January 5, 1940
10:50 a.m.

Present:

Mr. Leroy-Beaulieu
Mr. Cochran

HM, Jr.: Why don't they run you over on the boat?

Mr. Leroy-Beaulieu: Boats have been delayed. The
airplane is the safest way to travel nowadays.

HM, Jr.: I wanted to see you for this reason. On
the message I gave you to carry to Ambassador Bullitt, the
whole picture has changed.

Mr. L-B: I know that; yes.

HM, Jr.: So I really have no message right now.

Mr. L-B: I see.

HM, Jr.: Because I don't know just -- I am not even
up to date. I don't know what's happened in the last
day or two. You most likely know more than I do.

Mr. L-B: I saw Mr. Pleven this morning before
coming here and they have a meeting just now with Capt.
Collins and they have very definite ideas about what they
want.

HM, Jr.: Maybe you will tell me what is the situation.

Mr. L-B: Yes.

HM, Jr.: I would like to know what is the situation.

Mr. L-B: I think they have a meeting this morning
with Capt. Collins and that's with the representatives of
the two big engine manufacturers, Curtiss and United Air-
craft, Pratt Whitney and General Motors. Our people are
telling them what we want is, if possible, 10,000 Curtiss-
Wright engines and 7,000 Pratt-Whitney United Aircraft and 2,000 General Motors.

HM Jr: I see.

Mr. L-B: Of course they will receive the reaction.

HM Jr: So there is really no need . . .

Mr. L-B: No. They very clearly now know what they want.

HM Jr: So this message I gave you, don't deliver. It's no longer true.

Mr. L-B: Of course. Mr. Secretary, I was very glad that yesterday the Federal Reserve account was quite settled and I was sorry that there was delay, but you know with the New Year's holiday -- I see traditions are very strong even in war time -- so the Minister of Finance was in one spot and the Government in another and I think they wanted it formally and in writing before sending the message to Governor Harrison.

HM Jr: I see. I have nothing. When do they think you are going?

Mr. L-B: On Tuesday or Wednesday.

There was one question I was asking Mr. Cordray. I think perhaps I can ask it of you, although I don't think you will be able to give me a definite answer now. That is about the question of selling our securities and that is only in a personal way I thought of handling that. I have not been entrusted at all to tell you about it. It is purely a personal idea.

I was wondering, because I think my people may have it in mind over there, although I don't know that they would like to sell securities once they will have been vested in the French Treasury, to sell them to French banks, private banks, and tell the banks, 'Well, now, you go on and sell them' because then they would have francs immediately and they would have dollar exchange as it comes in and perhaps they would think that by doing so the banks having the real property and having both the securities would be able to sell them slower and in a better way,
because they might use them as collateral here to get a loan on them from the American banks.

Mr. Jr.: I am not going to comment on that. But I have an alternative suggestion to make.

Mr. L-E: You have one?

Mr. Jr.: Yes; which I had hoped that either you or the English would try out.

Mr. L-E: Yes.

Mr. Jr.: And that is this. Let's say, for instance, you know the English have given us a list of the securities they have. We have never had the French list.

Mr. L-E: We have not yet made our inventory.

Mr. Jr.: Let's say they have 10,000 shares of the X.Y.Z. Company. Well, what I had thought would be possible is this: that the French Government designate somebody here and he has the 10,000 shares of the X.Y.Z. Company and he goes to the Company, the American company, and says 'We have 10,000 shares of your company. We have been to see the S.E.C. and we have explained the thing to the S.E.C. and it will be entirely agreeable and will be accepted by the S.E.C. if your Company would give us, let's say the average price for the last three months, or something like that. You see?'

Mr. L-E: Uhn.

Mr. Jr.: I would like to see you try it. I have talked it over. You see, our American companies, most of them, the good ones, have large bank balances.

Mr. L-E: Yes.

Mr. Jr.: And I think that you would find in two out of three cases — I may be wrong — that these American companies would buy their own securities at once.

Mr. L-E: I see.

Mr. Jr.: You then get the money and I think you would
get a better price than if you would do it the way you are suggesting.

Mr. L-E: I see.

Ed. Jr.: Furthermore, I think it will be better for our market. You see?

Mr. L-E: Yes.

Ed. Jr.: Because it would immediately take the whole block off, and what I tried to get over to the English, unsuccessfully -- I did get it over here; they were in complete accord -- they were going to wait so many stocks and announce it. The English. One of the things the matter with our market is nobody knows how many British and French securities are going to be dumped on the market tomorrow.

Mr. L-E: Yes, I know that.

Ed. Jr.: But, for instance, if they announce in fairly rapid succession that all Pennsylvania Railroad had been taken over, all New York Central had been bought up, all United States Steel, gradually those stocks would be strong and would go ahead and would give strength to our market so we could absorb more of your securities. The English gentlemen who were here agreed with me. They consulted with J. P. Morgan and they agreed, and it's this cloud that is hanging over our market that is holding the market down. It's in the interest of the French and the English to have us have a strong market, but the way you are handling it I think -- I mean the way the English are handling it -- is just plain stupid; just plain stupid. So I am suggesting -- you have been at it so long -- it could be tried out in 30 days and in 30 days or less you would have the answer, and what they ought to do, the English and French, using the New York Central as an example, the English and French ought to combine. We own so many thousand shares of New York Central, so many thousand shares of Pennsylvania Railroad and so many thousand shares of United States Steel and go to the company, with the sanction and approval of the S.E.C., and ask them will they buy it or form a group
to buy it and I think they will do it and you immediately get cash. You get dollars and deposit it right here.

The other thing, the way you are suggesting, I don't think it would be as good if my way would work, because they would still be peddling the stuff out but the French and English would be able to announce 'We have just consummated an arrangement with the New York Central or the Pennsylvania Railroad. They have bought all our stock.' Immediately it freezes that stock -- at least it freezes it from this cloud.

Mr. L-B: But it goes up after we have sold it.

Mr. Jr: True, but so does the rest of the stock.

Mr. L-B: I see. You mean only by announcing we have sold New York Central or Bethlehem Steel, the stock which we still have rises, also creates a boom market.

Mr. Jr: For instance, you have 500 or 600. What you are interested in -- the average of the stock does not go down. It goes up. So you can liquidate. You may lose on New York Central or Pennsylvania Railroad and United States Steel, but if the average continues to go up you can liquidate rapidly and may be able to liquidate the whole group in a few months.

Mr. L-B: What is the British answer?

Mr. Jr: They recommended it be done, that they vest 82 or 63 shares of different stocks, and their home office turned them down.

Mr. L-B: Mr. Whigham approved it?

Mr. Jr: Mr. Whigham and Mr. Gifford approved it and they consulted with J. P. Morgan and J. P. Morgan, advising them, also approved it. That occurred on this side and their home office turned it down. I told them, with a very bad taste in my mouth because I stopped everything. Mr. Frank, Chairman of the S.E.C., came over here, Walter Stewart, we all just jumped into it
and devoted a week to it and then recommended that they go ahead and vest and it would be good. What happened? Nothing! It left a very bad taste in my mouth.

Mr. L-B: Yes. I remember you told me that.

Mr. Jr.: But the latest idea, I think if the English and French together would say, 'Well, let's see if we can't sell all of this stock and all of this' and do it en bloc.

Mr. L-B: Yes.

Mr. Jr.: Now, the idea may not be any good, but it's certainly worth trying, and what you need in this country is a good market.

Mr. L-B: Surely. No doubt about it.

Mr. Jr.: And we would have a good market, I think, today if it wasn't for these securities hanging over the market.

Mr. L-B: I don't know what the British idea is. I was wondering once whether what they had in mind was not that perhaps they have better wait to start their selling until they had placed their orders, because they might have thought by placing their orders the market would go up.

Mr. Jr.: I can't explain to you what happened, but I am very glad you are going back and you can tell them just how I feel. I think the thing has been handled very badly so far.

Mr. L-B: Yes. I see.

Mr. Jr.: From your standpoint and from ours, and I am not saying that it can be a success, but the only way you can find out is to try it.

Mr. L-B: Yes. I see.

Mr. Jr.: And you will get your dollars in this country, deposited here, if my way worked.
Mr. L-B: Well, I will make the suggestion.

HM, Jr.: At least it's in the interest of the two Governments, isn't it?

Mr. L-B: Oh, I think we are both interested in having a boom market.

HM, Jr.: What can be lost by trying it? Their treasuries are full. We would love to buy our stocks. These companies are just filthy with money and a man comes along and offers them a block of their own stock, they are going to buy it. They are their own best customers. They will pay you more than anybody else.

The only way to find out if I am right or wrong is to try it. You don't even have to do anything publicly. Take ten companies, but have it so that it would be a percent of the stock that the English and French own in this particular company.

Mr. L-B: I think the British have far more than we have so they may think they want to be independent of the French.

HM, Jr.: Personally, I would like to see something like this started one way or the other, and when I speak like this I am speaking for the President and myself, not just for myself.
Treasury Department
Division of Monetary Research

Jan. 5, 1940

To: Secretary Morgenthau

Appended are the latest drafts of By-laws, Convention and Charter of the proposed Inter-American Bank.

