the completeness of the control he said: "I think everything is quite satisfactory in this field at the moment."

2. With regard to Simon's Paris statement on monetary cooperation between Great Britain and France, Einzig

raises

ham -2- No. 2551, December 6, from London

raises the question as to whether the stabilization of the sterling-franc rate means a continuance of the officially fixed rate in London and Paris or includes also the intention to take steps for maintaining the official rate in unofficial markets.

3. With reference to No. 2485 of November 29, 1 p. m., the Government revenue and expenditure accounts for the week ending December 2, published today show total revenue at £12.3 million and expenditure at £76.3 million, giving a deficit on the week of £64 million. Though the expenditure figure was swollen by the £33 million payment of war loan interest, it also represents the highest weekly total since the outbreak of war on supply services and a big jump on the past three weeks. This figure at £53.5 million represents a daily expenditure rate of £7.5 million. The returns showed an increase in total tap Treasury bills outstanding of £17.6 million to £697.7 million, the highest figure since the peak of £706.6 on November 4. Though the deficit was £64 million the total floating debt increased by only £56 million, receipts from national savings certificates having brought a net £3.8 million and receipts from the new national defense bonds a total of £4 1/4 million. (The sale of savings certificates in a normal week yielded £500,000.)

hsm -3- No. 2551, December 6, from London

4. The silver price was up $1/16$ to $23 \frac{7}{16}$ for spot and $23 \frac{5}{8}$ for forward with the Bombay mint delivery demand continuing heavy.

5. The Argentine peso rate was moved today from 17.00-50 to 17.15-65. Other officially fixed rates were unchanged. The Finn mark was slightly firmer at 220 bid.

JOHNSON

MCL



TREASURY DEPARTMENT

128

WASHINGTON

OFFICE OF THE ADMINISTRATIVE
ASSISTANT TO THE SECRETARY

December 6, 1939.

MEMORANDUM FOR THE SECRETARY:

Harris E. Willingham resigned from the Federal Alcohol Administration on November 30, 1937. While with that agency he received salaries ranging from \$8,000 to \$10,000.

On March 17, 1938, Mr. Willingham was appointed as an Administrative Officer in the Central Treasury Accounts Office under Mr. Bartelt at \$6,000 per annum for a period not to extend beyond June 30, 1938. This appointment was renewed not to extend beyond June 30, 1939, and again renewed not to extend beyond June 30, 1940. There is nothing in the file to indicate that at the time of his original appointment there would be any objection to the continuance of Mr. Willingham's services so long as there was a need for them and emergency funds were available.

Mr. Bartelt tells me that he recommended the renewal of Mr. Willingham's employment at the close of each fiscal year because of the efficient and essential service he was rendering both as an accountant and administrative officer.

COPY

PARAPHRASE

not read

A telegram (no. 438) of December 6, 1939, from the American Consul General at Hong Kong transmits a message of December 3 from Consul Reed at Hanoi which reads substantially as follows:

129

The capture of Nanning and the fact that the Japanese troops have advanced to the north and northeast is admitted by the Chinese at Hanoi who state that unless they can regain possession of Nanning they expect extensive bombing operations in Yunnan and Kweichow will be carried on by the Japanese using the air field at Nanning as a base. Some of the cargo stored at Lungchow is being returned to Indochina as the road to Nanning is unusable. It will be some months before another road farther to the west which is being built will be ready for use and even after that road is ready it can take care of only 3000 tons of traffic a month at the most, according to estimates. The railway hopes to transport approximately 15,000 tons during December, according to information received by Consul Reed. It is Mr. Reed's understanding that for the time being certain lots of goods are being stored which were expected to arrive in Haiphong destined for China.

COPY

JA

OPNAV

December 6, 1939

Rec'd 9:28 a.m.

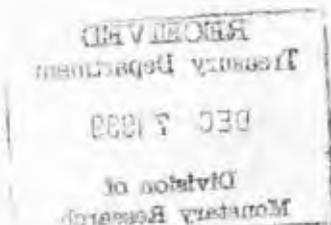
ACTION: STATE

CONFIDENTIAL.

The following was received from the Assistant Naval Attaché at Chungking on December 5.

A shipload of Russian munitions arrived at Rangoon from Odessa latter part of October in a ship of 9000 tons displacement. The ship's cargo was for transit across China and received local Government's full cooperation. Traffic is expected to triple over Burma route as soon as improvements are completed, the average monthly traffic for the last 3 months having been 2000 tons mostly Soviet and German essential war materials. British heads deny that there is any pressure from the Japanese to close the road and also claim they have no fear that there will be an attack through Siam because Japanese political activity has been ineffective. C R 95 (reference number).

ELP



DEC 7 1939

The Honorable,

The Secretary of State.

Sir:

Due to the present war situation in Europe, which has made it practically impossible for the staff of Treasury representatives stationed in Berlin to conduct routine customs investigations in Central Europe, the conclusion has been reached by this Department to close the office of the Treasury Attaché at Berlin on December 31, 1939, and to establish an office at Stockholm, Sweden as of January 1, 1940, with a skeleton staff, for the purpose of conducting valuation investigations in the Scandinavian countries that may be requested by customs appraising officers in this country in connection with importations from that area.

At the present time the Treasury Attaché, Mr. Erwin G. May, together with Treasury Representatives Walter M. Wolff and Roy V. Fox, and a staff of alien interpreter-translators (Margarete Brandt, Frances Bielschowsky, and Erich P. Schuckert), are rendering assistance to the Embassy at Berlin. However, in a letter received from the Treasury Attaché at Berlin under date of October 30, 1939, he expressed the belief that "after November 30 and certainly after December 31, the Embassy will be able to take over the unit completely with its own officers.

Upon the establishment of an office in Stockholm, as above referred to, it is the intention of this Department to place Mr. Erwin G. May in charge thereof, with one assistant, Treasury Representative Walter M. Wolff, and a clerk, to be selected later. It is, further, the intention of this Department to discontinue the services of the three alien interpreter-translators now attached to the Berlin office, as of December 31, 1939.

It is requested that the matter of the establishment of an office for representatives of this Department in Stockholm be taken up by your Department with appropriate officials of the Swedish Government, in order that this Department may be informed whether such action would meet with the approval of the Swedish authorities.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

by hand at 9:15 am 12/8/39

6-6 11-23-39

File to Mr. Thompson

December 7, 1939.

My dear Mr. Galceran:

I acknowledge receipt of your telegram of today's date, and the accompanying Western Union Money Order in the amount of \$26.00, payable to my order, which you and your fellow-members in the Hollandale Rotary Club desire me to apply to the retirement of Finland's debt to the United States.

I am sorry to have to advise you that no provision is made under the laws of the United States for the acceptance and direct application of such contributions by the Treasury Department. However, in order that your laudable gift may not fail, I suggest that you authorize me to indorse and deliver your money order to Hjalmar J. Procopé, the Finnish Minister, together with a copy of your telegram. Otherwise, I shall be compelled to return the contribution.

I shall hold the money order, pending receipt of advice as to its disposition.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Mr. W. C. Galceran, Jr.,
President,
Hollandale Rotary Club,
Hollandale, Mississippi.

Sent Airmail
main P.O.

File to Mr. Thompson

DTB:bv 12-8-39
KMF:ckm 12-7-39

DEC 7 1939

My dear Mr. Secretary:

Reference is made to letter from this Department dated March 21, 1939 in reply to your letter of February 11, 1939 (symbols TD 811.512341D Shipping/17) relating to a note from the Irish Legation concerning reciprocal exemption from income tax of profits arising from the operation of aircraft, and asking whether a statutory provision providing for such exemption was likely to be enacted into law before the end of March 1939.

While the principle of such provision has been adopted in the tax convention with Sweden and in the proposed tax convention with France, the existence of more pressing matters incident to the enactment of the Revenue Act of 1939 prevented consideration of the statutory proposal during the first session of the 76th Congress. In view of this fact and of the pending negotiations with Great Britain upon the same subject matter, this Department considers it timely to advise that it is now prepared to enter into negotiations at Washington looking to adoption of a tax convention between the United States and Ireland.

While the note from the Irish Legation forming the basis of your letter has reference only to the question of the reciprocal exemption of aircraft profits, it has been noted that in reply to inquiry emanating from the Fiscal Committee of the League of Nations in February 1937 addressed to various countries relating to the attitude of the respective countries toward the subject of prevention of tax evasion, the Permanent Delegate of Ireland at Geneva in letter dated June 9, 1937 stated that Ireland was favorably disposed toward the proposal for conventions having for their object the prevention of tax evasion. The interest of that country in tax conventions is also indicated by its conventions of 1926 and 1928 with Great Britain which are directed toward the avoidance of double taxation as between the two countries and to related administrative cooperation designed to prevent tax evasion. In view of the position thus indicated, it is suggested that, if you perceive no objection to such course, you convey to the Irish Government that this Government, in keeping with its existing tax convention policy, is interested in exploring the possibilities of a convention between the two countries. The prospects of including within the scope of such convention avoidance of double taxation and of administrative cooperation incident thereto may, it is presumed, be developed in the course of the discussions which take place with respect to the problem of aircraft earnings.

- 2 -

In the event that further correspondence relative to this matter is necessary, please refer to IR:GC:A-289342-13.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,
The Secretary of State,
Washington, D. C.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

by messenger 12/7/29

File to Mr. Thompson

DEC 7 1939

My dear Mr. Secretary:

Further reference is made to your letter dated October 25, 1939, (symbols TD 579.6AE1/76) transmitting draft of proposed convention between the United States and Great Britain relating to reciprocal exemption from income taxation of profits derived from the operation of aircraft and requesting the comments of this Department on such draft.

The draft referred to has been made the subject of careful study and from the standpoint of this Department constitutes a suitable instrument for the accomplishment of the desired objectives. Should the British authorities propose changes in the draft or seek discussions with respect thereto, this Department is prepared to further collaborate with your Department in the matter. The draft transmitted with your letter is returned herewith.

In the event that further correspondence relative to this matter is necessary, please refer to IR:GO:A-289342-4.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of State,

Washington, D. C.

✓
Enclosure.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

by hand

File to Mr. Thompson

Convention between the United States of America
and Great Britain for the Avoidance of Double
Income Taxation on Profits Derived from
the Operation of Aircraft

The President of the United States of America and His Majesty the King of Great Britain, Ireland and the British Dominions Beyond the Seas, Emperor of India, in respect of Great Britain and Northern Ireland, being desirous of avoiding double income taxation on profits derived from the operation of aircraft, have decided to conclude a convention for that purpose and have appointed as their respective Plenipotentiaries:

The President of the United States of America:

His Majesty the King of Great Britain, Ireland and the British Dominions Beyond the Seas, Emperor of India:

for Great Britain and Northern Ireland: _____

Who, having communicated to each other their full powers, found in good and due form, have agreed as follows:

ARTICLE 4

(a) The Government of the United Kingdom of Great Britain and Northern Ireland undertake that any profits or gains derived from the operation of aircraft registered in the United States of America by a citizen of the United States of America, resident outside the United Kingdom, or by a corporation organized in the United States of America shall be exempt from income tax, including surtax, national defense contributions tax and excess profits tax, chargeable in the United Kingdom.

(b) The Government of the United States of America undertakes that any profits or gains derived from the operation of aircraft registered in the United Kingdom by an individual, other than a citizen of the United States of America, resident in the United Kingdom, or by a corporation organized in the United Kingdom shall be exempt from income tax, including surtax and excess profits tax, imposed by the revenue laws of the United States of America.

ARTICLE II

The exemptions provided for in Article I of the present convention shall be granted in respect of taxes imposed by the United Kingdom for the year of assessment commencing on the sixth day of April, 1940, and for subsequent years, and in respect of taxes imposed by the United States of America for years beginning on or after January 1, 1940.

ARTICLE III

The term "United States of America", where used in this convention, includes only the States, the Territories of Alaska and Hawaii, and the District of Columbia.

The terms "United Kingdom of Great Britain and Northern Ireland" and "United Kingdom", where used in this convention, include only Great Britain and Northern Ireland.



TREASURY DEPARTMENT

WASHINGTON

December 7, 1939.

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MEMORANDUM FOR THE SECRETARY:

Re: Procurement Division Appropriation, Fiscal Year 1941.

Our hearings before the Budget Bureau on the Procurement Division estimates occurred on Wednesday.

The estimates included approximately \$2,000,000 additional to permit the expansion of purchase activities in accordance with your instructions.

The Budget Bureau people expressed the opinion that if this additional amount is to be made available to the Procurement Division, corresponding reductions should be made in the appropriations of the several departments, bureaus, and establishments for which the Procurement Division is to do the purchasing.

The opinion was expressed also that it would be better to defer the assumption of further purchase functions by the Procurement Division until negotiations can be had between the Procurement Division and the several departments, bureaus, and establishments, to determine (a) the extent to which the Procurement Division should function, and (b) the amount of funds which each department, bureau, and establishment should contribute to the Procurement Division to permit the Division to function with respect to its particular requirements.

We were advised that, in accordance with these opinions, the following alternative propositions would be submitted to the Director of the Budget, and, presumably, by him to the President:

(1) The Procurement Division will, for the present, be limited to making purchases in the District of Columbia. No additional funds will be provided for the fiscal year 1941 for the purpose of enlarging its present functions. The Division will be expected to operate during the fiscal year 1941 within the funds now available, and any additional functions will be financed by means of surcharges billed against the requisitioning agencies.

(2) The Procurement Division will be allowed to extend its functions to field purchases, as well as to those in the

District of Columbia. It will, however, be provided no additional direct appropriation for increasing its activities. Any additional funds necessary will have to be secured by transfer from the several departments, bureaus, and establishments, after negotiation by the Procurement Division with each agency concerned.

(3) The necessary additional appropriation will be recommended for the Procurement Division. This must be accompanied, however, by corresponding reductions against the 1941 estimates of the several departments, bureaus, and establishments, the amount of the reduction to be determined in each case by the Bureau of the Budget after negotiation between the Procurement Division and the agency concerned. (It was admitted that since the Budget is practically completed, time will not permit this course to be followed.)