The Inter-American Subcommittee will have completed its task by tomorrow. I have indicated clearly to Mr. Berle and to the Subcommittee that these drafts represent the work of the technical men cooperating with the Subcommittee and in no way commit the Treasury Department, or other participating departments, or the Government, to approval of any of the details.

MR. WHITE
FOURTH
PRELIMINARY MEMORANDUM
DRAFT OF BY-LAWS OF THE
INTER-AMERICAN BANK

Pan American Union
Washington, D. C.
February 1, 1942.

**Draft of By-laws of a Bank to be called the Inter-American Bank.**

1. **Location**

The principal office of the Bank shall be in the United States of America and branches may be established everywhere in the Western Hemisphere.

2. **Capital Structure and Participation**

A. The capital stock shall be expressed in United States dollars (hereafter referred to as dollars) and shall be authorized in the amount of $1,000,000,000 consisting of 1,000 shares having a par value of $1,000,000 each, to be paid for in gold or in dollars. Fifty percent of the issue price of each share shall be paid up at the time of subscription. The balance may be called up at such times as are fixed by the discretion of the Board of Directors of the Bank. No further notice shall be given of any such calls. Upon the dissolution of the Bank the shares of stock shall be sold at par. Thereafter the issue price of shares shall be fixed by a four-fifths majority vote of the Board of Directors.

B. Stock shall be available for subscription only to the Governments of the American Republics. For a Government to participate in the Bank it must subscribe for a minimum number of shares determined in proportion to the dollar value of the total foreign trade of each of the American Republics during the year 1939, as follows:

- **Group A:**
  - Up to 25 million dollars:
    - Costa Rica, Brazil, El Salvador, Haiti, Honduras, Nicaragua and Paraguay................................. 5 shares

- **Group B:**
  - Over 25 million dollars and up to 50 million dollars:
    - Dominican Republic, Guatemala and Panama................................. 10 shares

- **Group C:**
  - Over 50 million dollars and up to 75 million dollars:
    - Bolivia................................................................. 15 shares

- **Group D:**
  - Over 75 million dollars and up to 100 million dollars:
    - Uruguay............................................................... 20 shares

- **Group E:**
  - Over 100 million dollars and up to 150 million dollars:
    - Peru........................................................................... 25 shares

- **Group F:**
  - Over 150 million dollars and up to 250 million dollars:
    - Chile, Colombia and Cuba............................................. 30 shares

Regraded Unclassified
**Group A:** Over 250 million dollars and up to 500 million dollars:
Mexico and Venezuela .................................. 35 shares

**Group B:** Over 500 million dollars:
Argentina, Brazil and United States ............... 50 shares

Each participating country may subscribe for stock in addition to the minimum. Where the demand for such additional stock exceeds the amount available for issue by the Bank, such demand will be met on an equal basis from such available shares.

C. Eligible governments which do not participate in the Bank at the time of its formation shall be permitted to participate in the Bank upon subscribing for the minimum number of shares, subscribing to the Convention relating to the Bank and after complying with any other terms and conditions designated in regulations of the Bank.

D. Liability of a shareholder on its shares shall be limited to the issue price of the shares held by it.

E. (1) The shares of stock held by such government shall be security for all the obligations of such government to the Bank, and shall not be otherwise pledged or encumbered by the shareholder.

(2) If a government fails to pay any call on a share on the day appointed for the payment thereof, the Bank may, after giving reasonable notice to such government, reserve in itself title to such share, paying to the defaulting shareholder an amount equal to the fair value of such share as determined by the Bank less the amount unpaid on such share and less any amount which the Bank considers necessary as additional collateral for any outstanding obligation or liability of such government to the Bank. Failure to pay any call on a share on the day appointed for the payment thereof shall deprive the defaulting government of its right to exercise a vote in respect of such share so long as such government remains in default, provided that the failure of a government to pay any call on the minimum number of shares required to be subscribed by it shall deprive such government of the right to exercise any voting power during the period of default.

(3) If a government defaults on any other obligation to the Bank, the Bank may, after taking reasonable action to realize on any other collateral given to secure such obligation and after giving reasonable notice to such government, reserve in itself title to an appropriate number of shares belonging to such government and apply to the defaulted obligation the fair value of such shares, as determined by the Bank, less the amount unpaid on such shares. Any amount remaining, less any amount which the Bank considers necessary as additional collateral for any outstanding obligation or liability of such government to the Bank, shall be paid by the Bank to the defaulting government.
(4) If, after a government has had a reasonable opportunity to present its position to the Board, the Board by a four-fifths majority vote finds that such government has violated any provision of the Convention relating to the Bank such government shall cease to participate in the Bank and the Bank may vest in itself title to an appropriate number of shares belonging to such government and apply the fair value of such shares as determined by the Bank, less the amount unpaid on such shares, to compensate the Bank for such damages as it determines it suffered by reason of such violation. Any amount remaining, less any amount which the Bank considers necessary as additional collateral for any outstanding loan or liability of such government to the Bank shall be paid by the Bank to such government.

F. Shares of stock may be transferred only to the Bank or to other participating governments at a price to be agreed upon between the parties and upon the approval of the transfer by a four-fifths majority vote of the Board of Directors. If, as a result of the transfer of shares of stock or reacquisition by the Bank, or for any other reason, a government holds less than the minimum amount of shares of stock required of it, such government shall cease to participate in the Bank, but its obligations and duties with respect to the Bank shall continue.

G. The capital structure of the Bank, including the number and par value of shares, may be increased or decreased by a four-fifths majority vote of the Board of Directors, except that a unanimous vote shall be required to increase or decrease the minimum holdings of participating governments.

3. Management

A. The administration of the Bank shall be vested in the Board of Directors composed of one director and one alternate appointed by each participating government. Each government shall appoint its director and alternate in a manner to be determined by it. Such director shall serve for a period of two years. An alternate shall serve for such period as shall be determined by his government. The Bank shall pay such reasonable expenses as are incurred by the directors and alternates in attending any meetings of the Board or any committee of the Bank. The voting power held by a participating government shall be exercised by the director and in his absence by the alternate or a nominee or proxy. The alternate may otherwise participate in the activities of the Board.

B. Meetings of the Board of Directors shall be held not less than four times a year and may be held either at the principal or any branch office or at any other city in a participating country as the Board of Directors may determine. The President may call special or extraordinary meetings of the Board of Directors at any time.

C. The Board shall select a president of the Bank who will be the chief of the operating staff of the Bank and who also shall be ex-officio chairman of the Board of Directors, and one or more vice presidents, who shall be ex-officio vice chairman of the Board of Directors. The president and vice presidents of the Bank shall hold office for two
years and shall be eligible for reelection.

D. The departmental organization of the Bank shall be determined by the Board. The heads of departments and other similar officers shall be appointed by the Board on the recommendation of the president. The remainder of the staff shall be appointed by the president.

E. The Board may also appoint from among its members an executive committee to perform such duties and to act in such manner as may be determined by a four-fifths majority vote of the Board of Directors. The Board may, by a four-fifths majority vote, delegate to designated officers and committees of the Bank power and authority to make loans and extend credit in such small amounts as may be fixed by the Board of Directors. The Board may at any meeting, by a four-fifths majority vote, authorize the President or a committee of the Bank to exercise any of the Board's powers or authority until the next meeting of the Board.

F. The Board may appoint advisory committees chosen wholly or partially from persons not regularly employed by the Bank.

G. The Board, before the end of the first year of its existence, shall by regulations prescribe the reserves to be established and maintained against demand deposits and other obligations of the Bank and shall prescribe a limitation on the amount of intermediate and long-term assets in relation to capital and surplus; and such regulations shall not be amended, modified or revoked except by a four-fifths majority vote of the Board.

H. Before the Bank finally approves an intermediate or long-term loan or extension of credit, a full written report on the merits of the proposed transaction shall be prepared by a committee of experts which may include persons other than officers and employees of the Bank.

I. Except as herein otherwise provided, decisions of the Board shall be by simple majority of the votes cast. In the case of equality of votes, the chairman shall have a deciding vote. A Governor may vote at meetings either through the director or alternate or through a nominee or proxy in such manner as the Board may provide by regulations. When deemed by the president to be in the best interests of the Bank, decisions of the Board of Directors may be made without a meeting by polling the directors on specific questions submitted to them in such manner as the Board of Directors shall by regulations provide. The Board of Directors shall by regulations determine what constitutes a quorum for a meeting.

J. Approval by four-fifths majority vote of the Board of Directors shall be required for the making and granting of intermediate and long-term loans and credits, including the assumption of the obligation of a guarantor on intermediate and long-term loans and credits; the acquisition and sale of intermediate and long-term obligations and securities; the discounting or rediscounting of intermediate or long-term paper; engaging in bullion and foreign exchange transactions and otherwise incurring

Regarded Unclassified
foreign exchange risks; the issuance of debentures and other securities
and obligations of the Bank; the determination of the functions and duties
of the officers and principal employees of the Bank and the executive
and other committees; the calling up of the balances due on stock; the
creation of branches of the Bank, and for amending the By-laws, except
that Article 5A of these By-laws may not be amended. Four-fifths majority
vote of the Board of Directors, as used in these By-laws, means four-fifths
of the votes cast.