None of the foregoing propositions would be satisfactory to this Department. None would leave us in a position to carry out your instructions. I submitted the following alternative propositions for consideration, with the request that in fairness to the Treasury Department, these also should be laid before the Director of the Budget:

(4) The necessary additional appropriation will be recommended for the Procurement Division. Deductions will be made (if insisted upon by the Bureau of the Budget) pro rata against the 1941 estimates of the several departments, bureaus, and establishments, in proportion to the relative work load to be assumed by the Procurement Division for the benefit of each, in accordance with estimates furnished the Budget Bureau by the Treasury Department.

(5) The necessary additional appropriation will be recommended for the Procurement Division, without any deductions from the 1941 estimates of other agencies. The Bureau of the Budget may, however, subsequently require the impoundment of funds by the several departments, bureaus, and establishments to the extent that expenditures by these agencies are rendered unnecessary by reason of the assumption of the purchasing function by the Procurement Division.

The question is one of policy: Is it desired that the Procurement Division shall make the major purchases for all nonmilitary branches? If so, this policy can not, in my judgment, be carried into effect

under any of the propositions (1), (2), and (3) above, except after months, possibly years, of wrangling with the several departments, bureaus, and establishments, respecting (a) the extent of functions to be taken over, and (b) the amount of funds to be transferred to the Procurement Division to pay the costs of administration.

Inasmuch as you discussed this subject earlier with Mr. Smith, the Director of the Budget, I think it not unlikely that he will confer with you before a decision is reached regarding the Procurement Division estimates. If so, I strongly recommend that the effort be made to secure the approval either of proposition (4) or proposition (5) above. Should this effort fail, there will be no practical basis upon which to carry out the program which you have outlined.

GRAVES.

. Prepared by: Mr. Murphy
Mr. Lindow
Mr. Tickton
Mr. Haas

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 7, 1939

TO Secretary Morgenthau
 FROM Mr. Haas *HA*
 Subject: Selection and Pricing of Issues for Refunding the
 March Notes

I. Premium on March Notes
Irrespective of Exchange Offering

About $12/32$ of a point in interest would accrue between December 20, 1939 and March 15, 1940 on any March note not surrendered for exchange in connection with the proposed refunding offer. Any note not exchanged would become "3-months' money" upon which the current rate of interest is practically nil. The March notes, therefore, are worth a premium of at least $11/32$, irrespective of any exchange offer which may be made for them.

As a consequence of this, $11/32$ of the premium on the "best" of the new securities offered in exchange must be excluded from the "real margin of safety" of the exchange offering. This is because the holders of the March notes would prefer to hold them until maturity if the best premium available on any of the new issues should fall below $11/32$ before the expiration of the exchange offer. If the notes were maturing immediately, on the other hand, or if they were immediately callable, the new issue would be taken up as long as it was worth more than par.

II. Pros and Cons on the
Selection of Issues

The selection of securities for the refunding may be considered under four heads according as the securities are offered in proportions to be determined at the option of the holders of the maturing notes, or in fixed proportions, and according as it is a two-way or three-way offer. The remainder of this memorandum is devoted to a discussion of these alternatives in turn, with a proposed selection of issues.* The selections considered appropriate for each of the four alternatives are also presented together in the attached table for purposes of ready comparison.

* All issues are priced on the basis of closing bids, December 5.

It is concluded that, if the offering is to be made in proportions to be determined at the option of the holders of the maturing notes, the balance of advantage appears to lie in the direction of a two-way exchange. If it is to be made in fixed proportions, however, a three-way exchange seems to have the edge.

A. Proportions at Noteholders' Option -- Two-Way Offer

Suggested issues	: Probable : net premium :
	(Decimals are thirty-seconds)
Note:	
Reopen 1's due March 15, 1944, at 1/2 point pre- mium (now selling at 101.01)	.17
Medium-long bond:	
13-17 year (1952-56) 2-3/8's	1.06

The note offering is merely nominal in this alternative. It is not considered advisable, therefore, to start a new issue because it would be very small and could not be added to later if interest rates advanced even very slightly. If more than such a nominal exchange offer were to be made, it would not be advisable to reopen the March 15, 1944 notes, because this would result in too large a total issue.

It would probably be inadvisable, however, to make more than a nominal offer of notes in exchange, because, if such an offer were made and secured a large number of takers, the market would be likely to give it a bearish interpretation.

A disadvantage of the medium-long bond employed in this alternative is that it is not very economical fiscally. This is because an increase of 3/8's in the coupon rate from 2 percent to 2-3/8 percent permits an increase of only six years in the final maturity of the bond, whereas an increase of an additional 1/8 would permit a further increase in final maturity of five years. This disadvantage of a medium-long bond applies, of course, irrespective of whether the offering is made in optional or in fixed proportions.

Secretary Morgenthau - 3

This alternative would result in the great bulk of all exchanges going into the bond. Its principal disadvantage, aside from the lack of fiscal economy just discussed, is that it would present the problem of secondary distribution discussed in our memorandum of December 6.

B. Proportions at Noteholders' Option -- Three-Way Offer

Suggested issues	: Probable : <u>net</u> premium :
	(Decimals are thirty-seconds)
Note:	
Reopen 1's due March 15, 1944 at 1/2 point pre- mium (now selling at 101.01)	.17
Medium bond:	
Reopen 2's due 1948-50 at 3/4 point premium (now selling at 101.22)	.30
Long bond:	
17-22 year (1956-61) 2-1/2's	1.07

This alternative has an advantage over the corresponding two-way offer in that the use of two bonds permits of greater fiscal economy -- i.e., it permits a greater extension of maturity to be purchased for a given amount of coupon. The inclusion of a medium-term bond would probably also result in cutting down the necessary amount of secondary distribution.

The main disadvantage of this alternative is that it is difficult or impossible to predetermine the amount of exchanges between the medium and long bond, unless one of the exchange offerings is merely nominal. In the suggested set-up the long-term bond has been deliberately preferred, but the majority of exchanges might, nevertheless, go into the medium-term bond. This might be very bearishly interpreted by the market. For this reason, it is recommended that a two-way offering be employed if the proportion of exchanges is to be left to the option of the holders of the maturing notes.

C. Fixed Proportions -- Two-Way Offer

Suggested issues	Probable premium
(Decimals are thirty-seconds)	
(1/3) Note: 5-year 1 percent	.25
(2/3) Medium-long bond: 13-16 year (1952-55) 2-3/8's	1.09
"Composite" premium	1.04

The technical advantage of an offering in fixed proportions on the present occasion as a means of reducing secondary distribution was discussed in a memorandum submitted December 6. This type of offering also has the advantage on all occasions that the approximate amount of each of the new issues can be known in advance. In this case, if offered in the proportions proposed, the new note issue would be for about \$450 millions and the new bond issue for about \$900 millions, both convenient amounts.

The estimated premiums on the two new issues would be equivalent to a "composite" premium on the maturing notes of 1-4/32, or to a "real margin of safety" (subtracting 11/32) of about 25/32. This would appear ample.

The principal disadvantage of an offering in fixed proportions is its unfamiliarity. It "coerces" the holders of the maturing notes to exchange them for securities fitting in with the requirements of the Treasury. Of course, they would be equally "coerced" if a single security were offered, and are "coerced" in any event by the relative pricing of the issues even if the options are left to the noteholders, but the appearance here may be as important as the reality and might result in unfavorable press comment. A careful check of the market should be made before making an exchange offering in fixed proportions.

Aside from the relative merits of exchange offerings in optional and fixed proportions, the major disadvantage of this alternative is the lack of fiscal economy of the medium-long bond. This has already been discussed in connection with the suggestion for the employment of such a bond in a two-way offer with optional proportions.

Secretary Morgenthau - 5

D. Fixed Proportions -- Three-Way Offer

Suggested issues	: Probable : <u>net premium</u> :
	(Decimals are thirty-seconds)
(1/3) Note: 5-year 1 percent	.25
(1/3) Medium bond: Reopen 2's due 1948-50 at par (now selling at 101.22)	1.22
(1/3) Long bond: 17-22 year (1956-61) 2-1/2's	1.07
"Composite" premium	1.07

The advantages and disadvantages applying generally to offerings in fixed proportions apply here also in the same manner as in the corresponding two-way offer. It also has the minor additional disadvantage of being somewhat more complex.

The special disadvantages attaching to a three-way offer with optional proportions do not apply, however, if fixed proportions are used. A three-way offer, on the other hand, is more economical fiscally and would reduce secondary distribution as compared with a two-way offer. It, therefore, appears to have the edge if fixed proportions are employed.

Attachment.

Estimated Premiums on Proposed New Issues
in Two-way and Three-way combinations

(Basis of closing bids, December 6)

Two-way		Three-way	
Yield basis	Probable net premium	Yield basis	Probable net premium
(%)	(Decimals are 32nds)	(%)	(Decimals are 32nds)
<u>Optional Proportions</u>			
Note:			
Reopen 1's due 3/15/44 @ 1/2 premium (now selling at 101-1/32)	.17	Reopen 1's due 3/15/44 @ 1/2 premium (now selling at 101-1/32)	.17
Medium bond:			
Reopen 2's due 1948- 50 @ 3/4 premium (now selling at 101-22/32)	2.27 1.06	Reopen 2's due 1948- 50 @ 3/4 premium (now selling at 101-22/32)	.30
Long bond:			
17-22 year (1956-61) 2-1/2's		17-22 year (1956-61) 2-1/2's	2.41 1.07
<u>Fixed Proportions</u>			
(1/3) Note:			
5-year (12/15/44) 1's	.84 .25	5-year (12/15/44) 1's	.84 .25
(1/3) Medium bond:			
Reopen 2's due 1948- 50 @ par (now sell- ing at 101-22/32)	2.26 1.09	Reopen 2's due 1948- 50 @ par (now sell- ing at 101-22/32)	1.22
(1/3) Long bond:			
17-22 year (1956-61) 2-1/2's		17-22 year (1956-61) 2-1/2's	2.41 1.07
Composite premium	1.04	Composite premium	1.07

Treasury Department, Division of Research and Statistics. December 7, 1939

BK 227
151

THE AMERICAN METAL COMPANY, LIMITED
61 BROADWAY
NEW YORK

HKH:AA

December 7, 1939.

TELEPHONE BOWLING GREEN 9-1800
CABLE ADDRESS: EFFLUX, NEW YORK

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

Dear Henry:

By mistake I took with me yesterday the rather hastily written memorandum on Russia's imports of lead and copper that I had intended leaving with you. I am enclosing it slightly revised.

I had lunch today with K. P. Chen. As he can explain when he sees you tomorrow, we have brought the proposed zinc business to a point where we are hopeful of closing it if we get word from Universal Trading Company to go ahead. For the last few days we have been waiting to hear from them. K.P. said he would get in touch with me about this on his return from Washington.

I am giving my full attention to the other matter about which you spoke to me yesterday and will telephone you tomorrow afternoon.

Sincerely,

Harold

Enc

RUSSIA'S IMPORTS OF LEAD AND COPPER

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Following are comparative figures of Russia's imports of lead and copper for the past four years. The lead figures are those of the American Bureau of Metal Statistics. The copper figures are our own estimates for Russia based on the Copper Institute's figures for the Baltic countries as a group. Figures are in tons of 2000 lbs.

	<u>1936</u>	<u>1937</u>	<u>1938</u>	<u>1939</u>
Lead	29,700	42,400	20,100*	not reported
Copper	36,000	60,000	110,000	60,000**

*based on average of first 9 mos
** " " " " " 7 "

During the spring of 1939 Russia cancelled contracts in New York and London for a considerable tonnage of copper not yet priced and re-sold copper already priced. The reasons were not made known, but it was assumed in the copper market at the time that Russia was either experiencing exchange difficulties or had concluded that there would be no war, or both.

Since war broke out in September Russia has reversed its policy and has bought large tonnages of copper and lead principally in New York. Because of these purchases here, imports this year may be somewhat larger than the estimated total of 60,000 tons which is based on its actual imports during the first seven months of the year.

December 7, 1939

After Harold Hochschild's return to New York, he telephoned me and said that he had been thinking about the proposal and, while he was perfectly willing to recommend it to his Board of Directors (while he did not say this without a quid pro quo) he was worried about their laborers who would most likely be laid off if they lost the business to Russia.

I said I could see that this was a reasonable worry and that I wanted to assure him that I was going to use every effort to get him new business from England, France and the United States; that I had spoken to the President and he wanted to include Japan in the moral embargo on molybdenum, as this whole question of moral embargo had started when the Japanese first bombed the civilian population in China.

CLOSING AGREEMENTS

December 7, 1939.
3:30 p.m.

Present: Mr. Foley
Mr. Currie
Mr. Kades
Mr. Sullivan

H.M.Jr: Yes, sir.

Currie: Well, as I told you this morning, Mr. Secretary, I sat in at two conferences with the Bureau of Internal Revenue people and Mr. Kades from Treasury, and consulted with Admiral Furlong and Colonel Burns, but all I did on this matter was that and I got a pretty strong impression as a result of these conferences, one, that quite a bit was possible under existing law and existing procedures to insure justice to taxpayers for extraordinary expenditures which may later become obsolete without any change in the existing procedures at all. That is one. Two is that these remedies and possibilities appear to be completely unknown to the Army and Navy people I talked to and they were thinking entirely in terms of closing agreements, that sort of thing.

So far as I went, I put in a tentative suggestion to the President. I mentioned this possibility that under the present procedures, as I understood, companies have the privilege of submitting amended returns for a period of three years and this period could be extended by mutual consent of the companies and the Commissioner. Now, that seemed to me to open the possibility for keeping some of these things off until the abnormal period or the emergency period was over; in any case, until such time as we can have a better possibility of assessing the future usefulness or value of this special equipment. That appears to be somewhat similar to what the British are doing now. They are only allowing a maximum of 10 percent depreciation on extraordinary expenditures, pending a final re-adjustment which will be retroactive at the conclusion of hostilities.