4. Accounts and Profits.
A. The financial year of the Bank shall end on December 31.
B. The books and accounts of the Bank shall be expressed in terms
of the United States dollar.
C. The Bank shall publish an annual report and at least once a
month a statement of account in such form as the Board may prescribe. The
Board shall cause to be prepared a profit and loss account and a balance
sheet for each financial year. All published documents shall be printed
in the official languages of the participating governments. The Board shall
designate a committee of Directors to arrange for examination, at least
case a year, of the books and accounts of the Bank by competent experts
to be selected by the committee.
D. The yearly net profits of the Bank shall be applied as follows:

1. Not less than 25 o/o of such net profits shall be paid into
surplus until the surplus is equal in amount to the par value
of the authorized capital stock of the Bank.

2. The remainder of such net profits shall be applied towards
the payment of a dividend of not more than 5 o/o per annum
on the paid up amount of the stock of the Bank: Provided,
however, that dividends shall be noncumulative and no dividends
shall be paid so long as the capital of the Bank is impaired.

3. The balance of such profits shall be paid into surplus and
be designated a dividend reserve.
E. The Board of Directors by a four-fifths majority vote may declare
dividends out of the dividend reserve in surplus of the Bank,
provided, however, that total dividends in any one year shall not
be more than 3 o/o of the paid-up amount of the stock.
F. The Bank may not be liquidated except by a four-fifths majority
vote of the Board of Directors. Upon liquidation of the Bank and after
discharge of all the liabilities of the Bank, the assets remaining shall
be divided among the shareholders.
6. The shares shall carry equal rights to participate in the
profits of the Bank and in any distributions of assets upon liquidation
of the Bank.

5. Purposes and Powers

A. The Bank is created by the American States to carry out the
following purposes:

(1) Facilitate the prudent investment of funds and stimulate the
full productive use of capital.

(2) Assist in stabilizing the currencies of American States;
encourage the maintenance of adequate monetary reserves; promote the use
and distribution of gold and silver; and facilitate monetary equilibrium.

(3) Function as a clearing house for, and in other ways facilitate,
the transfer of international payments.

(4) Increase international trade, travel and exchange of services
in the Western Hemisphere.

(5) Promote the development of industry, public utilities, mining,
agriculture, commerce and finance in the Western Hemisphere.

(6) Foster cooperative action among the American States in the
fields of agriculture, industry, public utilities, mining, marketing,
commerce, transportation, and related economic and financial matters.

(7) Encourage and promote research in the technology of agriculture,
industry, public utilities, mining and commerce.

(8) Engage in research and contribute expert advice on problems
of public finance, exchange, banking and money as they relate specifically
to the problems of American States.

(9) Promote publication of data and information relating to the
purposes of the Bank.

B. In order to carry out the foregoing purposes, the Bank shall have
specific power to:

(1) Make short-term, intermediate and long-term loans in any
currency and in gold or silver to participating governments and to fiscal
agencies, central banks, political subdivisions and nations thereof
on such security as the Bank may require; provided that the government
of the borrower shall guarantee any such loan to such fiscal agency,
central bank, political subdivision and nation.

(2) Buy, sell and deal in the obligations and securities of
participating governments and of fiscal agencies, central banks, political
subdivisions and nationals thereof provided such obligations and securities
are guaranteed by participating governments; and provided, further, that the
Bank shall not buy obligations and securities that are in default in whole or
in part as to principal or interest.

(3) Guarantee in whole or in part loans made from any source to participat-
ing governments and to fiscal agencies, central banks, political subdivisions
and nationals thereof, provided that the loans are guaranteed by the government
of the borrower.

(4) Act as a clearing house of funds, balances, checks, drafts, and
acceptances.

(5) Buy, sell, hold and deal in precious metals, currencies and foreign
exchange for its own account and for the account of others; and guarantee the
availability and the rates of exchange of the currencies of participating
governments.

(6) Issue or sell debentures and other securities and obligations of the
Bank to obtain assets for the purposes of the Bank, provided that such debentures
and other securities and obligations shall not be issued or sold by the Bank
in the territory of any participating government which makes a timely objection.
The Bank may also borrow in any other manner from participating governments and
political subdivisions and banking institutions thereof unless the government
of the lender makes a timely objection.

(7) Accept demand and time deposits and custody accounts from governments
and fiscal agencies, central banks, political subdivisions and nationals thereof
unless the government makes a timely objection. Provided that the Bank shall pay
interest, if any, only on deposits of governments, fiscal agencies and political
subdivisions thereof and central banks.

(8) Discount or rediscount bills, acceptances and other short-term obliga-
tions and instruments of credit of participating governments and fiscal agencies,
central banks, political subdivisions and nationals thereof, provided that such
paper, as is not the direct obligation of such government, is guaranteed by the
government.

(9) Rediscount with any government, fiscal agency or banking institution
bills, acceptances and instruments of credit taken from the Banks' portfolio; pro-
vided, however, that the Bank may not rediscount with a fiscal agency or a bank-
ing institution in the territory of a participating government which makes a
timely objection.

(10) Open and maintain time and demand deposits and custody accounts with
governments and banking institutions and arrange with governments and banking in-
stitutions to act as agent or correspondent for the Bank.

(11) Act as agent or correspondent for any participating government and fis-
cal agencies, central banks and political subdivisions thereof, unless the
government makes a timely objection.

(12) Engage in financial and economic studies and publish reports thereof.
(13) Buy, sell, negotiate and deal in cable transfers, accept bills and drafts drawn upon it, and issue letters of credit; all subject to the limitations herein provided with respect to loans, extensions of credit, discounting and rediscounting of paper, and dealing in obligations and securities.

(14) Exercise incidental powers necessary and proper to carry out the powers expressly authorized herein.

C. The Board of Directors shall determine the nature of the operations which may be undertaken by the Bank in the exercise of its powers and in order to effectuate its purposes. The operations of the Bank shall at all times be conducted in conformity with the laws of the territory where the Bank is acting and, so far as possible, be conducted in conformity with the policies of the participating government directly concerned.

6. Definitions

A. As used herein "national" shall include any person who is domiciled in or a citizen or resident of a participating country, and shall also include any individual, partnership, association, corporation or other entity organized under the laws of a participating country or engaged in business in the territory of a participating country.

B. As used herein "short-term" shall mean a period less than one year; "intermediate" shall mean a period from one to five years; and "long-term" shall mean a period longer than five years.

C. As used herein "political subdivision" shall include territories, dependencies, possessions, and also states, departments, provinces, counties, municipalities, districts, and other governmental organizations and authorities.

D. Within the meaning of these By-Laws a government shall be deemed "to make a timely objection" only if such government, after its director is notified of proposed action by the Bank and within the reasonable period of time fixed by the Board, presents to the Board through such government's director, nominee or proxy its objection to such action. The Bank shall notify the directors representing the governments concerned when action is contemplated by the Bank under Article 5 B (6), (7), (9) and (11) of these By-Laws.
SECOND

INTERIM DRAFT OF CONSTITUTION

RELATING TO THE INTER-AMERICAN BANK

Pan American Union
Washington, D.C.
February 3, 1940

Second

Preliminary draft of Convention

Relating to the Inter-American Bank

The contracting Governments of the American Republics

CONSIDERING

First, that economic and financial cooperation among the American Republics is an essential factor in fostering the welfare of and maintaining solidarity among these Republics;

Second, that such cooperation would be greatly facilitated by the establishment of an Inter-American Bank;

have resolved to conclude a convention on the following lines:

First Article

The contracting parties agree to the creation of an institution to be known as the Inter-American Bank to carry out the purposes and to have the powers stated in the proposed charter and by-laws annexed hereto. The contracting parties agree that the bank shall be accorded the powers, rights and privileges under their laws to engage in all types of activities, transactions and operations envisaged in such charter and by-laws and further agree to enact any legislation and to take any other action necessary to accord such powers, rights and privileges to the bank. The United States of America also agrees to grant to the bank a charter substantially in accordance with the proposed charter annexed hereto. Each contracting party hereby agrees to subscribe for the minimum number of shares required of each government for participation in the Bank as provided in the annexed by-laws.

Second Article

The contracting parties grant within their respective territories, the following rights, privileges, immunities and exemptions, in time of peace or war and in any period of emergency or otherwise; and agree to enact any legislation and to take any other action necessary to effectuate such rights, privileges, immunities and exemptions.

A. The bank, its assets, obligations to it and its real and personal property of whatsoever nature, including any property deposited with it on a custodial basis or otherwise, shall, wheresoever located and by wheresoever held, be exempt and immune from

(i) requisition, seizure, attachment, execution, confiscation, expropriation;
(ii) prohibitions, restrictions, regulations and controls of withdrawal, transfer, or export; and
(iii) currency, monetary and exchange and debt regulation and control

by the contracting party or any political subdivisions thereof, whether or not compensation is offered.
5. Where restrictions, regulations, prohibitions or controls exist or are imposed in the territory of the contracting party in regard to the conversion or exchange of its currency into foreign currencies, the contracting party shall grant, sell, or otherwise make available to the Bank, foreign exchange, including precious metals, desired by the Bank for such local currency held by the Bank on a basis, as to amount and rate as well as to all other factors, no less favorable than the most favored treatment extended by the contracting party to any government or political subdivision thereof, or to any individual, partnership, association, corporation or other organization or entity of whatsoever nature.

6. The Bank, its assets and real and personal property of whatsoever nature, including, without limitation of the foregoing, its charter, capital, reserves, surplus, income and profits, its activities, transactions and operations, and shares of stock and all notes, debentures, bonds and other such obligations issued by the Bank including dividends and interest thereon, by whomsoever held, and any remuneration or salaries paid by the Bank, and also any individual, partnership, corporation, association or other entity in its dealings and relations with the Bank in any of the foregoing matters and in its acquisitions, holdings, transfers or dispositions of any such shares and obligations of the Bank, shall be exempt and immune from all taxation by a contracting party or a political subdivision thereof now or hereafter imposed and by whatever name described, including, without limitation of the foregoing, excises and imposts; provided, however, that the foregoing shall not be construed as preventing the imposition by a contracting party or any political subdivision thereof of non-discriminatory taxes upon nationals of such contracting party with respect to any of the foregoing. As used herein, "national" shall include any person who is domiciled in or a citizen or resident of a contracting party; and shall also include any individual, partnership, corporation or other entity organized under the laws of the contracting party or engaged in business in the territory of the contracting party otherwise than exclusively with the Bank; but "national" shall not include the Bank. Notwithstanding any of the foregoing neither a contracting party nor any political subdivision thereof shall impose any tax on or measured by salaries or remunerations of any other contracting party. Nothing in this paragraph shall make the Bank or any other party referred to above exempt or immune from any customs duties or other taxes, fees, charges, or exactions imposed on or in connection with the importation or exportation of any article; provided, however, that the exportation of intangible property, including, without limitation of the foregoing, stocks, credit instruments, securities and evidences of indebtedness, and coin, currency and precious metals, owned or held by the Bank or deposited with it on a custody basis or otherwise, and by whomsoever held, shall be exempt and immune from any customs duties or other taxes, fees, charges or exactions.

7. The Bank, its assets, obligations to it and its real and personal property of whatsoever nature, including any property deposited with it on a custody basis or otherwise, shall, wheresoever located and by whomsoever held, be subject to attachment or execution by a private party only after final judgment or decree in a suit, action, or proceeding in a court of a contracting party or political subdivision thereof.

8. The stock and the notes, debentures, bonds and other obligations issued by the Bank shall be exempt and immune from prohibitions, restrictions, regulations or controls, now or hereafter imposed by a contracting party or any political subdivision thereof, with respect to the registration, issue and sale of stock and securities and other obligations.
As used in this Article "political subdivision" shall include territories, dependencies, possessions, and also states, departments, provinces, counties, municipalities, districts, and other governmental organizations and authorities.

Third Article

The present convention shall be ratified and effectuated by the contracting parties in conformity with their respective constitutional methods. The original instrument shall be deposited in the Pan American Union, in Washington, which shall transmit authentic certified copies to the contracting parties for the purpose of ratification. The instrument of ratification shall also be deposited in the archives of the Pan American Union, which shall notify the signatory governments of such deposit. This notification shall be considered as an exchange of ratifications.

Fourth Article

The present convention shall come into force and effect as between such ratifying parties if and when ratifications of this convention shall have been deposited with the Pan American Union by at least five of the contracting parties which have agreed to subscribe for at least a total of 110 shares of stock of the bank. Each deposit of ratification shall be accompanied by the designation of a person to serve on the Organizing Committee of the bank, which Committee shall meet forthwith after the convention shall have come into force and effect as provided herein and proceed with all arrangements necessary for prompt organization of the bank.

Fifth Article

A contracting party shall remain bound under this convention for one year after such party ceases to participate in the bank and ceases to be in any way obligated to the bank.

Sixth Article

This convention shall remain open to the adherence or accession of American Republics which are not now signatories. The corresponding instruments shall be deposited in the archives of the Pan American Union which shall communicate them to the other contracting parties.
February 2, 1940.

(Such Charter would be granted by an Act of the Congress of the United States of America)

Sec. 1. There is hereby created a body corporate with the name “Inter-American Bank” (hereinafter referred to as "the Bank") which shall have the powers hereinafter granted.

Sec. 2. The structure, operations and activities of the Bank are defined and governed by the By-laws, which are annexed to the Convention of _______ relating to the Bank. The Bank shall have all incidental powers necessary and proper to carry out the powers now or hereafter expressly authorized herein or in the By-laws of the Bank.

Sec. 3. The Bank may begin operations when at least a total of 110 shares of stock of the Bank are subscribed for by at least five governments which have also deposited their notifications of the aforementioned Convention with the Pan American Union.

Sec. 4. The Bank shall have succession for a period of twenty years from the date of enactment hereof or until such time as it shall be lawfully dissolved. The United States agrees not to repeal or amend this charter except upon the request of the Bank pursuant to a four-fifths majority vote of the Board of Directors of the Bank.

Sec. 5. Amendments to the By-laws of the Bank, consistent with the aforementioned Convention, this Charter, and the purposes of the Bank as now set out in Article 5 A of the By-laws of the Bank, may be adopted by the Bank pursuant to a four-fifths majority vote of the Board of Directors, provided, however, that article 5 A of the By-laws may not be amended.

Sec. 6. The Bank shall have power to adopt, alter and use a corporate seal; to make contracts; and to acquire, own, hold, use or dispose of such real and personal property as may be necessary for the transaction of its business.

Sec. 7. The Bank may sue and be sued, complain and defend, in any court of competent jurisdiction. Any civil suit at law or at equity, brought within the United States, its territories and possessions, to which the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and the Bank in any such suit may, at any time before the trial thereof, remove such suit into the district court of the United States for the proper district by following the procedure for the removal of cases otherwise provided by law.
January 5, 1940

(Immediately following the visit of Mr. Leroy-Beaulieu)

Present:

Dr. Feis
Mr. Cotton

HJR: I had Leroy-Beaulieu in here. It will just take a minute to tell you. This thing of vesting these securities -- you see, that's what we were talking about -- and because he's going back, I told him that I thought they had made a great mistake -- the English had -- in not doing this thing that we had worked out, but he said they were thinking of selling their securities to the French banks and then let the French banks borrow. I said I did not want to pass on that, but I said I wish you would make this suggestion: that there is no question our market is being held down because people don't know how much securities are going to come on the market and if the English and French would take the stocks of ten well-known companies -- say they own so many shares of United States Steel, and then go to U. S. Steel and say we own 10,000 or 100,000 or U.S. Steel. Does the United States Steel want to buy it? -- they are your best customers. All of these companies are filthy with money and don't know what to do with it. I said the S.E.C. would make it easy to do it and they would pay you more than anybody else. I said try it with ten companies. Well, he was very much interested and is taking it back, but I did not pass on his message.

I have had this in mind for sometime. But the other thing I got over to him -- not this time, another time -- that we would like to know when we get through with this show, are we going to own all the gold or not. I said it very gently. He has that and I took great pains when he was here, ten days ago, to go over that whole business with him. His answer was it would be hard to change the opinion of 45,000,000 Frenchmen; that 45,000,000 Frenchmen could not be wrong.
CABLE

FROM: Treasury Attaché Nicholson
Shanghai, China

DATE: January 5, 1939

For the Secretary of the Treasury

Current situation Shanghai for week ending December 30, 1938. Exchange business during week was not large, rates were steady on rather larger than usual Hong Kong business owing to belief that Hong Kong dollar was to be devalued. There was good deal change over business and January overbought position estimated at U. S. $10,000,000. Stock exchange was active despite holidays and price level advanced substantially. During week a Japanese bank lent $10,000,000 local call money at 6%. In November compared with October, number of ships entered and cleared at Chinese ports down 72% while tonnage was down 2%, compared with November, 1935. Number of ships was down 4% while tonnage was down 18%.
January 5, 1940

Congressman Doughton was here and he said that he felt that asking a lot of questions of people to make suggestions about taxes was a mistake and it would come back on his Committee; that he had never been consulted by Hanes and that he felt that this writing out for a lot of suggestions had been a mistake.

I said, "Well, I sent this report up to you." He said, "I know you did and I am going to read it when I get to it." I said, "What are you going to do with it?" and he said, "Well, I will turn it over to the Committee."

And he kept repeating, two or three times, that he thought it was a mistake ever to have done it.

I gave him a copy of the letter from Hanes to Congressman Boehne, but did not give him the personal letter which went along with it as I thought it was unnecessary.

(Above was dictated while Mr. Sullivan was present.)
MEMORANDUM FOR THE SECRETARY

There is attached hereto statement of contracts made by the French and British for airplanes, engines, propellers and other equipment, showing the status of these contracts as of January 2, 1940.

The British contracts are included on the last page of the attached statement.