So it is apparently on the basis of that discovery that I suggested to the President that there appeared to be adequate guarantees against loss from abnormal obsolescence under the present laws

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and procedures. I suggested that it might be helpful to have these explained in great detail and thoroughly and carefully to the Army and Navy so there would be no possibility of their saying they didn't know.

H.M.Jr: Now let me ask, hasn't the Army and Navy had this thing all explained to them?

Sullivan: I have only had one conference with either of them, sir, and that was yesterday afternoon when Admiral Bass, Captain Kraus, Commander Braine and Commander Richardson and my crowd met with Major Fleet on Consolidated, and except for Captain Kraus, who had been here in the morning and heard you explain it to Mr. Edison....

H.M.Jr: Give a lecture.

Foley: It was a good lecture.

Sullivan: The others had no idea at all.

Foley: I think from what I observed yesterday morning that nobody could be more afield than Secretary Edison.

H.M.Jr: Talking here in the privacy of the room, when we got through with that hour, I still don't think Edison understood it and I don't think he wants to understand it.

Sullivan: After he left this room he made a remark to Mr. Kades that indicated very clearly that he hadn't improved his knowledge of the situation while he was in here.

H.M.Jr: You see, the only way, I am sorry to say, that I feel that we can get them to understand is to take a case like the Consolidated, with which we offered to sit with until we either solved it or didn't solve it, and sweat the damn thing through, because I feel that the disposition - I haven't had the personal conversation with the Army or the Navy that - they don't want to do it this way.

Currie: I am sure of that.

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- Sullivan: That was very well demonstrated yesterday afternoon.
- H.M.Jr: Now just take - I have got from now until 4:00. Just take a few minutes and sketch what happened for the benefit of us who weren't there.
- Sullivan: We met at half past 2:00. There was that group and I had the three men you (Currie) met with, plus two of our engineers and at about 4:30 I asked leave to retire and then, at that time, I asked the Navy if they would be willing to go through on the thing they had been pressing us to do, in view of what they have been doing, and they said absolutely not. Finally I said to Captain Kraus, "What do you want," and he said, "I want planes." I said, "Are you willing to give them anything more than is in this closing agreement we offered them October 16," and he said, "No, I am not." The upshot of it was that he asked me if I would be willing....
- H.M.Jr: This is Kraus?
- Sullivan: This is Fleet, at five minutes to 7:00. And he wasn't anywhere near out of breath at that time, either. He asked me if I would be willing to recommend to the Secretary that the period in which he would have to decide if he was going to discard the facilities after the expiration of the contract would be extended from three months to six months, and I said, "I will answer that question after you have assured me you will try to persuade your Board of Directors to accept that closing agreement," and he said, "I will, and I think I can get away with it," and I said, "I will be very glad to recommend that to the Secretary."
- H.M.Jr: Roughly, what is the agreement, where does it stand now?
- Sullivan: The agreement is just as we drew it up.
- H.M.Jr: Sketch it.

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Sullivan: In the middle of October. It gives him a write-off on all of the special tools and equipment that he has got to purchase for this contract, provided they are not used on any other work. It is on a production basis and if that is used on a French contract - and I think he is executing one today for 30 million dollars - then it is pro rata.

On his buildings, to erect this new plant he will have to tear down some of the old ones and there are certain salvage benefits that are given him, to which he is clearly entitled. On anything that he discards at the expiration of the contract....

H.M.Jr: Which is how long?

Sullivan: Twenty-two months they expect it will take to complete this order of 200 planes. Anything that is discarded - and that means discarded - he will then take the difference between the cost price, the erection, less whatever depreciation has been allowed during those two years, if he notifies the Commissioner within three months after the expiration of the contract that the facilities are to be discarded.

Now, that is nothing to which you would not be entitled without a closing agreement.

H.M.Jr: The only difference is he wants to have six months instead of three?

Sullivan: That is all he wants now.

H.M.Jr: That is wholly unimportant?

Sullivan: Oh, that is perfectly all right, sir.

H.M.Jr: And you say none of the Navy people would agree to this?

Sullivan: None of the Navy people would tell me that they would be willing to give them anything more than that today.

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H.M.Jr: More than that?

Sullivan: That is right. Now, they have been....

H.M.Jr: I don't understand that statement.

Sullivan: They have been trying to force us for two months.

Foley: It is a back-track as a result of the conference here yesterday morning.

Sullivan: For two months they have been trying to force us to execute a closing agreement which would allow him to write off \$1,200,000. I asked them if any one of them would be willing to approve such a closing agreement yesterday afternoon at 4:30 and they all said nothing doing.

H.M.Jr: Now, you still haven't explained that. You have been living with this. What does that mean? Does that mean that - is their position....

Sullivan: The Navy is entirely in accord with us.

H.M.Jr: That is what I didn't get.

Sullivan: As a matter of fact, when we got rid of Fleet on the pretext that I wanted to discuss Midvale with the Navy, then I said, "Now, we are going to be doing business together for quite a while to come. I want a very frank expression of opinion from you gentlemen as to the way we handled this particular case so that we can try to work out a procedure that is mutually helpful," and everyone of the four men spoke up and said, "Well, we can't think of anything that could be better than what you are doing now."

H.M.Jr: Then you are all satisfied? It sounds reasonable to me. Doesn't it sound reasonable to you, Lauch?

Currie: Yes.

Foley: That is all they are entitled to. They thought they could get away with more so they demanded more.

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H.M.Jr: The part I don't like, the thing that worries me about this - and this is my worry for the present - I can't help but be a little suspicious.

Foley: You have a right to be suspicious.

H.M.Jr: And this thing doesn't smell right, I don't like it. Here in the Treasury we don't - we are not buddies with all these machinery representatives and agents. We don't let them wine us and dine us. We don't do business that way. This intimacy so that they bring in the contractor and he is - I don't know whether he was an Admiral or who he was at the beginning.

Foley: He used to be. All of these fellows used to be with the Navy at one time.

Sullivan: Fleet was formerly a Major in the Army.

H.M.Jr: I know, but this is something new to me, the way the Navy treats these sales agents. They treat them as though they were part of the department and what they are arguing with us is, as though they were working for this contractor. It is new to me.

(Discussion off the record)

Let me ask you this, you are now waiting to hear from the Navy?

Sullivan: From Fleet. The Navy is in complete accord with us.

H.M.Jr: The next thing is from Fleet?

Sullivan: That is right, sir. His man will be in tomorrow morning and he will be back here Monday at the latest and probably before.

H.M.Jr: You are clear of that?

Sullivan: Yes, sir.

H.M.Jr: Now, what about Midvale?

- 7 -

- Sullivan: They are coming over to see us tomorrow morning and the Midvale people will probably be down Monday.
- H.M.Jr: And then let's do the same thing that I suggested yesterday, that you see the Navy and the Midvale people together.
- Sullivan: Yes, sir, we are going to do that when the Midvale people come down, but we had a preliminary problem in Midvale that we don't have in the others.
- H.M.Jr: What is that?
- Sullivan: Congress set aside six million dollars for this particular thing.
- H.M.Jr: That is right. Get this, Lauch.
- Sullivan: And I had written the Midvale people - Mr. Currie, they were in here day before yesterday, or - no, they were in here Monday, I think, and submitted their proposal and they expected a yes or no answer. We couldn't give it to them because we were running smack into this other problem and so I wrote saying that we entertained serious doubts as to the propriety of our entering into a closing agreement when Congress had expressly provided for other means of accomplishing this same result, and I told that to the Navy yesterday. There was a reference made to Midvale and I said I just wanted those fellows to know that we have been writing Midvale and we have this problem. Well now, they want - obviously that is something for the Navy and us to discuss without the Midvale people being present, so Admiral Bass and Mr. McLaine and I don't know who else is coming over tomorrow morning at 10:00 o'clock and we are going to discuss that.
- Currie: On that point, Mr. Secretary, I think I can add a little bit as a result of my interview with Admiral Furlong. He did not discuss Midvale's request but Bethlehem Steel's request for 50 percent obsolescence in a closing agreement.
- H.M.Jr: Isn't that the same class as Midvale?

- 8 -

- Currie: It is another company; it is the same type of thing. Now, it developed in the course of the conference that the authorized naval program will insure full capacity operations of the entire industry throughout 1942 and that the new plants for super-cruisers approved by the President would insure full capacity operations throughout 1943 and that thereafter if we kept our fleet....
- H.M.Jr: Feet or peak, which are you saying?
- Currie: The Navy fleet at full efficiency to provide for a normal program, that would insure thereafter two-thirds capacity operations indefinitely.
- H.M.Jr: Well now....
- Currie: My first impression when I sat in with these men the other day was that this closing agreement was a very dangerous thing, because the thing I seized right onto is the fact that you couldn't do anything with a closing agreement that you couldn't do in its absence. You couldn't change the taxpayer's liability anyway that way. That ought to be made clear.
- H.M.Jr: What I think we are doing is along the same lines. The only way I know how to teach the Navy what we can or cannot do is to do what we are doing in the case of Consolidated - I mean go right through the thing step by step. I don't see how we can do it any other way.
- Sullivan: When you made the suggestion yesterday morning, I thought it was going to be a futile effort and I was completely amazed at the way the Navy just slid right into - alongside us.
- H.M.Jr: Don't you think the fact that Edison kept saying - that I kept saying all the time that the President and I see eye to eye on this thing, he knows all about it, it must have made an impression on these Admirals?
- Foley: It must have made an impression on Captain Kraus.

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Sullivan: He was perfectly fine yesterday afternoon and when Fleet kept going off on a tangent he would say, "Wait a minute, come back here."

Foley: He is smarter than the rest of them.

Sullivan: I think Commander Braine is a pretty smart boy.

H.M.Jr: What is his position?

Sullivan: I don't know, sir. He is a Commander and he is the fellow who is handling the Midvale and I think that he very definitely knows his stuff from the conversation we had yesterday afternoon.

H.M.Jr: Well now, Sullivan, here it is Thursday afternoon. Now, is there anything more you need me on until you see Fleet or until you hear from Midvale, is there anything more you need me on?

Sullivan: I don't think so unless you can give us some help on this basic problem we are facing with Midvale.

H.M.Jr: Do you want me to go through another performance like I did the other day.

Sullivan: Oh, no.

H.M.Jr: Do you want me to give him the works again?

Sullivan: No, I don't think that is necessary.

Currie: It sounds as though you are spoiling to do it.

H.M.Jr: Yes, I will have you here next time. Everybody had a good time.

Sullivan: That was a very clear invitation for what he got, too.

H.M.Jr: And I interrupted two or three times and said, "Do you want me to go ahead in front of these people," and he would say, "Yes."

Sullivan: He got them in. Mr. Foley and I discussed that outside.

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- H.M.Jr: When you reach an impasse with the Navy and Midvale, you will let me know?
- Sullivan: Yes. Until then, shall I maintain the position that since Congress has provided these funds it must be done that way?
- H.M.Jr: What are they going to use this money for anyway?
- Sullivan: I don't know.
- H.M.Jr: What about the Army? Are they all right? Is there anything pending with the Army?
- Sullivan: I have had no contact with them. My men tell me that the Army has been perfectly swell. Last Friday morning I left here to get their waiver on the press release on Colt and I talked with Colonel Burns and Colonel Kutz and Mr. Johnson and they all thought that it was a fine idea but Louis says, "Of course, the Secretary has given us assurances that you can go a lot further than you do on Colt."
- H.M.Jr: Which Secretary did he mean?
- Sullivan: You.
- H.M.Jr: I don't know - I haven't had any communication with him, directly or indirectly. He must have meant Hanes. He said somebody had given him assurance he could go further?
- Sullivan: That is right, then we went with Colt. I said, "Well, we can be very helpful on tools and equipment of that kind, but when you get to buildings, you are running into something else." "Well," he said, "of course, these tools aren't any good unless we have buildings to put them in," and about that time the conversation went to the topic of the Army-Navy game.
- H.M.Jr: Well, I want to tell you I haven't had a chance to see the President since I sent that thing over but I talked with Currie this morning. You give the President a lump sum in "B" budget of 25 million dollars to construct in public works all

- 11 -

the shadow factories he wants, and I don't think he would have to spend a dollar of it.

Foley: And you keep talking like that and these fellows won't be running in here looking for closing agreements.

Sullivan: They don't want the Government to build shadow factories.

H.M.Jr: He ought to have it in his vest pocket.

Currie: That is right.

Foley: You will get your planes and your battleships and that is the thing they are afraid of, they are afraid we are going to build our own factories.

H.M.Jr: Give him that and I don't think the President will have any trouble.

Sullivan: When the smoke all cleared away last night, Fleet says, "Two million dollars is a lot of money to put in this," and I said, "Listen, I am from New Hampshire but I am not that much of a farmer. You don't dare not put that in there because you would be completely lost a year from now," and he just walked by closely so they wouldn't hear and he said, "You said it."

Foley: Sure, it is a bluffing game.

Sullivan: Now, there is \$1,200,000 the Navy has been pressing us to give them.

H.M.Jr: If it wasn't for this office here, he would have got it. And the outrageous thing, as I understand, on the original agreement -wasn't the Navy going to put up the money?

Foley: They certified that he was entitled to it.

Sullivan: And were going to make payments as the building progressed.

H.M.Jr: Isn't that something!

- 12 -

Sullivan: And I almost....

Foley: There is only one word for it, it stinks.

Sullivan: I almost got him to admit, Mr. Currie, that this contract he is signing today in New York had an extra bonus of the two million dollars.

H.M.Jr: You mean for the building?

Sullivan: Sure.

H.M.Jr: Do you want me to find out?

Sullivan: I think the deal is right on the fire this afternoon and it may go over until tomorrow and I wouldn't want to upset it.

H.M.Jr: You mean that the French put in that two million dollars for the building? I can find out.

Sullivan: All right, I don't think it is going to be necessary, because I think he is going to....

H.M.Jr: Leroy-Beaulieu is coming in to see me and I can simply say, "Look here, Leroy, after you have signed this contract I hear you have got with Consolidated, would you mind giving me a copy of it?" How is that?

Sullivan: Fine.

H.M.Jr: (To reporter) Tell Mrs. Klotz to remind me when Mr. Leroy-Beaulieu comes in.

Foley: They are going to make the British and the French pay for the stuff.

H.M.Jr: I think we are all right now.

Currie: Except for the thing that I came to see you about.

Foley: I don't like that suggestion of yours and I will tell you why.

H.M.Jr: Now look, fellows, I try to run this thing on time. Go back to Ed's office and thrash this

- 13 -

thing out, will you, and just remember, Ed, if I have any more meetings on closing agreements, I want Currie to sit in here and be notified. If there are any meetings on any of these things, I would like him notified.

Currie: I hoped I could get out of it from now on.

TO:

Mr Cochran

166-A

This indicates efforts
of Germany to deliver
goods to Mexico through
"neutral" shipment from
Italy. It may be of
interest to state.



From: Mr. GASTON

Bic 227

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO. IOF-64



HEADQUARTERS

TREASURY DEPARTMENT
UNITED STATES COAST GUARD

167

WASHINGTON 7 December, 1939.

CONFIDENTIAL

Memorandum for Assistant Secretary Herbert E. Gaston:

The following message which originated in Mexico City, D. F., on November 30, 1939, is quoted for your information and such action as you may deem appropriate. It was sent to the firm of Bruders'sche Eisenwerke at Wetzlar, Germany, in a German commercial code.

"30 NOVEMBER 1939

STAHLWERKE ROCHLING BUDERUA A G WETZLAR
(Steelworks)

"Reference your telegram October 27th, customer agreeable. Meeting with difficulties. They propose to renew letter of credit the middle of December, total amount Swiss francs in your favor, Swiss Banking Corporation of Zurich, invoiced to Board of Managers 'Materials of War' at Vera Cruz, Mexico. Marking of goods and invoice to be made out strictly neutral. Make no payment of consular fees. Documents will be delivered from the bank to the Mexican consul at Genoa for the purpose of re-forwarding. The commission is to be placed to account against consignment of goods. Please wire reply to GUSOSA if agreeable. Request undertake export as soon as possible."

F. E. Pollio
F. E. POLLIO,

Lieutenant, U. S. Coast Guard,
Acting Chief Intelligence Officer.

Honorable Herbert E. Gaston,
Assistant Secretary of the Treasury,
Washington, D. C.

*1939
Chamberlain*

JAPANESE EMBASSY
WASHINGTON

*Visit for food
39 Dec 13
M.F.*

December 7, 1939

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My dear Mr. Secretary:

Mr. Tsutomu Nishiyama, Financial At-
taché to this Embassy, informs me that he
would like to have an interview with you on
any day between Tuesday, December 12 and Fri-
day the 15th, inclusive.

I should be very grateful if you would
be good enough to grant him an interview and
appoint the time at your convenience.

Yours very sincerely,

Kensuke Horinouchi
By *Moto Horinouchi*
Counselor

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



OFFICE OF THE DIRECTOR

169

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

December 7, 1939

MEMORANDUM FOR THE SECRETARY

The following tabulation is a brief picture of the motor situation for 1940.

1940

	Estimated Production	Existing Orders	Balance Available	::	Estimated Annual Production 1941
Allison	1,288	753	535	::	1,860
Pratt & Whitney	8,900	8,379*	521	::	10,320
Wright	10,000	9,037	963	::	10,000
	<u>20,188</u>	<u>18,169</u>	<u>2,019</u>	::	<u>22,180</u>

* Includes firm orders for 7,288 with negotiations pending for sale of 1,091

The existing orders represent those motors required to take care of all programs that have been approved to date.

The estimated annual production for 1941 takes into consideration all extensions to plant facilities that have been made and are presently in the course of being completed.

H. J. Folmer
Director of Procurement

COPY

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TREASURY DEPARTMENT
PROCUREMENT DIVISION
Washington

December 7, 1939

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The estimated annual production for 1941 takes into consideration all extensions to plant facilities that have been made and are presently in the course of being completed.

/s/ H. E. Collins

Director of Procurement

December 7, 1939

My dear Mr. President:

I beg to acknowledge receipt of your letter of December 6th and have instructed Captain Collins to carry out your wishes as outlined therein.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

*By hand
at 5 pm. on 12/9/39*

BK 227

December 7, 1939.

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**Captain E. E. Collins,
Director of Procurement,
Treasury Department.**

My dear Captain Collins:

I have received the following letter from the President:

**"The White House
Washington**

"December 6, 1939.

"My dear Mr. Secretary:

"I have created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

"(a) The Director of Procurement, Treasury Department; (b) The Quartermaster General of the Army; (c) The Paymaster General of the Navy.

"This committee will serve as the exclusive liaison with reference to procurement matters between this Government and the interested foreign governments. It will hold sessions at least once weekly, and at such more frequent intervals as may be necessary. At these sessions, it will receive an accredited representative of the embassy of any interested foreign government for the purpose of giving consideration to the requirements of such government for supplies, equipment, and materials, in relation to: (a) availability of the desired articles, (b) priorities, and (c) prices. The committee will submit a complete report of its proceedings, acts and recommendations, at least weekly, to the President through Mr. McReynolds.

"The Secretary of State has informed the British and French Ambassadors of this arrangement.

"Will you please inform the Director of Procurement of his designation as a member of this committee and ask him to serve as its chairman.

"Sincerely,

(signed)

"FRANKLIN D. ROOSEVELT

"The Honorable,

"The Secretary of the Treasury."

In view of the President's letter to me, I hereby instruct you to perform the duties as outlined in his letter.

Sincerely,

Secretary of the Treasury.

RUW:mas

December 7, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



SUBJECT: Radio equipment of yawl LEKALA.

Admiral Waesche obtained the following information by telephone. The generator aboard the LEKALA is of the type used for radio transmission but it is not connected with any apparatus. The LEKALA carries two ordinary broadcast receivers but has no radio transmission apparatus other than this unconnected generator. It is a Blue Diamond generator with double wound armature and two commutators, one coil producing 7½ volts for heating tubes and the other coil producing 110 volts for plate potential. The presence of the generator indicates that the persons aboard the LEKALA probably contemplated later installing radio transmission equipment.

Waesche has received two communications bearing on the LEKALA. One is from Wallace Hottson of Greenwich, Connecticut, who says that a man named Edward Keerling, a very intelligent man and a rabid Nazi, worked for him as a butler about a year ago. He gave a description of Keerling which answers the description of the man of the same name aboard the LEKALA. Waesche has also received a letter from Keerling himself, in which the latter thanks the Coast Guard for courteous treatment, but says that at the same time he feels moved to protest against being repeatedly detained. He says that after the District Attorney in New York told them they were free to go he called up the Coast Guard District Commander and got his permission to leave, but that later they were hailed and boarded at Cape May, at Chesapeake City and Moorehead and finally at Wrightsville. His letter contains the question: "Is it a crime already to be a German?" and adds that in any event he would rather be a German than an Englishman. He says that their plans are to go to Miami to spend a peaceful winter, if they are permitted; that he intends to travel outside from Cape Fear to Miami and that he will check in at Charleston. He adds also that he would be glad to have the convoy of a Coast Guard patrol boat all the way for companionship and safety. His letter contains a footnote that he is sending a copy of it to the British Embassy.

17A A

THE WHITE HOUSE
WASHINGTON

December 7, 1939

My dear Mr. Secretary:

I am enclosing an addendum to the
Memorandum on British Taxes which you might
like to have.

Sincerely yours,

Lauchlin Currie
Lauchlin Currie
Administrative Assistant
to the President

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

Addendum

Memorandum on British Taxes of the European War

National Defense Contribution

The yield from the National Defense Contribution levy rose from £ 1.4 million in 1937-38, its first year, to £ 21.9 million the next, and amounted to £ 10.2 million in the fiscal year 1939 up to August 26, 1939.

The National Defense Contribution must be paid in the future only by those businesses which are liable to no tax under the excess profits levy or to a smaller one than they would be under the Defense Contribution. To this extent, the National Defense Contribution imposes at least a moderate tax on profitable businesses which already had high profits in the standard period.

PARAPHRASE OF TELEGRAM RECEIVED

M 175

FROM: American Embassy, Paris, France

DATE: December 7, 1939, 7 p.m.

NO.: 2924

FOR THE TREASURY.

This evening we called on Rueff, the Under Governor of the Bank of France. We asked him what progress was being made in the negotiations for a financial agreement between Great Britain and France to complete the inter-allied cooperation measures. Rueff replied that they were making satisfactory progress, but that negotiations are at a delicate stage, and nothing has been signed as yet, so he was reluctant to discuss details of the arrangement. However, he indicated that when the agreement is signed, it will be a far-reaching one and very close monetary cooperation between Great Britain and France will be provided for therein.

Rueff said the internal/^{financial}situation was quite satisfactory, and the "closed capital circuit" was flowing at as good a rate as they could have anticipated for it. Subscriptions to armament bonds are now averaging for each period between 350,000,000 and 400,000,000 francs - repatriated capital of course accounts for much of this, but the return flow of such capital is drying up gradually.

At the Bank of France we talked with our friend, who said that while the fund continued to gain on a diminishing scale from private repatriations in dollars and sterling,

the

- 2 -

the requirements of the Treasury are now so heavy, particularly for payments for airplanes, that steady losses are shown for the fund. Our friend expressed pleasure that the recent shipments of gold, by warship, had arrived safely. He said that he regretted that prior notice of shipment could not be given to the Federal Reserve; he had been given strict instructions not to do so, as the authorities have definite knowledge that there is a "tap" on every means of communication. He indicated that in the near future they do not contemplate making any further shipments of gold.

This afternoon's PARIS SOIR carries an interview with Paul Reynaud which, however, contains little that is new. The headline quotes him as saying; "Yesterday I said: buy, produce. Today, I say: produce more". This is the general tone of the interview and he emphasizes the need for sacrifice and for a "stable economy". "We seek to stabilize prices by a strict system of control and in general we have succeeded since the index of retail prices in Paris decreased between August and October. But at the same time it is necessary he stated to tax income not only for moral reasons, so that the scandals of the last war are not reproduced, but also to avoid the most unjust of all indirect taxes because it strikes harder on the necessities of all classes; namely, a rise in prices.

END SECTIONS ONE TWO AND THREE.

BULLITT.

EA:LWW

REB

GRAY

Paris

Dated December 7, 1939

Rec'd 7:25 p. m.

Secretary of State,
Washington.

2924, December 7, 7 p. m. (SECTION FOUR)

"That is why we have taxed profits of enterprises, whether they are working for the national defense or not and have taken off the ceiling which until this year limited the progressive general tax on big fortunes. This is beginning to reduce the purchasing power of merchants and indifferentists and all those enjoying big incomes". (This last in answer to criticism against the 15% tax on salaries of the non-mobilized and general demands of the Socialists to soak the rich more heavily). He closed his interview with a tribute to his "British blue book friend and colleague" Sir John Simon and praised his financial effort (presumably returning the latter's complimentary remarks of two days ago).

The budget report of the Chamber Finance Committee indicates that between January 1 and November 11 appropriations for the ordinary budget for the current year have increased since the approval of the finance law for

1939

REB -2-#2924, From Paris, Dec. 7, 7 p. m. (Sec. Four)
1939 (see the Embassy's despatch 3631 of January 10,
1939) November by 40,484,000,000 francs and the special
armament budget by 51,717,000,000. Under ^{these} / circum-
stances up to November 11 total appropriations for the
ordinary budget amount to 106,849,000,000 and for the
special armament budget 79,112,000,000, making a total
of 185,966,000,000 francs for the year 1939.

Debate on the 1940 budget opened in the Chamber of
Deputies today.

BULLITT

NPL

LMS

GRAY

Paris

Dated December 7, 1939

Rec'd 7:30 p. m.

Secretary of State,
Washington.

2924, December 7, 7 p. m. (SECTION FIVE)

According to LE TEMPS the League of Nations budget for 1940 now before the Budget Committee of the League totals 21,615,000 Swiss francs compared with 32,204,000 Swiss francs for 1939.

The Bank of France statement dated November 30 reveals a decrease in commercial advances of 482,000,000 to a total of francs 5,234,000,000. Open market operations increased 445,000,000. Thirty-day advances increased 214,000,000. The Treasury did not draw further upon its advance account at the Bank of France. Note circulation increased 2,626,000,000 to a total of 149,370,000,000 a "high" since the war started.

BULLITT

NPL

REB

GRAY

Paris

Dated December 7, 1939

Rec'd 8 p. m.

Secretary of State,
Washington.

2924, December 7, 7 p. m. (SECTION SIX)

This substantial increase is largely due to monthend requirements. On the other hand current and deposit accounts decreased 1,923,000,000. Percentage of gold cover dropped to 59.41% as against 59.67%.

After a firm and active opening securities weakened on profit taking and with a few exceptions rentes and industrial securities showed irregular but unimportant gains and losses at the close. Official exchange rates remained at the same level.

(END OF MESSAGE)

BULLITT

NPL

DEC 7 1939

2:10 PM.

12/7/39

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Mr. Sullivan:

Mr. Appel had
last page rewritten
and substituted it for
the one originally
given you.

JMS

TREASURY DEPARTMENT
BUREAU OF INTERNAL REVENUE

IT:P:CA
CAA

Memorandum of Vinson Act Conference

In re: Consolidated Aircraft Corporation request
for closing agreement.

Place of meeting: Room 3012, Internal Revenue Building,
Washington, D. C.

Time of meeting: 2:30 to 7:00 P.M., Wednesday, December 6, 1939.

Present at meeting:

Treasury Representatives:

John L. Sullivan, Assistant Commissioner of Internal Revenue.

Treasury Interdepartmental Committeemen

John W. Burrus, C. A. Appel and H. T. Relling.