Director of Procurement
<table>
<thead>
<tr>
<th>Contractor</th>
<th>Description</th>
<th>Ordered</th>
<th>Delivered</th>
<th>Complete Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>North American Aviation, Inc.</td>
<td>Basic Trainer</td>
<td>250</td>
<td>0</td>
<td>Aug., 1940</td>
</tr>
<tr>
<td>Douglas Aircraft Company, Inc.</td>
<td>2 engine Bomber DB-7</td>
<td>170</td>
<td>0</td>
<td>Aug. 31, 1940</td>
</tr>
<tr>
<td>Curtiss-Wright Corporation</td>
<td>1 engine Pursuit 75-A</td>
<td>200</td>
<td>200</td>
<td>Dec. 31, 1939</td>
</tr>
<tr>
<td>Glenn L. Martin Company</td>
<td>2 engine Bomber 167-F</td>
<td>215</td>
<td>120</td>
<td>Jan. 31, 1940</td>
</tr>
<tr>
<td>Douglas Aircraft Company, Inc.</td>
<td>2 engine Bomber DB-7</td>
<td>100</td>
<td>27</td>
<td>Nov. 15, 1939</td>
</tr>
<tr>
<td>North American Aviation, Inc.</td>
<td>Basic Trainer</td>
<td>250</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>United Aircraft Corporation</td>
<td>Dive Bomber V-156</td>
<td>40</td>
<td>40</td>
<td>Nov. 30, 1939</td>
</tr>
<tr>
<td>Chance-Vought Division</td>
<td>1 engine Pursuit 75-A</td>
<td>550</td>
<td>0</td>
<td>Dec., 1940</td>
</tr>
<tr>
<td>Curtiss-Wright Corporation</td>
<td>1 engine Pursuit P-40</td>
<td>100</td>
<td>0</td>
<td>Dec., 1940</td>
</tr>
<tr>
<td>Glenn L. Martin Company</td>
<td>2 engine Bomber 167-F</td>
<td>150</td>
<td>0</td>
<td>June, 1940</td>
</tr>
<tr>
<td>Douglas Aircraft Company, Inc.</td>
<td>2 engine Bomber DB-7A</td>
<td>100</td>
<td>0</td>
<td>Dec. 31, 1940</td>
</tr>
<tr>
<td>2800 Wright</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Curtiss-Wright Corporation</td>
<td>1 engine Pursuit 75-A</td>
<td>20</td>
<td>0</td>
<td>Jan. 30, 1940</td>
</tr>
<tr>
<td>Consolidated Aircraft Corp.</td>
<td>2 engine Boats 28/31F</td>
<td>50</td>
<td>0</td>
<td>May 31, 1941</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,005</td>
<td>617</td>
<td></td>
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</table>

Jan 2, 1940 (F)
<table>
<thead>
<tr>
<th>Contractor</th>
<th>Description</th>
<th>Ordered</th>
<th>Delivered</th>
<th>Complete Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtiss-Wright Corporation</td>
<td>R2600 Twin Row Cyclone</td>
<td>1,440</td>
<td>0</td>
<td>Dec. 31, 1940</td>
</tr>
<tr>
<td>United Aircraft Corporation Pratt &amp; Whitney Division</td>
<td>P&amp;W 1830 Twin Wasp</td>
<td>1,821</td>
<td>1,349</td>
<td>July, 1940</td>
</tr>
<tr>
<td>United Aircraft Corporation Pratt &amp; Whitney Division</td>
<td>P&amp;W 1535 Twin Wasp, Jr.</td>
<td>1,100</td>
<td>8</td>
<td>Dec., 1940</td>
</tr>
<tr>
<td>Curtiss-Wright Corporation</td>
<td>GW GR2600 Twin Cyclone</td>
<td>42</td>
<td>14</td>
<td>Mar. 15, 1940</td>
</tr>
<tr>
<td>United Aircraft Corporation Pratt &amp; Whitney Division</td>
<td>P&amp;W 1880 Twin Wasp, 2 speed</td>
<td>2,250</td>
<td>0</td>
<td>Dec., 1940</td>
</tr>
<tr>
<td>United Aircraft Corporation Pratt &amp; Whitney Division</td>
<td>P&amp;W 1830 Twin Wasp, 3-35-40</td>
<td>6</td>
<td>0</td>
<td>Dec. 31, 1940</td>
</tr>
<tr>
<td>Curtiss-Wright Corporation</td>
<td>GR1820 Cyclone</td>
<td>455</td>
<td>0</td>
<td>Dec. 31, 1940</td>
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<tr>
<td>General Motors Corporation</td>
<td>Allison V-17-10-1710-C-15</td>
<td>115</td>
<td>0</td>
<td>Oct. 31, 1940</td>
</tr>
<tr>
<td>Curtiss-Wright Corporation</td>
<td>GR-1820 Cyclone</td>
<td>20</td>
<td>0</td>
<td>Dec. 31, 1940</td>
</tr>
<tr>
<td>Curtiss-Wright Corporation</td>
<td>CW R-975-3 Single Row Whirlwind, 450 HP for North American Basic Trainers</td>
<td>115</td>
<td>20</td>
<td>May 31, 1940</td>
</tr>
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Jan. 2, 1940 (F)
<table>
<thead>
<tr>
<th>Contractor</th>
<th>Description</th>
<th>Ordered</th>
<th>Delivered</th>
<th>Complete Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Aircraft Corporation</td>
<td>Standard</td>
<td>350</td>
<td>0</td>
<td>April 30, 1940</td>
</tr>
<tr>
<td>Hamilton Division</td>
<td>Standard</td>
<td>200</td>
<td>0</td>
<td>Jan. 51, 1940</td>
</tr>
<tr>
<td></td>
<td>Hydromatic</td>
<td>36</td>
<td>0</td>
<td>May 51, 1940</td>
</tr>
<tr>
<td></td>
<td>Standard</td>
<td>450</td>
<td>0</td>
<td>July 51, 1940</td>
</tr>
<tr>
<td></td>
<td>Standard</td>
<td>600</td>
<td>0</td>
<td>Dec. 51, 1940</td>
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<td></td>
<td>Standard</td>
<td>900</td>
<td>0</td>
<td>Dec. 51, 1940</td>
</tr>
<tr>
<td></td>
<td>Hydromatic</td>
<td>905</td>
<td>0</td>
<td>Dec. 51, 1940</td>
</tr>
<tr>
<td>Curtiss-Wright Corporation</td>
<td>Standard</td>
<td>1210</td>
<td>0</td>
<td>Dec. 51, 1940</td>
</tr>
<tr>
<td></td>
<td>Hydromatic</td>
<td>800</td>
<td>0</td>
<td>Feb. 28, 1941</td>
</tr>
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</table>

Jan. 8, 1940 (F)
### OTHER EQUIPMENT

<table>
<thead>
<tr>
<th>Contractor</th>
<th>Description</th>
<th>Ordered</th>
<th>Delivered</th>
<th>Complete Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Electric</td>
<td>Searchlight Equipment</td>
<td>128</td>
<td>0</td>
<td>Nov., 1940</td>
</tr>
<tr>
<td></td>
<td>Trucks (General Motors)</td>
<td>640</td>
<td>0</td>
<td>Nov., 1940</td>
</tr>
<tr>
<td></td>
<td>Portable Power Plants</td>
<td>304</td>
<td>0</td>
<td>Nov., 1940</td>
</tr>
<tr>
<td>Sperry Gyroscope Company</td>
<td>Searchlight Equipment</td>
<td>256</td>
<td>11</td>
<td>Nov., 1940</td>
</tr>
<tr>
<td></td>
<td>Sound Locators</td>
<td>256</td>
<td>11</td>
<td>Nov., 1940</td>
</tr>
<tr>
<td>Fairchild Aeronautical Camera Corporation</td>
<td>Cameras</td>
<td>115</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Colt Patent Firearms Company</td>
<td>Machine Guns</td>
<td>400</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>Air Associates, Inc.</td>
<td>Flares</td>
<td>5000</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>J-V-W Corporation</td>
<td>Link Trainers</td>
<td>20</td>
<td>0</td>
<td>May 31, 1940</td>
</tr>
<tr>
<td>Sperry Gyroscope Company</td>
<td>Gyro-Horizons</td>
<td>400</td>
<td>0</td>
<td>May 31, 1940</td>
</tr>
<tr>
<td></td>
<td>Directional Gyros</td>
<td>400</td>
<td>0</td>
<td>May 31, 1940</td>
</tr>
<tr>
<td>Pioneer Instrument Company</td>
<td>Compasses</td>
<td>345</td>
<td>0</td>
<td>June 30, 1940</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8,344</td>
<td>902</td>
<td></td>
</tr>
</tbody>
</table>

Jan. 2, 1940 (F)
## AIRPLANES

<table>
<thead>
<tr>
<th>Contractor</th>
<th>Description</th>
<th>Ordered</th>
<th>Delivered</th>
<th>Complete Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lockheed Aircraft Corporation</td>
<td>Bomber Reconnaissance</td>
<td>200</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>North American Aviation, Inc.</td>
<td>Advanced Training</td>
<td>200</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Lockheed Aircraft Corporation</td>
<td>Bomber Reconnaissance</td>
<td>50</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>North American Aviation, Inc.</td>
<td>Advanced Training</td>
<td>200</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Lockheed Aircraft Corporation</td>
<td>Bomber Recce</td>
<td>200</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>North American Aviation, Inc.</td>
<td>Advanced Training</td>
<td>600</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,450</td>
<td>650</td>
<td></td>
</tr>
</tbody>
</table>

Note - Engines in Lockheed Bomber Reconnaissance planes are Wright G-102

- Bomber Recce planes are: 150 Wright G-102
- 70 Wright G-205

Engines in North American Advanced Training planes are Pratt & Whitney Wasp, 550 HP

Jan. 2, 1940 (B)
MEMORANDUM FOR THE ASSISTANT CHIEF OF STAFF, G-2:

Subject: Estimate of Airplane Production in Great Britain and France.