From Engineering and Valuation Division, Income Tax Unit
S. P. Hatchett and Dean W. Martin.

Navy Department Representatives:

Admiral I. E. Bass.
Captain S. M. Kraus.
Commander L. B. Richardson.
Commander Braine.
Mr. Warren McLaine.

Contractor's Representative:

Major R. H. Fleet, President.

This conference was directed earlier in the day by the Secretary of the Treasury at a hearing held in his office in regard to another matter, when the Navy representatives took occasion to state that the Consolidated Aircraft Corporation had filed with them a revised proposal for furnishing 200 airplanes of a certain type, the previous proposal having been the subject of consideration in connection with a request filed by the corporation for a closing agreement. The Secretary of the Treasury pointed out that the contractor has adopted a procedure of dealing first with one Department and then with the other and he expressed the opinion that a conference with the contractor should be held at which representatives of the Navy and Treasury Departments would be present, and endeavor should be made to come to an agreement with the contractor, if possible. He directed that Mr. Sullivan take charge of the matter and hold the conference.

-2-

At the opening of the conference, the Navy representatives produced copies of the revised proposal of the contractor. So far as material here, the revised proposal consisted of a change in form by stating that "We must have a closing agreement with the Government" without going into details of the agreement.

Major Fleet, president of the corporation, was invited to state his case. He is of a genial, loquacious personality stated to have a fine background of achievement in aviation, and he is inclined continually to stray away into a discussion of extraneous matters. It was frequently necessary to direct his attention back to the matter in hand. It required a great deal of discussion with him to ascertain exactly and to reduce to simple terms what he had in mind in regard to the closing agreement which was drafted and sent to him. For these reasons, the conference took a great deal of time.

Mr. Sullivan bore the brunt of the protracted discussion (four and one-half hours) and throughout his efforts were directed to making clear to Major Fleet what the draft of the closing agreement provided; to give him an understanding that it is not possible in a closing agreement to allow to a contractor any more than he would be entitled to under the law and the regulations or to which any other taxpayer would be entitled under like circumstances, and that every effort has been made to give assurance to the contractor as to treatment of the cost of the additional facilities as is possible under the facts and circumstances. Major Fleet, at the beginning of his argument, made the demand that 60% of the total cost of all of the facilities including the building must be written off as cost of the Navy contract; his expressed reason for this is the opinion that there is a possibility that the added facilities will not be of sufficient use in the business. During the course of the discussion, he admitted that there is a possibility that he may seek to acquire contracts for export of planes to foreign powers, provided he can secure permission of the Government for such export. During the discussion, in which Mr. Sullivan patiently went over the applicable provisions of the law and regulations and made plain that everything has been done in the draft of agreement that may be done under the facts applicable at this time, Mr. Sullivan finally asked Major Fleet if he had carefully read the proposed agreement. Major Fleet replied that he had not. Thereupon, at Mr. Sullivan's suggestion, Major Fleet and the Treasury Interdepartmental Committeemen, Burrus, Appel and Reiling, retired to an adjoining room in Mr. Sullivan's suite, sat down around the table, and went slowly and carefully

over the wording of the agreement. Upon the completion of consideration of each paragraph of the draft, Major Fleet was asked to indicate whether he objected thereto and he finally, with respect to each item, stated that it was acceptable. The parties then returned to the main conference room and reported to Mr. Sullivan.

When asked by Mr. Sullivan if he was ready to accept the agreement, Major Fleet began a long discussion of the provision in paragraph 5 of the draft requiring that the contractor indicate within three months following completion of the contract its intention to discard the assets. Major Fleet stated that this provision was unsatisfactory to him and that he would like the Government to give him the privilege of deferring a decision relative to discarding the assets until the period of the emergency is completely ended, and if it was then decided to discard the assets the resulting loss should be spread back over all of the operations in all of the years involved under the emergency. His discussion indicated that he realized that this might involve a number of years, even as much as ten. Mr. Sullivan informed Major Fleet that such a proceeding could not be done under the law. It was explained to Major Fleet that the discarding of the assets should follow at once upon the completion of the contract but that it was judged that he was fairly entitled to a reasonable time in which to carry out his decision and that the Treasury Department would be willing to agree to the three months' interim provided in the agreement for such purpose. After further discussion, Mr. Sullivan asked Major Fleet if it would be satisfactory to him to make the period for carrying out the discard six months instead of three. Major Fleet replied that it would not be satisfactory to him. It appeared that Major Fleet's dissatisfaction was directed more against a necessity for making a decision rather than against a stated period of a few months. Major Fleet then asked if the corporation decided to discard the assets and take its loss against the Vinson Act contract and also for income tax purposes, whether subsequently it could decide to reinstate the basis for the assets upon its books, thus reversing the previous charge-off. Major Fleet was informed that this could not be allowed. It appeared at the end of the conference that Major Fleet's mind was not made up as to whether it would be advantageous to the corporation to treat the assets the one way or the other.

Mr. Sullivan asked Major Fleet to state when a decision may be expected from him whether he will desire to enter into a closing agreement. Major Fleet replied that he desires to go to New York City and consult advisors, a Mr. John Hancock and Messrs. Lehman Brothers, but that he expects to return on next Monday, December 11, 1939, when he will let Mr. Sullivan know his decision.

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The representatives of the Navy Department carefully refrained from any endeavor to influence the representatives of the Treasury Department and they were generously helpful in keeping Major Fleet's discourse to the matters under consideration. At the end of the conference and after Major Fleet had left the room, Captain Kraus, Admiral Bass, Commander Richardson and Commander Braine were each asked, in turn, if they thought that the Bureau of Internal Revenue is fully cooperating with them and were requested to speak frankly in this regard; they replied that they are thoroughly satisfied and that the conference had been both interesting and informative to them.

AC

PLAIN

London

Dated December 7, 1939

Rec'd 2:35 p.m.

Secretary of State

Washington

2562, December 7.

FOR TREASURY.

1. The approach of Christmas is doubtless one factor influencing the note circulation which increased by 5.2 million pounds this week. The Bank of England return shows that Government securities increased by 5.1 million pounds and other securities by 1.9 million pounds, thus more than offsetting the note circulation advance. However, in spite of the war loan dividend payment on Thursday last this week's return (as of Wednesday) shows a heavy decline in bankers' deposits which dropped by 17.2 million pounds while public deposits rose by 19.3 million pounds. The concentration of payments for Treasury bills in the last days of last week and possibly also the purchases of new 5 pound defence bonds partly account for this movement but cannot wholly explain the figures. According to a statement by Simon in the House of Commons today the new defence bonds sales to date total about

11.2

- 2 - #2562, December 7, from London

11.2 million pounds and the new National Savings Certificates sales about 10 million pounds.

Banker's deposits which now stand at 86.3 million pounds are at the lowest level since August 9 when they stood at 81.9 million pounds and compare with the war period peak of 116.8 million pounds of October 25. Public deposits now at 47.1 million pounds are at an exceptionally high level. The reasons are obscure, probably lying in operations of the Exchange Equalization Account. The fact that the Tap Treasury Bill issue increased during the week ending November 4, as reported in the third paragraph of No. 2551 of December 6, may also be an indication of some such operations.

2. With further reference to the fourth paragraph of telegram No. 2497 of November 30, 6 p.m. the Chancellor of the Exchequer yesterday addressed the National Joint Advisory Council which is a war body composed of representatives of the British Employers Federation and the Trades' Union Congress General Council. The Trade Union representatives had asked for further information in explanation of Simon's statements last week regarding the "fearful sacrifices" to be expected and especially with regard to his reference to the fact that remunerations could not automatically increase with the rise in costs

- 3 - #2562, December 7, from London

costs. Little is published of the meeting. The TIMES reports that the Chancellor of the Exchequer gave a long and detailed exposition and that the meeting was treated by the Government as of great importance and was attended also by the Minister of Labor, Financial Secretary of the Treasury, Sir William Brown of the Board of Trade and representatives of the Mines Department and the Ministry of Food.

The Advisory Council's duties are to advise the Government on matters common to employers and workers, wage rates being, of course, a most important question. THE TIMES quotes an official report of the meeting as follows: "A general discussion was opened and will be continued at the next meeting of the Council to be held on January 3."

Meanwhile the Trade Union Congress General Council through its economic committee is making a study of the relation of prices and wages. Incidentally, most of the press gave no news of this meeting except, in one or two cases, that it was held, and the Labor DAILY HERALD does not mention it today.

3. There was a slight increase in retail trade turnover in October, probably largely accounted for by increases in prices. The increase was one of 6.5 per cent

- 4 - #2562, December 7, from London

cent over October 1938 as compared with an increase in September of 13.9 per cent and in August of 6.4 per cent over the corresponding months of last year. The London figures continue to fall with provincial areas showing the gains.

4. The significance of the Australian loan of 4.6 million pounds underwriting for which begins tomorrow, for the conversion of two Tasmanian securities is taken to be the fact that funds held in London by Australia could be used to meet the maturity payments but that the depletion of these funds would be unwise in the present circumstances.

5. In reply to a question in the House of Commons today as to whether he has noticed the wide consensus of opinion among people of experience of business and finance that there should be a Minister in the War Cabinet responsible for economic coordination with responsibility for the work of the Board of Trade, the Department of Overseas Trade, and the Ministries of Food, Supply, Shipping and Economic Warfare, the Prime Minister said:

"I have noticed a certain number of letters in the press to the effect Mr. Attlee refers to, but I have not noticed that these are written by people with any
experience

- 5 - #2502, December 7, from London

experience of government themselves."

JOHNSON

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DEC 8 1958

U.S. DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
WASHINGTON, D. C. 20535

December 7, 1939.

101

ULTRA-CONFIDENTIAL

MEMORANDUM

To: Secretary Morgenthau
From: Mr. Gaston.

JSS

In the course of a telephone conversation yesterday *(Wednesday)* Assistant Secretary of State Berle told Huntington Cairns that he would seek an opportunity to discuss with the President the policy to be applied to problems arising under the Neutrality Act. Berle indicated ~~a~~ disagreement with conclusions voiced by Senator Key Pittman at an inter-departmental conference held in the office of Judge Moore, Counselor of the State Department, on November 30, 1939. These conclusions seem both to Judge Townsend of the Department of Justice and to our lawyers to be in harmony with the law and with the intent of Congress as revealed by the Act itself and by the debates in Congress and *by* Senator Pittman's statement of the intent of Congress as he understands it.

Mr. Berle indicated that the questions would have to be decided finally in the light of Administration policy which he thought would be formulated after a discussion in Cabinet. At the meeting on November 30th, Senator Pittman outlined his position substantially as follows:

"The purpose of the Neutrality Act of 1939 was to prevent and forestall any situation arising in which the United States might have to make strong representations to any belligerent or as a result of which public opinion in the United States might be aroused. The test that should be applied, in all cases where any doubt appears as to the intention of the Congress in the Neutrality Act of 1939, should be: 'What interpretation is the least likely to get the United States involved in the war?' In cases where the application of that test would interfere with current business practices, those practices must yield to the peace policy of the Congress."

There appeared to be general agreement at the meeting that the policy expressed by Senator Pittman was logical and sound and should be adopted. Mr. Cairns, however, understands that Mr. Berle now takes the position that public sentiment in the United States

is undergoing a rapid transformation and that the policy of the Administration should take this into account and not be too closely bound by the policy that would be deduced from the action of Congress by the sentiment existing in Congress at the time the Neutrality Act was passed. I think it has been the consensus here in the Treasury that the only safe course is to adhere strictly to the letter and spirit of the statute in the light of the purposes quite forcibly and clearly stated by Senator Pittman. It is our belief that to do otherwise would (1) impair the dignity and reputation of the United States with respect to faithful observance of its own laws; (2) create much greater difficulties in interpretation of the law once a clear-cut line of policy was abandoned; and (3) greatly increase the likelihood of controversy with other nations on account of losses by American citizens.

Six questions were asked at the November 30th conference, to all of which the answers by Senator Pittman, by the Department of Justice and by the Treasury Department are "No". Typical questions are these:

"May goods consigned and waybilled to a belligerent be carried by an American ship to a neutral port not in a combat area, be there unloaded and trans-shipped?" This is the Bilbao problem. The French Government contracted in the United States for merchandise to be delivered to a French port (Marseilles). After the passage of the Neutrality Act instructions were changed to call for the delivery of the goods in Bilbao, but without a change in the ultimate consignee, which was the French Government. We say that if an American ship is to move the goods they must be billed to a neutral consignee in Bilbao.

"May goods consigned and waybilled to a belligerent be carried to a neutral port to be there unloaded and trans-shipped without transfer of title?" This is another aspect of the same problem. We say that if the goods are consigned to a belligerent an American ship can't carry them, and if a foreign ship is to carry them there must be transfer of title.

"May arms and ammunition waybilled and consigned to a neutral be carried by an American vessel to any belligerent port to be there unloaded and trans-shipped?" This involves the shipment of aeroplanes and other military supplies to China via Rangoon. It presents a more difficult case than the other two, which could be handled by a mere change in the form of billing and consignment. We do not see how American ships can handle this traffic unless a way is found to unload it at a neutral port.

- 3 -

All of the cases involve the same problem as that raised by the transfer of the ~~Trawlers~~ to the French Line. The fundamental question is whether it is to be our policy to respect our own laws, or to find slippery ways to evade them.

December 7, 1939

Drew Pearson and Bob Allen were in today to discuss their column of December 6th (copy attached.) They told the Secretary they would write a correction.

Washington Daily

Merry-Go-Round

(Trade Daily Continued)

By DREW PEARSON and ROBERT S. ALLEN

Best diplomatic information from Moscow indicates that the Russian Government is preparing to announce promptly in the near future the Balkans—especially Rumania.

Secretly Rumania is a most important financial center in the Balkans. And while Finland is a long way off and ostensibly there is little competition between them, actually in the manner in which Finland had stalled off Moscow's economic advances in the Balkans.

In other words, Rumania is wondering whether Russia really means business and whether she in turn couldn't out-manoeuvre Stalin, just as Finland seemed to be doing.

The loss of Finland was that the Russians had to be content to make a concession to indifference excepting the Balkans. Apparently he figured that it was better to make such a vigorous example of Finland than Rumania and other Balkan objectives would yield without a fight.

Our group is to be kept in constant contact with Communist relations inside Finland was so active that the Russians could be shaken into the Russian lap like a ripe plum without a struggle. But Stalin was not to be taken in. Stalin set limitations and decided that the Balkan program would have to be stepped up.

Finland Notes

Reason the Swedes, despite neighboring distress, don't do anything to help Finland is that the Swedes have had his eyes on Sweden's famous iron mines, and would like nothing better than an excuse to move in on them. The Swedes, as usual, were waiting until they were on the last minute they were on the verge of attack. They were on the verge of attack. They were on the verge of attack. They were on the verge of attack.

Government Economy

Henry Morgenthau insists that all members of the Treasury Department use the Coast Guard ship in sailing government boats in the Atlantic. Henry Morgenthau's economy plan will cost the Government just about \$1,000,000.

All this happened when Roosevelt's economy plan was announced, thereby increasing the tariff from 40 cents to \$1.02. The announcement was carefully timed for late in the afternoon, with a conference of the cabinet and a press conference following. The Coast Guard ship was to be used to reach the customs house in New York, until around noon September 12.

The Coast Guard has always been a part of the Navy. The Navy handles all Coast Guard messages, and apparently the Navy didn't think the message urgent, so put a lot of routine naval messages ahead of it.

Meanwhile, the collector of customs in New York, having the reports transmitted several days later, at about 10:30, he telegraphed Washington and had the message read to him. He never could get the message of the Coast Guard before raising the tariff, so, although the telegram was read over the phone at 10:30, it was not until 12:54 p.m. that the tariff was increased. It was on September 12, but it was

is, exactly 12 3/4 that the tariff was increased from 40 cents to \$1.02. The tariff was increased from 40 cents to \$1.02. The tariff was increased from 40 cents to \$1.02. The tariff was increased from 40 cents to \$1.02.

Capital Clash

If you don't see much of Frank Murphy these days the reason is that he is doing a lot of behind-the-scenes juggling in the White House. He and Roosevelt are desperately anxious to put this across before Frank goes up on the Supreme Court. . . . Myrtle star Melvyn Douglas garnered more talk in the White House last week than any other actor. . . . Roosevelt gave a special dinner for him. At a New Deal luncheon, also, he met almost the entire inner circle—Licks, Murphy, Tom Corcoran, Ben Cohen, Aubrey Williams, Mark Mallory, Lyle Handberg. All incidentally were invited to Hollywood.

Senate Claus Cetes

Henry Wallace, acting as Santa Claus, with Milo Perkins as Santa Claus' helper, are playing a corporate Christmas party for the Senate. . . . The party will be a free stamp plan for disposal of cotton goods to low-income families.

Much pleased with the success of the stamp plan for disposal of surplus goods, Wallace directed Perkins to the Federal Surplus Commodities Corporation, to explore the possibility of doing the same thing with cotton goods. Perkins has had several conferences with Wallace and it is almost ready to move.

The plan calls for distribution to relief families of stamps, which will be accepted as cash in retail stores for purchase of any of the surplus goods—mattresses, blankets, shoes, ties, overalls and piezo goods.

Wallace is hoping to blot from American life the bitter United States depression of four years ago. With the Roosevelt four-year term in matched overalls and threadbare shirt working in a field to increase the surplus in the cotton crop whose products he cannot afford to buy.

Banker-New Deal Fied

Don't be surprised if the long-quiet banker-New Deal feud flares up again soon.

Inter Administrations are not spluttering mad over what happened at a secret meeting held in New York by representatives of the American Bankers Association. To 110 leading bankers he had announced, the North Carolinian proposed that a fund of \$100,000,000 be raised to be used for the purchase of surplus goods. . . . The A.B.A. has bitterly opposed.

The New Dealers are convinced that the real object behind the fund is to finance a large-scale buy-back plan to make the surplus goods available to a number of the bankers at the secret Joevay had their financial bids saved by Congress must rescue them. . . . The New Deal early interest in the buy-back plan.

It is the best way to hit back at the bankers. One proposal is for the President to fire the Senate Banking Committee, head by Arthur C. Howland. . . . New York New Dealer Bob Wagner, call Hauns and other A.B.A. leaders for a public hearing on their economic policy. . . . The bankers' economic policy committee crack down.

NOTE: Hauns is a member of the New Deal. . . . Secretary of the A.B.A. is a member of the New Deal. . . . Secretary of the A.B.A. is a member of the New Deal.

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TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

VIA GOVERNMENT FACILITIES

Collectors of Customs
(See attached list)

BUREAU	CUSTOMS
CHG. APPROPRIATION	CUSTOMS

1939 SEP 11

6 52

September 11, 1939

Due to Public Notice by Secretary Agriculture accordance Item 501 :
 Schedule II, Cuban Trade Agreement TD 47232, sugars and other products
 covered thereby and entered for consumption or withdrawn from warehouse
 for consumption on or after 11 PM Eastern Standard Time September 11,
 1939, subject to duty at twenty per centum less than rates promulgated
 in ~~TD~~ 47040 STOP No change in Import compensating tax

Johnson
 JOHNSON

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Treasury Department
TELEGRAPH OFFICE

BOOK OF 44 COPIES
TO COLLECTORS CUSTOMS

PORTLAND MAINE	PORTLAND OREGON
STALBANS VT	SEATTLE WASHIN
BOSTON MASS	GREATFALLS MONTANA
PROVIDENCE RI	PEMBINA NODAK
BRIDGEPORT CONN	MINNEAPOLIS MINN
OGDENSBURG NY	DULUTH MINN
ROCHESTER NY	MILWAUKEE WIS
BUFFALO NY	DETROIT MICH
NEWYORK NY	CHICAGO ILLS
PITTSBURGH PA	INDIANAPOLIS IND
BALTIMORE MD	CLEVELAND OHIO
NORFOLK VA	LOUISVILLE KY
WILMINGTON NC	MEMPHIS TENN
CHARLESTON SC	DESMOINES IOWA
SAVANNAH GA	STLOUIS MO
TAMPA FLORIDA	OMAHA NEB
MOBILE ALA	DENVER COL
NEWORLEANS LA	SALTLAKECITY UTAH
PORTARTHUR TEXAS	SANFRANCISCO CAL
GALVESTON TEXAS	
SANANTONIO TEXAS	
ELPASO TEXAS	
SANDIEGO CAL	
NOGALES ARIZONA	
LOSANGELES CAL	

UNITED STATES

CUSTOMS

VIA GOVERNMENT FACILITIES

1939 SEP 11 PM 6/53

September 11, 1939

Collectors of Customs
(See attached list)

Due to Public Notice by Secretary Agriculture accordance Item 501
Schedule II, Cuban Trade Agreement TD 47232, sugars and other products
covered thereby and entered for consumption or withdrawn from warehouse
for consumption on or after 11 PM Eastern Standard Time September 11,
1939, subject to duty at twenty per centum less than rates promulgated
in TD 47040 STOP No change in import compensating tax

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Treasury Department
TELEGRAPH OFFICE

BOOK OF FOUR COPIES

K E 73 TRSY

K WASHN SEPT 11 1939

DUE TO PUBLIC NOTICE BY SECRETARY AGRICULTURE ACCORDANCE ITEM
501 SCHEDULE ~~IX~~ II CUBAN TRADE AGREEMENT TD 47232 SUGARS
AND OTHER PRODUCTS COVERED THEREBY AND ENTERED FOR CONSUMPTION
OR WITHDRAWN FROM WAREHOUSE FOR CONSUMPTION ON OR AFTER 11 PM
EASTERN STANDARD TIME SEPTEMBER 11 1939 SUBJECT TO DUTY AT
TWENTY PER CENTUM LESS THAN RATES PROMULGATED IN TD 47040 STOP
NO CHANGE IN IMPORT COMPENSATING TAX

JOHNSON

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Treasury Department

SHEET TWO BOOK OF FOUR COPIES

K NO 13 TO GOV TRSY COLLECTOR OF CUSTOMS PHILADELPHIA PA

K NO 14 TO GOV TRSY JUNEAU ALASKA

K NO 15 TO GOV TRSY COLLECTOR OF CUSTOMS HONOLULU TH

K NO 16 TO GOV TRSY COLLECTOR OF CUSTOMS SANJUAN PR

705P

GROUP MEETING

December 7, 1939.
9:30 a.m.

Present: Mr. Haas
Mr. Cochran
Mr. Gaston
Mr. Foley
Mr. Harris
Mr. Bell
Mr. Cotton
Mr. Duffield
Mr. White
Mr. Thompson
Mr. Viner
Mr. Riefler
Mr. Graves
Mrs Klotz

H.M.Jr: (To Mr. Harris) Come up here and see if you can't change your luck.

Harris: I like to be near the door.

H.M.Jr: I just wanted to explain something. I had Mr. Currie come to the house this morning at 8:30 because I was upset yesterday about a message from him on this question of depreciation, and so forth and so on. It is perfectly true that he did go to Mr. Foley during my absence and then Foley went to Mr. Hanes, but I didn't know that Mr. Currie was still continuing his interest in this question of depreciation. Nobody told me he was continuing to work and therefore I had no way of knowing that he was continuing to work, so these meetings that I have had with the Navy - well now, he wasn't invited in and various meetings were held where he wasn't invited in, and normally if the President has somebody who wants to interest himself in something for the President, he starts in on this level here, in this room, and doesn't go down and work with people like Kades, and so forth. I asked Currie, in the future whether I was here or whether I wasn't here, if there was something that he wanted for the President, to come and see me, and that goes for anybody in the White House, so that we have had this at various times over the last six years.

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We once had a renowned Justice of the Supreme Court who wanted something on taxes and he was referred to me and got that straightened out.

It looked as though the President was trying to check up on the Treasury. He never has and he never will as long as I am here. As I told Currie, it looked as though he had to check up on what I am doing and when that day comes, I pack up, because I take too many chances and too many risks for him that I can't have any doubt that he has any doubts. So Currie and I understand each other. He couldn't understand yesterday why he wasn't asked to attend the meetings here. I didn't even know he was still working on that. I don't think you (Foley) knew, if I had asked you, that Kades had given him this memorandum.

- Foley: Yes, I did. He asked me if it was all right. I looked at it and it was just factual. Here it is right here. I would like to have you look at it.
- H.M.Jr: No, I don't want to look at it now.
- Foley: There is no recommendation or suggestion, and what this does is support the position which you took yesterday.
- H.M.Jr: When I went into this meeting, I didn't know about the memorandum and I was doing it just on a common sense basis. I might also get the benefit of what Mr. Currie has.
- Foley: This was a memo from Kades to me, summarizing the background.
- H.M.Jr: But I was doing it, so to speak....
- Foley: Ad lib? You did all right.
- H.M.Jr: You know, when you read the notes for the first time....
- Foley: By ear?

- 3 -

H.M.Jr: Yes. But I didn't even have any notes. But anyway, Currie and I had an hour. We understand each other, but just for the benefit of anybody, if there are any requests for material for the President, I am going to continue the policy I have always had. I want it to clear my desk just the way we do it when the President wants something and I go over myself. Other departments do it by other methods, but - the reason I have had to stick to this was because the Treasury was in such a mess when the President put me in here and I think one of the reasons he did put me in was just because it was in such a mess, but I am just taking the time because I was upset yesterday on account - I thought that Currie was going to tell us how to run Internal Revenue, but that was not correct. I think it is easier for everybody. He is coming over at 3:30. If he wants to do something, let him go to work on Mr. Edison.

White: Is there anything left of him?

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

White: I heard you did a very marvelous job yesterday.

H.M.Jr: I should think the next time he comes he wouldn't bring in the manufacturer with him.

Can you (Harris) tell me, so that I can tell the boys at 10:30, why I send telegrams one way, and so forth.

Harris: On that sugar business?

H.M.Jr: Yes.

Harris: Well, there is a memo here on the whole subject. Actually what happened was that the Department of Agriculture slipped up on a little technicality on publication of notice and no matter what had happened to our telegrams, even though they had gone out that quick, it wouldn't have changed the thing because the Department of Agriculture failed to give public notice on this change of duty, but Thompson can tell you about the telegrams. It doesn't look as serious from our standpoint as it first did.

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- Thompson: Yes, the telegram is marked "Government Facilities," but actually it went Western Union. The head of the telegraph office is the one man who has the responsibility of determining how they get there and he found that Government Facilities weren't available at 8:52 when this telegram was received, so he checked with Western Union and Western Union sent it. It went as a night letter. They didn't get it promptly for that reason.
- Gaston: The change of duties was decided on at the moment when the Department of Agriculture filed in the Federal Register.
- Harris: That still doesn't get over the point that on a telegram of that importance, I or someone should have marked that "Urgent", or it should have gone as a straight one, not as a night letter.
- White: Basil, was that important? It didn't matter when they received the telegram because even if they received the telegram the next day the payments would have been made at the time when the Department of Agriculture made public their letter. Therefore, I would not regard this telegram as being of any unusual importance. It didn't matter when it was received.
- Gaston: We didn't know that they had filed the formal notice.
- White: I am merely indicating that this is not a telegram upon which much depended.
- Harris: But it might have depended, Harry. If the Agriculture Department had done their end properly, then....
- White: No, Mr. Harris, I am sorry to disagree with you, but I think that had they done their end properly then it wouldn't have mattered when this telegram was received because the law states that from that moment on....
- Harris: That is right, this was really only for the information....