1. Airplane Production.

a. France. It is estimated that France at the present time is producing approximately 400 combat airplanes per month. The breakdown by types follows:

- Pursuit: 240
- Bombardment: 80
- Observation: 80
- Training planes: Unknown.

The performance of the bulk of the above production, especially pursuit and bombardment, is believed to be definitely inferior to the similar types now being produced by Germany. The French appear to be a cycle behind Germany in the performance of airplanes in production.

b. Great Britain. It is estimated that Great Britain is producing approximately 600 combat airplanes per month and 200 training and miscellaneous types.

The performance of the British pursuit (single-seater, single-engine) compares favorably with German models of the same class. However, this class has been in quantity production in England since early in 1939, whereas in Germany the same class has been in quantity production since the latter part of 1937. So far as known the British have no twin-engine pursuit (fighter) in production, while Germany has a high performance airplane of this class which has been in production for a year.

In bombardment, British models are considered definitely inferior to German types now being produced. The British twin-engine bombing airplanes, believed to be in production now, compare favorably with the older German models which are believed now to
have been superseded in Germany. Both France and Great Britain are believed to be a cycle behind Germany in the performance of the bulk of the combat airplanes being produced.

2. Airplane Production Capacity. The airplane production estimated in the foregoing paragraph is believed to be their maximum capacity of Britain and France at the present time, provided new types of airplanes are not being put into production. If a change over to new models is in progress, then the production would be very much less than that estimated in paragraph 1. It is believed that a minimum of eight to ten months would be required to bring the production rate of a new model of airplane up to maximum capacity.

Airplane production is expanding in both Great Britain and France, especially in Great Britain, as added plant facilities become available. The rate should increase materially during 1940 unless, however, new models are put into production. The status with respect to the production of new models is not known. There is definite evidence of a shortage of engines in France. The situation with respect to engines is better in Great Britain than in France. However, Great Britain is believed capable of producing more airplanes than she can build engines for.

3. General. It is believed that Great Britain’s limitations in the air are affected more by personnel than quantity of airplanes. Germany’s lead in the production of superior types, combined with Great Britain’s trained personnel shortage, creates a more serious situation than the discrepancy in the number of airplanes being produced by each country.

John Mason
Colonel, F. A.
Chief, Intelligence Branch.
Secretary of State,
Washington.

26, January 5, 4 p. m.

My 12, January 3, 4 p. m.

Details of a reorganization of Germany's War Economy Administration briefly outlined in the last paragraph of my telegram under reference were made public today in the form of an article by State Secretary Koerner, Goering's assistant in the Four Year Plan Administration published in this administration's official magazine Der Vier Jahre Plan and reprinted by all daily papers this morning of which the following is a summary.

The experience of the first month of the war has shown that German national economy will remain a "field of military operations" for the duration of the war and that therefore all available industrial capacity, labor, raw materials and transportation must be currently directed and adjusted to the changing requirements of the conduct of the war on land, on sea and in the air. It is also necessary to meet "the brutal methods of the British blockade by superior chess moves". German war economy must therefore be made more elastic, inventive and bold in finding new ways and means and also more relentless in pursuing the supreme goal of national defense. This policy is predicated on three conditions: 1st, clear authority
In fulfilling the task, the government will need the assistance of the entire economy, and above all, cooperation of all agencies responsible for the administration of the country. The economic measures in the planning of the Four Year Plan must be consistent with the economic aims of the country. The Plan must be based on the economic needs of the country and must be formulated to ensure the maximum efficiency of the country's resources. The Plan must be flexible enough to allow for adjustments as economic conditions change. The Plan must also be coordinated with the social and political goals of the country. The Plan must be implemented with a sense of urgency and a sense of purpose.
No. 26, January 5, 4 p. m., from Berlin

The Agency also states that the new council will not change the authority and functions of the Council of Ministers for National Defense or of the Reich Defense Commissioners.

KIRK
January 5, 1940

Dear Mr. President:

I was considerably disturbed on receiving the enclosed message from Ambassador Bullitt. In order to forestall an embarrassing situation possibly arising, I took the steps described in the attached memorandum to me from Cochran.

At your convenience I would like to have the opportunity of discussing with you the advisability of having Professor Rieh and Mr.Scotthin come to the United States at this time.

Sincerely yours,

The President,

The White House.

Enclosure:
Paraphrase of telegram No. 7 from Paris;
Memorandum.
At 9 o'clock last night I reached Mr. Arthur B. Purvis at the Hampshire House in New York by telephone from my hotel. I told him that I had just seen the Secretary of the Treasury at his residence for five minutes as he was leaving for the White House. I had been instructed to telephone Mr. Purvis and to request the latter to telephone Hauset, in turn, as early as possible on Friday morning, to the effect that the Secretary desired that the contemplated early departure of Professor Kast and Mr. Ovatin be postponed.

When Purvis asked who Ovatin was, I identified him as the economic expert in the British Foreign Office who had been associated with studies of Czechoslovakia, etc. Mr. Purvis then asked if the postponement meant that Ovatin was persona non grata or that there had been any blunder in this choice. I assured him that this was not the case, adding that the Secretary had not been aware of Ovatin's identity, and took no exception to him when I explained who he was. My only information was that the Secretary had learned last evening that the early departure of Kast and at least one British expert was contemplated, and that the Secretary desired that such visit be postponed, irrespective of the identity of the visitors.

Mr. Purvis said he would get this message through to Hausert the first thing this morning and assured that he would be hearing further from the Secretary in the premises, since he knew his people would be anxious for more word. I assured him that we would keep in touch.
CONFIDENTIAL

TRANSMISSION OF TELEGRAM RECEIVED

With American Embassy, Paris, France

With January 3, 1943, 7 p.m.

Sec. T

The following is personal and strictly confidential.

For the Secretary of State and the Secretary of the Treasury.

Reference is made to telegram No. 3099 of December 31

from the Embassy.

(Restricted) Had lunch privately today with the Minister

of National, France, his Chief de Cabinet Imrane, and M.

He was shown the one-page telegram of December 31 from Purvis

to Annan; in this Purvis reported his interview with Secretary

Roosevelt on December 27 and December 30, and his reception

by the President on December 29. The atmosphere was

described by Purvis as having been very cordial, and said

that in the matter of force-allies he found a desire to

extend all possible cooperation; he also found a willingness

to consider an extension of our list of "war reserves" or

the list of arms and materials of war for which export

licenses are required. However, he did not wish to emphasize

the delicate nature of the problem. Purvis said that he

found enthusiasm for the idea of sending over several allied

experts, provided this were done quite unofficially and

privately. As had been told, he said, that M. could be

decidedly persons given; France said that in a few days

M. could be sent via ship along with the British sup-
representation, Ashton Smithin. On Friday last will leave for
London, and a telegram to that effect has been sent to
Battarworth by Matthews.

Only one brief reference to nickel was made by Purvis;
be mentioned that Canada should be consulted, and that
we were agreeable to seeing a representative from Canada
for the purpose of discussing the matter. NOTE: Do you
see the telegram from Purvis before they are transmitted
if you do, we shall of course refrain from sending the
substance of these telegrams to you.

The suggestion was made by Matthews that probably you
would be much interested in an outline of the policy of the
Allies regarding German warfare as concerns the neutrals
of France and of negotiations with them in this regard.
An attempt was made by him to explain the importance from
the American point of view of having a complete picture of
the situation. Then the Minister of Mackinac turned to
Holt and said that since they had last talked he had changed
his mind; that he thought a full resume of their position
towards the neutrals should be given by Mr. Holt to the
President, Secretary Ball and Secretary Morgenthau, and said
he would get such a resume from the confidential exposé
in (Present) but must before the Foreign Affairs Committee
of the Chamber a few days ago. The Minister went on to say
that the Allies were fully prepared to give to the neutrals

Regraded Unclassified
everything they needed for their own use provided sufficient guarantees against reexportation were provided. These guarantees in some cases took the form of governmental assurance, and that of important industrial syndicates in others. The Allies, he said, have their "little system of surveillance" within the neutral countries, with "a somewhat larger system" in the case of Italy. For the most part he said that the neutrals were reluctant to sign agreements for fear there would be reaction from Germany, or in the face of threats from Germany.

He declared, likewise, that even, for example, in the case of Switzerland, the individual negotiators did not always take "the broader point of view" - that is, a realization of the Allies' insurance of the continued independent existence of the country concerned - it is necessary to go over the head of the negotiators. According to him, the only difficulty they were having with any neutral was with the Netherlands, though he said there was a general tendency for the neutrals to think only with longing of the keen prosperity of the days before the blockade during the last war - which he said had really continued until the United States entered. Hope was expressed by the Blackstone Minister that agreements similar to the France-Belgian one signed several weeks ago would be entered into by other neutrals, but he feared that Germany was
a powerful deterrent. As for the Scandinavian countries, the French are leaving the negotiating to the British.