- White: A sort of confirmation.
- H.M.Jr: In view of the fact that the blame is on the other department, what I would like you (Duffield) to do is - will you tell the boys if they ask me that you will be very glad to explain it to them after the meeting?
- Duffield: I explained it to them once yesterday, Mr. Secretary. They may not have any questions about it.
- H.M.Jr: And I would just like you to call up Bob Allen and tell him that if he had taken the trouble to check, he would have found that the telegram had not gone Coast Guard but it went Western Union.
- White: Don't you think a letter ought to go from the Department of Agriculture to him? I think that thing ought to be corrected in the same column and I think it ought to originate not from here but from the Department of Agriculture.
- H.M.Jr: Why don't I have a little talk with Bob Allen, as long as we have caught him off base? Find out whether Pearson or Allen wrote that story and say I would like to see him.
- Harris: I think you have only partially caught him off base, because what he wrote was incorrect but you are going to transfer the blame from this department to Agriculture.
- H.M.Jr: Wouldn't that be fun?
- White: Well, it isn't so much an error, but unless that thing is corrected in the same column, one gets the impression that the Secretary is penny-wise and pound-foolish. They were trying to drive it and I think that ought to be corrected and I think the Department of Agriculture has the responsibility of setting them straight on it.
- Harris: My only thought was, would it be nicer if the Secretary of Agriculture did it of his own accord?
- White: Yes.

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H.M.Jr: One or the other of the boys will be available at 4:00 o'clock.

Duffield: All right.

White: Does the Secretary of Agriculture know about it?

H.M.Jr: Who is going to do Social Security this morning?

Bell: I am.

Klotz: They are already here, aren't they?

Bell: Yes.

H.M.Jr: Do I receive them?

Bell: You are chairman.

H.M.Jr: Can I do my homework out loud while they are here, like Frances Perkins does?

Bell: I will give you the background and ask you some policy questions, and so forth, and I think George Haas ought to be here on the annual report.

H.M.Jr: Are you going to sit in on this on my knee?

Bell: Have you got a button some place?

Gaston: May I suggest that you did your homework six months ago. This was your scheme.

H.M.Jr: Everybody is so nice to me today. Either they think I have a guilty conscience or somebody else.

White: Just giving you back some of the apples we got.

H.M.Jr: I knew they were good, but I didn't know they were that good.

Allen and Pearson this afternoon if they want to come over. I would just like to tell them. We do that about once a year. It doesn't do much good.

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Duffield: Sure.

H.M.Jr: Here is an interesting telegram. Does anybody see why I shouldn't give this out at 10:30? This is from the Hollandale Rotary Club, Hollandale, Mississippi.

"Friends of Finland in Hollandale Rotary Club wish to contribute a dollar each to retirement of the Finnish War debt to the United States and would like to recommend that other cities, bodies and friends do likewise immediately, that we might give Finland a Christmas present of her debt paid in full." Twenty-six dollars.

Bell: What are you going to do with it?

H.M.Jr: What am I going to do with it? How many of us are there here?

Bell: Are you going to accept it?

H.M.Jr: I will accept it and turn it over to the Finnish Minister.

Bell: I think that is what you have to do. The Department of State had a number of those checks for small amounts, one dollar or ten dollars.

H.M.Jr: Any reason I shouldn't give that publicity?

Bell: I see no reason why you shouldn't say that you have gotten it but what you are going to do with it, I think, might be....

H.M.Jr: Well, I will endorse it to the Finnish Minister.

Bell: Either that or the State Department for disposition. I don't know whether anything was said on the radio last night, but a radio commentator was standing at Livesey's desk when his secretary came in and said, "Here is another one of those Finnish debts."

Gaston: Two of them called me up, Al Warner and Fulton Lewis and they were both embarrassed because they were getting telegrams and contributions to be turned over to the Secretary of the Treasury. I told

- 8 -

them they had better find out some way to stop that; that he wouldn't have authority to receive them; that they should go to the Finns.

Bell: I see no objection to your saying that you have it and either turn it over to the Finnish Minister or the Department of State for disposition.

H.M.Jr: Tell me which now.

White: I should think the Department of State.

Bell: I should think it would be handled through the Department of State.

White: You had no direct dealings of that kind. Moreover, it seems to me if the funds were sent to you for a specific purpose, there might be some question of your turning over the check to the Finnish Minister's office.

Viner: Who will endorse the check?

H.M.Jr: I will endorse it. We won't do it at 10:30, Ed. Take it and talk to Hackworth about it, will you?

Foley: Yes.

H.M.Jr: Talk to Hackworth about it.

Foley: I think that is the only thing to do unless you send it back.

Bell: We have some gifts under wills to pay off debts, one for France and one for Yugoslavia, I think, but we took those up through the State and the legations here before we applied them.

White: How much was that one on France?

Bell: That was a thousand dollars.

Gaston: That is different.

H.M.Jr: Would you like to handle this, rather than Ed?

Bell: Oh no, that is all right.

- 9 -

- H.M.Jr: I think you had better take it up with Hackworth.
- Bell: Well, as a gift for that Government, it is somewhat along the same line.
- H.M.Jr: What are you going to do with Nellie Tayloe Ross' boy friend up in New York?
- Graves: Mr. Foley and I think that situation is under control. The office there is going to keep us posted as to....
- H.M.Jr: I don't agree with you. I am sorry, Harold. I don't want to wait on them. I am going to direct you now to communicate with Nellie Tayloe Ross and tell her to inform us that that man is conducting his office properly and if he is conducting himself properly. I am not going to wait for a Grand Jury investigation.
- Graves: As we say in that memorandum, there is grave doubt about his qualifications for his job.
- H.M.Jr: Then it is up to you and Nellie Tayloe Ross to see whether Mrs. Ross can defend the man publicly as to how he conducts his office, and if she can't, he goes out. I am not going to wait for any Grand Jury to force me to do this thing.
- Graves: I have the opinion that it would not do for us to take any action while that proceeding is going on.
- H.M.Jr: I don't agree with you. The fellow hasn't been conducting his office properly. It was brought to my attention yesterday. I said to Nellie Tayloe Ross, "If this man isn't conducting his office right, suspend him."
- Graves: There is no impropriety in his conduct of that office, as near as we can tell.
- H.M.Jr: If he only goes there one hour a day, it is a bad example to all the rest of them.
- Foley: What Harold means, I think, Mr. Secretary, is that if you had the transcript before the Grand Jury

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that they are going to send to you through the Department of Justice, then you will have something on which to base your action, whereas now you merely have information given us in confidence by the United States Attorney who has been in the Grand Jury room, and he has no right to give us that information as to what that man is saying, because that is secret.

H.M.Jr: Do you need the minutes of the Grand Jury to know whether the fellow is or isn't conducting his office right?

Foley: That is something else.

Graves: That, of course, is true. We don't need - but I was just questioning the advisability of taking any administrative action with such a long standing situation. It has gone on since the first of January, 1935, just because we happened to have discovered in a more or less confidential way some facts about this man.

H.M.Jr: I will direct you to direct Mrs. Ross to start an independent investigation on our own.

Graves: I will be glad to.

H.M.Jr: A Treasury investigation as to how this man is conducting his office. How about that?

Graves: That is all right.

H.M.Jr: O. K., Ed?

Foley: Yes.

H.M.Jr: We are talking about Solomon, the Director of the Mint. He isn't living up to his name.

Gaston: Not enough wives?

White: The evidence is to the contrary.

H.M.Jr: Herbert is good.

Who else has got anything not too serious?

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Klotz: Do you want to accept this memorandum?

H.M.Jr: No, let Mr. Graves write it over again.

Harris: Last night at 11:00 o'clock there was a piece on the radio somewhat on the lines of what you and I were talking in. Mr. Joe Kennedy had just arrived from Europe and he had in his hip pocket a complete memorandum on the solution of the American Merchant Marine problem which he had already cleared with the British and had their full approval and he was going to bring it here today. Quite interesting.

H.M.Jr: Yes, you forecast that.

Bell: Too hot for cables.

White: Is it all right with the British, Basil?

Harris: They would have to look at it first.

H.M.Jr: Did you fix up Mr. Traphagen?

Cotton: Yes.

H.M.Jr: Everybody else happy?

Graves: I have one thing. There is a matter I would like to bring to your attention. We had our hearings yesterday on the budget estimate for Procurement. I think I should sometime during this week have a few minutes to tell you about that.

H.M.Jr: Tomorrow. Manana. What is that song, "Down Mexico Way"?

White: Do you want to take a few minutes to go over the Russian export situation which we now have the figures for?

H.M.Jr: Yes, manana.

(To Mrs. Klotz) I want to give Harold half an hour and Mr. White, tomorrow sometime. Give Harold 15 minutes and White fifteen minutes.

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Harris: That Tijuana business just amounted to nothing.

H.M.Jr: I haven't done my mail this week.

Harris: Only seven out of the twenty-five papers even bothered to carry it out there.

H.M.Jr: There is a fellow coming in, one of your agents, at around 10:00 o'clock, somebody from Mexico who asked to see me. Do you know about that?

Harris: If it is the man I know, he is a terrific talker.

H.M.Jr: Tell you what let's do. Supposing you, if you don't mind - I said I would see him at 10:00. Supposing you bring him in about 10:20. What is the gentleman's name?

Klotz: Sutcliffe.

H.M.Jr: Would you bring him in this morning about 10:20 and then I will talk to him, as long as he is one of your boys.

Harris: He will be all set to tell you his life history.

H.M.Jr: Well, I will tell him mine.

December 7, 1939.
10:18 a.m.

H.M.Jr: Hello

Operator: Secretary Wallace. Go ahead.
Secy.
Wallace: Hello.

H.M.Jr: Hello Henry.

W: Got your note Henry.

H.M.Jr: All right.

W: Be delighted to meet with you.

H.M.Jr: Uhhuh. Well, any time you say that's convenient to both of us.

W: Wonder how it'd be to meet just after Cabinet meeting tomorrow.

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

W: We'll just sit down there right after Cabinet meeting and find out what we're up against.

H.M.Jr: The only disadvantage of that is if the subject comes up in Cabinet and the President asks whether we got together we'll both have to say no. I was trying to avoid that.

W: Yes. Well, we'd have a pretty good alibi, say that, frankly - you see I just got back last night and it's an awfully tight schedule for me today.

H.M.Jr: Well that's all right.

W: And I have to go up before the Appropriations Committee tomorrow morning and it makes it sort of tight.

H.M.Jr: Well we can try it then, and if that isn't time enough we can do it some other time.

W: Or we could -

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

W: I tell you I could get over - get over early tomorrow in the Cabinet room say about one-thirty.

H.M.Jr: But I can't do it -

W: How's that?

H.M.Jr: I can't do it then.

W: Could -

H.M.Jr: It's all right, I -

W: I could - we could make - no I guess it's just about the only time we could do it would be at one-thirty after Cabinet tomorrow because we've got this - just booked up solid.

H.M.Jr: Well, let's do it after Cabinet then.

W: Yes.

H.M.Jr: O.K.

W: Fine.

H.M.Jr: Goodbye.



TREASURY DEPARTMENT

WASHINGTON

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December 7, 1939

no!
Wm J.

The Secretary of the Treasury presents his compliments to the Honorable the Secretary of State and requests that there be kindly transmitted to the American Ambassador at Paris the attached memorandum of suggestions, which it is hoped may constructively assist in the continuing development of a system of reporting to provide information directly pertinent to the Stabilization Fund of the Treasury Department, without involving undue effort or excessive expense.

Enclosure:
Memorandum



TREASURY DEPARTMENT

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WASHINGTON

December 7, 1939

MEMORANDUM

The following suggestions should guide the responsible officers of the American Embassy at Paris in the preparation of cablegrams for account of the Stabilization Funds:

1. Do not cable weekly statements of central banks of Belgium, Switzerland or the Netherlands. These are all on the news ticker. As for Bank of France statements, mention only any outstanding items which warrant analysis and would not be clear without your explanation.
2. Do not report on national finances, banking, taxes and trade of any country other than France unless these subjects have some direct bearing on France.
3. Exchange rates and trends of security markets are received here by commercial news service earlier than your cablegrams. Submit only observations upon or interpretation of significant movements.
4. With exchange control in force, day to day information on rates and operations becomes less important. Follow all developments carefully and report fully by mail decrees, regulations, et cetera, on foreign exchange, but cable only important facts immediately of interest as policy matters or affecting American interests directly.
5. Do not cable decrees or regulations of only local importance.
6. Editorials and public speeches on financial subjects could be more helpfully dealt with in occasional comprehensive written reports.
7. In non-confidential cablegrams endeavor to omit reference to confidential cablegrams. Make only such reference to earlier messages as may be absolutely necessary to a clear understanding.
8. The American Consul General at Basel is covering the B.I.S.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

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DATE December 7, 1939

CONFIDENTIAL

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was dull today with the sterling turnover slightly smaller than that of yesterday. Sterling opened at 3.91-3/8 and on some commercial demand, including rubber concerns, it advanced to 3.92. Around noon, the Chase Bank reported that it had received instructions from abroad to sell £200,000. At that time, one of the Japanese banks was also a seller and the rate declined to 3.91-1/2. During the afternoon the rate improved in a quiet market to 3.92. Toward the close some selling reappeared and the final quotation was 3.91-1/2.

Sales of spot sterling by the four reporting banks totaled £710,000, from the following sources:

By commercial concerns..... £ 135,000
By foreign banks (Europe, South America and Far East)..... £ 575,000
Total... £ 710,000

Purchases of spot sterling amounted to £341,000, as indicated below:

By commercial concerns..... £ 249,000
By foreign banks (Europe and South America)..... £ 92,000
Total... £ 341,000

As shown by the turnover figures, sales of sterling exceeded purchases by £369,000. All of this amount may have been taken into the positions of the reporting banks, or part could have been retained by them for their own positions and the balance sold to non-reporting banks. It is also possible that the full amount was sold to non-reporting banks.