Reference was also made by Petitot to the differences regarding questions of blockade within the French Government itself. Included in the Blocade Committee are representatives of the Ministry of Foreign Affairs, the Navy, Foreign Affairs, and others; within the Committee it is usually possible to reach agreement, but subsequently the separate ministries frequently make attempts to overrule the decision, and the "final authority" has not been determined as yet. The Minister said that of course the Navy wants to seize everything, saying that they didn't realize you couldn't upset a whole diplomatic game for a few bags of coffee.

The Minister confirmed the freedom with which coal exports are being made to Italy from Germany by sea — partly because of the lack of allied or neutral transport facilities — but he expressed the hope that such freedom would not last long. In a report they received from Rome this morning, from Ambassador Franzia-Pamnet, the Ambassador had indicated that particular efforts were being made by Germany to get fats and oils from Italy; he also said that recently they were resumed shipments of cove from Monzaines for Germany via Italy.

There were expressions of general annoyance at the attitude of the French press (center of information) in
in playing up alleged shortages and discussions in Germany and in publishing fantastic figures in the newspapers.

The Minister said it was "nonsense" to believe what was written in an article in the Paris 20:1 today, by its British correspondent, to the effect that Germany has sufficient petroleum to last only three months; he said he was quite opposed to giving the public such continually misleading ideas with regard to the weakness of the Germans.

A talk we had by telephone with Nist with regard to the desirability that his visit to the United States be handled with the utmost discretion and the minimum of publicity; Nist seemed to be in full accord with this idea.

Before he leaves for Lisbon he will call at the Embassy.

A reply had been received by Payrac to his cable to the French authorities in Indo-China, indicating that there are actually in French Indo-China now 1500 tons of tungsten and 3000 tons of antimony. Payrac said that he cabled again asking for a list of the consignees on those materials. However, it seems he felt more confident that on regards shipments to the United States there would be no difficulty. He indicated that for the next part the sense that one or more vessels in New York would reship to Liberia came from the British, and they would leave it to the British to clear up the matter.

END OF MESSAGE.

BULLITT

(Mss)
Dear Mr. President:

I was considerably disturbed on receiving the enclosed message from Ambassador Bullitt. In order to forestall an embarrassing situation possibly arising, I took the steps described in the attached memorandum to me from Cochran.

At your convenience I would like to have the opportunity of discussing with you the advisability of having Professor Riot and Mr. Genthin come to the United States at this time.

Sincerely yours,

The President,

The White House.

Enclosures:
Paraphrase of telegram No. 7 from Paris;
Memorandum.
Corrected COPY FOR SECRETARY
CONFIDENTIAL

MEMORANDUM OF CONVERSATION

With: American Embassy, Paris, France

Date: January 3, 1943, 7 p.m.

Re: [Redacted]

The following is personal and strictly confidential.

For the Secretary of State and the Secretary of the Treasury.

Reference is made to telegram No. 3050 of December 30
from the Embassy.

(Redacted) Had lunch privately today with the Minister
of Reconstruction, sumpt., his chief in cabinet Rynne, and Met.

He has shown the one-page telegram of December 31 from Purvis
to Bunnell; in this Purvis reported his interviews with Secretary
Margaretson on December 27 and December 30, and his reception
by the President on December 29. The atmosphere was
described by Purvis as having been very critical, and said
that in the matter of force-allies he found a desire to
extend all possible cooperation; he also found a willingness
to consider an extension of our list of "our reserves" or
the list of arms and materials of war for which expert
Services are required. However, he did not want to emphasize
the absolute nature of the problem. Purvis said that he
found enthusiasm for the idea of sending over several allied
experts, provided these were done quite unofficially and
privately. He had been told, he said, that Met would be
decidedly favorable giving Bunnell said that in a few days
Met would be sent the clipper along with the British sup-
representative, Ashton Smith. On Friday night will leave for
London, and a telegram to that effect has been sent to
Butlerworth by Matthews.

Only one brief reference to Canada was made by Purvis; he
mentioned that Canada should be consulted, and that
we were agreeable to seeing a representative from Canada
for the purpose of discussing the matter. NOTE: Do you
see the telegrams from Purvis before they are transmitted —
if you do, we shall of course refrain from cabling the
substance of those cables to you.

The suggestion was made by Matthews that probably you
would be much interested in an outline of the policy of the
Allies regarding economic warfare as concerns the neutrals
of Europe and of negotiations with them in this regard.
An attempt was made by him to explain the importance from
the American point of view of having a complete picture of
the situation. Then the Minister of Economists turned to
Holt and said that since they had last talked he had changed
his mind; that he thought a full round of their position
as regards the neutral states should be given by Mr. Holt to the
President, Secretary Ball and Secretary Burgum, and said
he would send such a round from the confidential expec-
ted to (Purvis) had made before the Foreign Affairs Committee
of the Senate a few days ago. The Minister went on to say
that the Allies were fully prepared to give to the neutrals
everything they needed for their own use provided sufficient
guarantees against recompensation were provided. These
guarantees in some cases took the form of governmental
assurance, and that of important industrial syndicates
in others. The Allies, he said, have their "little system
of surveillance" within the neutral countries, with "a
somewhat larger system" in the case of Italy. For the most
part he said that the neutrals were reluctant to sign
agreements for fear there would be reaction from Germany,
or in the face of threats from Germany.

He declared, likewise, that then, for example, in the
case of Switzerland, the individual negotiators did not
always take "the broader point of view" - that is, a
realization of the Allies' insurance of the continued
independent existence of the country concerned - it is
necessary to go over the head of the negotiators. According
to Bayrge, the only difficulty they were having with any
neutral was with the Netherlands, though he said there was
a general tendency for the neutrals to think only with
longing of the boom prosperity of the days before the
blockade during the last war - which he said had really
continued until the United States entered. Hope was expressed
by the Blockade Minister that agreements similar to the
France-Belgian one signed several weeks ago would be entered
into by other neutrals, but he feared that Germany was
a powerful deterrent. As for the Scandinavian countries, the French are leaving the negotiations to the British.

Reference was also made by Ponsot to the differences regarding questions of blockade within the French Government itself. Included in the Blockade Committee are representatives of the Ministry of Economy, of the Navy, Foreign Affairs, Colonies, et cetera; within the Committee it is usually possible to reach agreement, but subsequently the separate ministries frequently make attempts to overrule the decision, and the "final authority" has not been determined as yet. The Minister said that of course the Navy wants to seize everything, saying that they didn't realize you couldn't upset a whole diplomatic game for a few bags of coffee.

The Minister confirmed the freedom with which coal exports are being made to Italy from Germany by sea - partly because of the lack of allied or neutral transport facilities - but he expressed the hope that such freedom would not last long. In a report they received from Rome this morning, from Ambassador Fransel-Ponsot, the Ambassador had indicated that particular efforts were being made by Germany to get fats and oils to Italy; he also said that recently there were resumed shipments of raw tobacco from Saxonia for Germany via Italy.

There were expressions of general annoyance at the attitude of the French press (center of information) in
in playing up alleged shortages and dislocations in Germany
and in publishing fantastic figures in the newspapers.

The Minister said it was "nonsense" to believe what was
written in an article in the Paris 2012 today, by its
Paris correspondent, to the effect that Germany has
sufficient petrol to last only three months; he said he
was quite opposed to giving the public such continually
misleading ideas with regard to the weakness of the Germans.

A talk was had by Matthews with Bist with regard to
the desirability that his visit to the United States be
handled with the utmost discretion and the minimum of
publicity; Bist seemed to be in full accord with this idea.
Before he leaves for Lisbon he will call at the Embassy.

A reply had been received by Payres to his cable to
the French authorities in Indo-China, indicating that
there are actually in French Indo-China now 4500 tons of
tungsten and 4200 tons of antimony. Payres said that he
cabled again asking for a list of the consignments of these
materials. However, it seemed he felt more confident that
as regards shipments to the United States there would be
no difficulty. He indicated that for the most part the
feare that one or more brokers in New York would reexport
to Siberia came from the British, and they would leave it to
the British to clear up the matter.

END OF MESSAGE.

BULLITT

(Retry)

Regraded Uclassified
At 9 o'clock last night I reached Mr. Arthur H. Purvis at the Hampshire House in New York by telephone from my hotel. I told him that I had just seen the Secretary of the Treasury at his residence for five minutes as he was leaving for the White House. I had been instructed to telephone Mr. Purvis and to request the latter to telephone Hemnet, in turn, as early as possible on Friday morning, to the effect that the Secretary desired that the contemplated early departure of Professor Kist and Mr. Gvatin be postponed.

When Purvis asked who Gvatin was, I identified him as the economic expert in the British Foreign Office who had been associated with studies of Czechoslovakia, etc. Mr. Purvis then asked if the postponement meant that Gvatin was persona non grata or that there had been any blunder in this choice. I assured him that this was not the case, adding that the Secretary had not been aware of Gvatin's identity, and took no exception to him when I explained who he was. My only information was that the Secretary had learned last evening that the early departure of Kist and at least one British expert was contemplated, and that the Secretary desired that such visit be postponed, irrespective of the identity of the visitors.