Cotton bills totaling £134,000 were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£ 128,000 by the Guaranty Trust Company
£ 6,000 by the National City Bank
£ 134,000 Total

The other important currencies closed as follows:

French francs	•0221-7/8
Guilders	•5309
Swiss francs	•2243
Belgas	•1651
Canadian dollars	12-7/8% discount

The Federal Reserve Bank received a cable from the B.I.S. requesting it to obtain a license to transfer approximately \$130,000 in gold from its Account No. 1 to its Account No. 2. Account No. 1 is gold owned by the Lithuanian Bank and Account No. 2 is the B.I.S.'s own gold. Permission to make this transfer was granted to the Federal Reserve Bank of New York. This transaction is probably a sale of gold by the Central Bank of Lithuania to the B.I.S.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$1,500,000	from the Netherlands Bank
1,125,000	from the Bank of Mexico
700,000	from the Bank of the Republic, Colombia
300,000	from the National Bank of Belgium
<u>\$3,625,000</u>	Total

The Federal Reserve Bank of New York informed us of a shipment of gold valued at \$1,925,000, by the Netherlands Bank, Amsterdam, consigned to the Federal Reserve Bank of New York, to be placed under earmark for account of the Netherlands Bank.

The State Department forwarded to us a cable sent by the American Legation at Ottawa stating that the Royal Bank of Canada shipped approximately \$77,000 in gold to the Royal Bank of Canada, New York. This shipment will be sold to the U. S. Army Office at New York.

The spot and forward prices for silver in London were fixed at 23-5/16d and 23-1/2d, respectively, a decline of 1/8d for each delivery. The U. S. equivalent of the spot price was 41.02¢ and the forward price 40.57¢. Both Handy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢, respectively.

We made five purchases of silver totaling 275,000 ounces in New York. All of this silver was new production for forward delivery.

J. M. K.

CONFIDENTIAL

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 7, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Butterworth telephoned me from New York at 12:20 noon today. He was in the Federal Reserve Bank and was going to lunch there.

Butterworth spent most of yesterday meeting Ambassador Kennedy arriving on the Pan American Clipper. After consultation with the Ambassador, who preferred that Butterworth remain in New York until Sunday, Butterworth had decided to take the plane leaving that day rather than tomorrow, Friday. Mr. Kennedy is seeing Mr. Whigham this afternoon. Butterworth has had no word that he is to be present. I told him that if he did attend the meeting we would like to have his confidential report thereon.

Today Butterworth talked with Messrs. Whigham and Gifford, who showed him some of their cablegrams exchanged with London. Butterworth gained the impression that these two men are getting "fed up" with the delay and with the difficulty in getting London to make up its mind in regard to the security proposition. Butterworth recalled that before Whigham and Gifford left London several possibilities for handling the securities had been discussed. On shipboard these two men had eliminated all possibilities except that of vesting. The messages shown Butterworth would indicate that the London officials have themselves not yet discarded the other alternatives, such as that of optional vesting.

Butterworth said that Messrs. Whigham and Gifford were entirely pleased with the reception they have received on the American side, but are disappointed with their lack of instructions from London, and are perhaps a little annoyed that the matter is still unsettled when Ambassador Kennedy is arriving.

I told Butterworth that Knoke could bring him to date on the Bank of England account situation, which I briefly summarized.

Butterworth wanted to know when he should speak with the Secretary, since the latter had asked that Butterworth communicate with him before leaving New York. I am passing this word on to the Secretary, who could reach him at the Federal Bank during the lunch hour, or at the Waldorf Astoria later. If Butterworth does not hear from the Secretary today, he will call back before leaving New York.

I let Butterworth know that we would approve his trip to northern England to be made at a convenient time.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 7, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

I talked by telephone with Mr. Knoke at 10:15 this forenoon. He stated that a cablegram had now been received from the Bank of England asking the Federal Reserve Bank of New York to open the special account which has been under discussion, and designating four individuals who can sign against this account. These gentlemen are Messrs. Purvis, Greenley, Rae, and Osborne. Any two must sign. The check forms are being printed, and the account is being opened as of today. The Bank of England has authorized the initial deposit, by instructing a transfer of \$5,000,000 from its "G" Account with the Federal.

Mr. Knoke promised to send me a copy of the telegraphic instruction under reference. I asked Mr. Knoke if there was any authorization therein to make the details of the account available confidentially to the Secretary. He replied negatively, and recalled that in the meeting held in the Secretary's office on October 19, which was attended by Messrs. Harrison and Knoke among others, it had been agreed that the Secretary would take care of the negotiating for this privilege. I told Knoke that this proviso had been included in the general plan which we had submitted to Pinsent and had also cabled to our Ambassador in London. Furthermore, on October 30 Pinsent had delivered to us a message from the Chancellor of the Exchequer, the opening paragraph whereof reads:

"The Chancellor of the Exchequer wishes to convey to Mr. Morgenthau his personal thanks for his advice and assistance, and to say that he readily accepts the proposal to open a special account with the Federal Reserve Bank of New York, and agrees that Mr. Morgenthau should personally and confidentially have access to it."

When Governor Harrison was in the Treasury last Saturday and I endeavored to impress upon him the urgency of getting the account matter settled, the question of access to the account by the Secretary arose. I read the above quoted note from the British to Governor Harrison. I told him to go ahead with his bank to bank arrangements and that if the set-up as received by him from the Bank of England did not contain the special proviso, the Treasury would take the matter up either through Mr. Pinsent or through our Embassy in London. I suggest, therefore, that when Pinsent comes back to Washington from New York he be shown a copy of the instruction from the Bank of England to the Federal Reserve Bank, and be asked to see that the necessary instruction is sent from London to complete the arrangement.

In answer to an inquiry made by the British as to how payments on outstanding contracts should be handled, Knoke told me that he planned to reply that these items should now be transferred to the new account. I agreed.

Knoke also told me that the Bank of France man, Rousseau, who had accompanied the French gold via Canada, called at the Federal Reserve Bank and reported that he was instructed by telephone yesterday by the Bank of France to remain in this country to sign the account of the Bank of France to be opened with the Federal Reserve Bank of New York. It appears, therefore, that the French arrangement should shortly be consummated, although the Federal has not yet received any definite instructions from the Bank of France. This may be cleared up further when Leroy-Beaulieu visits us Friday morning.

J. M. F.

December 7, 1939

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Dear Henry:

I am writing you at the suggestion
of the President.

When you have a few minutes to spare,
I would be pleased to hear from you about
your tax program.

Yours sincerely,

Honorable Henry A. Wallace,
Secretary of Agriculture.

September 7, 1939

Dear Henry:

I am writing you at the suggestion
of the President.

When you have a few minutes to spare,
I would be pleased to hear from you about
your tax program.

Yours sincerely,

Honorable Henry A. Wallace,
Secretary of Agriculture.

December 7, 1939

224

Dear Henry:

I am writing you at the suggestion
of the President.

When you have a few minutes to spare,
I would be pleased to hear from you about
your tax program.

Yours sincerely,

Honorable Henry A. Wallace,
Secretary of Agriculture.

2211 THIRTIETH STREET
WASHINGTON, D. C.

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Dear Henry
I am writing
you, ~~to~~ at the suggestion
of the Pres. When you
have a few minutes
to spare I would
be pleased to ^{hear} ~~learn~~
from you about
your tax ~~to~~ program

December 8, 1939.
9:40 a.m.

H.M.Jr: Hello
Captain
Collins: Good morning Mr. Secretary.

H.M.Jr: Hello Captain.

C: Just two minutes ago, sir, I had a phone from Colonel Hynes in the War Department concerning the letter.

H.M.Jr: Yes.

C: And he said that Mr. Johnson and Mr. Edison, I believe, were going to see the President about it, because Mr. Johnson had a Board set up which has been functioning perfectly for about three months.

H.M.Jr: Yes.

C: And he said presumably the President didn't know about that or he wouldn't have ordered the Board that we had last night. So they're going to have a talk with him today.

H.M.Jr: Well, the - Johnson and Edison saw me last night at the meeting.

C: Yes, sir.

H.M.Jr: And they went right after me and they said they thought that this letter was most likely one of these half-baked crazy ideas of McReynolds and Lauchlin Currie. Hello -

C: Yes, sir, listening.

H.M.Jr: So I said, "Well if you don't like it why don't you tell the White House". So he said, "Well do you know that we have a Board, so forth and so on". So I said, "Look, gentlemen, if you don't like this thing, see just go to the White House, don't bother me with it".

C: Yes, sir.

H.M.Jr: Well, Johnson said, "We've got to come over and see you". "Well", I said, "You can see me any time you want to, I still say if you don't like it, the place to go to is the White House".

Operator: Operator.

H.M.Jr: Yes. Hello.

O: He hung up, or else he was cut off.

H.M.Jr: Make up your mind.

O: Well I don't know, he's not there. I'll get him back for you. Just a minute. Go ahead.

C: Hello.

H.M.Jr: Hello.

C: We were cut off Mr. Secretary.

H.M.Jr: Yes. What I'm just saying is, just keep calm, the President had a month to think this thing over, he did it and so forth and so on, and we know that besides wanting to see the French Mission there's another thing in it. There's something the matter with your wire Collins.

O: Yes, sir, I'll have to have that checked.

H.M.Jr: Yes. Well anyway the fact that the information is all very amusing and -

C: Well that's just my attitude entirely. It's most amusing. I told you last night -

H.M.Jr: Johnson is fit to be tied.

C: Yes.

H.M.Jr: Oh he's just fit to be tied. So -

C: I hope his blood pressure goes to two hundred and sixty.

H.M.Jr: Is that enough?

C: Well that'll stop him anyhow.

H.M.Jr: O.K. All right.

C: All right, sir. Thank you very much sir.

H.M.Jr: All right.

C: Goodbye.

THE GERMAN PETROLEUM SITUATION

12/8/39

12-8-39

229

CONCLUSION

Can Germany Obtain Enough Oil to Carry on the War?^{1/}

Conclusions

In the preparation of this report, we have utilized surveys prepared by Army and Navy Departments, as well as material obtained from interviews with several leading oil men. Data in many pertinent publications has also been examined. Nevertheless, the absence of definite factual material on many points has made it necessary to essay evaluations concerning several of the most important factors. Such information as we have -- which we believe to be at least as comprehensive as is available to any Department of the Government, or any private corporation -- warrants the following tentative conclusions:

1. Germany has not achieved self-sufficiency in oil. Her domestic production provided about one-third of her recent peace-time consumption, and the highest increased domestic production during the first 2 years of war will not provide more than half of her minimum estimated war-time requirements.
2. Germany will have enough oil within her own borders -- from stocks already on hand and from her current production -- to meet her requirements for from 9 to 15 months of real warfare with the present belligerents, excluding oil which she will be able to import.
3. During the second year of real warfare, Germany will be dependent upon the importation of large quantities of oil; she will have to obtain from 20 to 50 million barrels during the next 24 months to be able to continue effective warfare during the second year. These figures are based on an estimated war-time consumption of not more than 80 million barrels, which is 20 million barrels greater than the lowest estimate by reputable authorities and 250 million barrels smaller than the highest estimate which is quoted by reputable authorities.
4. The only sources from which Germany can obtain imports of that magnitude during this war are Rumania and Russia. In the years immediately prior to the war, Rumania has furnished only about 10 percent of Germany's imports, and Russia less than 1 percent.

^{1/} This report was prepared chiefly by F. Taylor Ostrander, Jr., Division of Monetary Research, Treasury Department.

5. Can Rumania and Russia supply Germany with the oil she needs? Rumania will have a large enough surplus of oil production over consumption during the next 2 years to supply Germany's war needs for the second year of war, if most of that surplus goes to Germany. (Rumania's export surplus is now between 30 and 35 million barrels, and after a year or so, it might be increased to as high as 45 million barrels.)

Russia exported only about 7 million barrels in 1938, and is shipping less this year; if this entire amount went to Germany, it would not be of great assistance. Russia's oil production is about 5 times greater than Rumania's, however. If consumption is held in check, the elimination of her tremendous oil wastage or an increase in her production might result in an increase of Russian exports to at least 40 million barrels, the total of her exports in 1932.

6. Will Germany be able to obtain the Rumanian and Russian export surpluses?

Not more than one quarter of Rumania's exports have been going to Germany. Because of Allied ownership and control of a large part of the Rumanian oil fields, and because of the profitable opportunities for alternative sale of her oil for free exchange, Germany can obtain the entire Rumanian export surplus only if the Rumanian Government, either through fear or inclination, actively cooperates on the German side. Even with Rumania's active cooperation, Germany cannot obtain Rumanian oil unless Russia continues at least her present degree of passive cooperation. Because of geographic and military strategic factors, Russia can, if she wishes, prevent Germany from obtaining Rumanian oil. After the first year of warfare, Germany's war machine will be absolutely dependent, for its oil supplies, upon Russia's foreign policy. Germany's foreign policy and plan of campaign, even during the first year, must take cognizance of that somber fact.

Even if she obtains the political cooperation of these two countries, tremendous obstacles of payment and transportation must be overcome before Germany can obtain the required amounts of oil from them. Yet these obstacles are not insurmountable.

7. Time is in Germany's favor -- so long as Russian cooperation continues. The longer war continues, the more likely it will be that Germany can increase her own domestic production significantly, develop adequate means of transportation to the East, bring about an increase in Rumanian and Russian oil export surpluses, and, if Rumania is

- 3 -

recalcitrant, complete a successful invasion of that country -- of course, providing Russia permits it, which is unlikely.

8. These conclusions will have to be modified if Germany's war-time requirements for oil are considerably higher than 60 million barrels a year, if her stocks are significantly less than 30 million barrels, or if her refineries are destroyed by aerial bombardment; in these cases, her dependence upon imports would arrive earlier and be correspondingly greater. If Germany's stocks are significantly larger than 60 million barrels, her dependence upon imports will be correspondingly delayed.
9. The effort to prevent her war-time oil consumption from rising will considerably handicap Germany's full and free use of her highly-mechanized war machine; she will have to make constant adaptation of her military strategy to her available oil supplies.
10. Germany should have sufficient aviation gasoline for intensive aerial warfare, but the performance of her planes will not be up to the standard set by the Allied planes. The new 100-octane aviation gasoline, which improves airplane performance so markedly, will not be as freely available for use by Germany's air force as it will be for use by the Allied air forces.