Mr. Purvis said he would get this message through to Hemnet the first thing this morning and assured that he would be hearing further from the Secretary in the premises, since he knew his people would be anxious for more word. I assured him that we would keep in touch.
REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, there were no developments during the week.

John L. Sullivan
Acting Commissioner.
January 5, 1940.

ITaPaGA
CAA

REPORT FOR SECRETARY MORGENTHAU'S

In regard to closing agreements under the Vinson-Trammell Act, there were no developments during the week.

(Signed) John L. Sullivan

Acting Commissioner.
For the Secretary of the Treasury from Buttenworth
Strictly Confidential

The British Treasury states that it is most unlikely that Wigham, due to his wife's serious illness, will be able to return to the United States in the near future but that Gifford is scheduled to leave England about the middle of this month. While arrangements are still under consideration I do not gather that any vesting order will be made until Gifford has arrived in the United States.

Johnson

W.C.
DEPARTMENT OF STATE
WASHINGTON

January 5, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of telegram No. 28 of January 5 from the American Embassy, London.
Secretary of State,
Washington.

23, January 5, 9 a.m.

My number 2412, December 20, 1939.

Total Reichsbank investments in bills, collateral, loans and eligible securities showed the usual sharp increase during the last week of December by 963 million marks to 12,619 million marks. Bill holdings alone increased by 970 million marks to 11,392 million marks while collateral loans and eligible securities registered a small decrease. The Reichsbank continued to take advantage of easy money conditions and unloaded during the last week of December 13 million marks of eligible securities though this process is now going on at a manifestly slower rate than in the preceding weeks. Holdings of eligible securities totaled 804 million marks at the end of December against a war-time peak of 1,440 million marks on October 31.

Miscellaneous assets which include direct advances of the Reichsbank to the Treasury increased in the last week of December by 310,000,000 marks to 2,003 million marks.
marks reaching a new war time record. In the second week of December the Reichsbank's advances to the Treasury had been temporarily reduced by 647 million marks owing to record tax maturities on December 10 which, according to official estimates, were little short of 2 billion marks and consisted of quarterly advance payments of income, corporation and turnover taxes.

Reversing the almost uninterrupted absorption of silver coin by the Reichsbank during the preceding months, the holiday demand for currency in the last week of December caused the bank's coin holdings to decline slightly by 29,000,000 marks to 350,000,000 marks.

Note circulation reached at the year end a new war time record of 11,798 million marks which compares with 10,974 million marks on November 30 and 8,710 million marks on August 23. Against a year ago note circulation showed an increase of 3,575 million marks or 43 percent.

(END SECTION ONE)

KIRK

WNC
Since the outbreak of the war, publication of the Reichsbank's official figures of total currency circulation has been discontinued. However, it can be estimated that for the year the total currency circulation was 14,500 million marks; this consisted of Reichsbank notes in the amount of 11,800 million marks, rentenbank notes of approximately 1,000 marks, and coin in the amount of 1,700 million marks. For the end of the year 1938 the comparable figure was 10,389 million marks, so that there was a rise of 4,111 million marks, or 39 percent, for total currency circulation for the year. There was an increase since the twenty-third of August of 3,635 million marks, or 53 percent. The figures for December 1939 do not include an unknown amount of army promissory notes; these may be considered in part as a substitute currency, though ten thousand mark denominations are the only ones issued. The above figures likewise do not include the Reichsb Kassen Scheine which have been issued in the occupied Polish territory.

Note should also be taken of the fact that while there was an increase of 35 percent in the visible currency circulation since the beginning of the war, the quantity of goods that can be bought with such money has substantially diminished because of the food rationing, as well as rationing of footwear and textiles; also, many other consumer goods have almost completely disappeared because of reserve purchasing on the part of the public.
EDA

PLAIN

LONDON

Dated January 5, 1940

Received 1:48 p.m.

Secretary of State
Washington

29, January 5, 6 p.m.

FOR TREASURY FROM BUTTERNORTH.

One. With further reference to No. 2692, December 21, 6 p.m. and 2707 of December 22, details regarding the new regulations affecting transfers of sterling from the accounts of residents to non-residents are available in the form of two new statutory rules applying (1) to credits and (2) to the exemption of the sterling accounts of non-residents from the restrictions as affecting the proceeds of sterling securities sold here and interest etc., on such securities. There have also become available the new form E. 1 which now becomes an application for permission to transfer sterling from the account of a resident to that of a non-resident instead of the former simple declaration that such a transfer did not contravene the defence (finance) regulations. The new form requires detailed information similar to that required for form E (application for foreign exchange) regarding the purpose of the transfer, the names of the transferor and transferee, country of shipment of the goods to
to be paid for etc. Form E. 1 can only be approved after January 8 by specified appointed banks which include the English, Scottish, Irish and Dominion banks previously appointed as authorized dealers and the British eastern banks and French banks together with several banks operating in such southeastern European countries as Greece, Rumania and Turkey. A new form E2 will from the 8th of January be required in connection with applications for permission to establish bankers credits which also required similar information as to the purpose of the credit. As distributed to banks the forms have been accompanied by lengthy memoranda from the Bank of England explaining the procedure in full. The list of transactions for which the appointed banks may approve transfers of sterling include payments for imports into the United Kingdom, imports into the sterling area other than the United Kingdom not exceeding £5,000, freights for goods shipped to and from the countries of the sterling area, canal dues and ships' disbursements, insurance premia respecting policies taken out prior to September 3 and insurance claims, royalties, patent fees and licence fees on pre-war contracts, travelling expenses, legacies and payments under trusts, etc., rents, mortgages, etc., on pre-war trusts, and annuities. In all cases, however, applications in respect of payments for tobacco, films and diamonds must be referred to the Bank of England. Copies of the memoranda
EDA - 3 - #29, January 5, 5 p.m. from London

memoranda and orders go forward by pouch tomorrow.

The purpose of the new regulations as previously reported is to tighten the British exchange control by reducing the transfers of sterling to the accounts of non-residents and to confine such transfers to the purposes for which foreign exchange is obtainable. However, the special exemption order under which non-residents remain free to dispose of any sterling in their accounts and of any sterling securities they may wish to sell in this market without any formalities, is issued with a view to simplifying the procedure of non-residents in their transactions with respect to their sterling accounts, their sterling security holdings and their receipt of interest etc., on such holdings.

The market has hardly had time to digest the new regulations but approval is widespread and hopes that the amount of sterling becoming available in the unofficial market will be reduced are generally expressed. Nevertheless, these new measures do not meet the type of criticism which is ably put forward by Einsig in the December Economic Journal page 670.

Two. An increase of £10.7 million in "other deposits" (comprising largely accounts of Dominion and other central banks) in this week's Bank of England return, is attributed in today's Financial Press to clearing delays in respect of the redemption of £11 million of New Zealand stock, though the DAILY EXPRESS erroneously
EDA - 4 - #29, January 5, 6 p.m. from London

erroneously jumped to the conclusion that this figure might indicate an unannounced loan to Finland.

Three: Today's Treasury bill rate at £1.23.3.54D. as compared with £1.43.4.67D. last week reflects the easy credit situation, the lowest bid receiving 63 per cent allotments. Next week's Treasury bill offer is to be for £65 million which will be £15 million in excess over maturities and will bring the total tender issue to £785 million.

JOHNSON

DDM

Regraded Unclassified
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: January 5, 1940, 6 p.m.
NO.: 18
FROM MATTHEWS.
FOR THE TREASURY DEPARTMENT.

The British financial counselor, Norman Young, lunched at my house today. He spoke of how busy he had been recently, having to sit in on French negotiations for commercial and payments agreements, in addition to his ordinary duties and the meetings of the Suez Canal Board. This afternoon he said he had two meetings, one with the Turks and one with the Greeks. The latter meetings have recently struck a snag through a reversal of position on the part of the Greeks, although the former discussions have been progressing smoothly. Because of the difficulty in the Greek discussions, the French have suggested that the negotiations might be transferred entirely to London, where at the present time there are now being carried on discussions for a British-Greek war trade agreement.

Mr. Young said that it was still too soon to form any definite impressions as to the working of the financial accord between Great Britain and France; he said the effect has been "largely psychological" so far. In reply to my question as to when they might undertake discussions of the relative price levels of the two countries, he said that
that probably they would begin in two weeks — reference:
Article XVII of the financial accord, telegrams Nos. 2951
of December 11 and 3024 of December 21 from the Embassy.

Dean Jay of Morgans had lunch with us also. He said
that he was on the verge of optimism because financial and
economic conditions in France were so much better than
he had feared they would be last September. He believes
there has been a pick-up in French industry, and he can
foresee no early financial pinch. He mentioned that money
is easy, and prices have been kept down pretty well, and
it had not been anticipated that the exchange control would
work so successfully and smoothly. He knew of no big
subject to large-scale abuse
loopholes in the latter/since the restrictions on franc
deposits to the accounts of foreigners. In the matter of
invoicing exports and imports, he has seen no evidence of
evasion of the regulations — probably excepting certain
French diamond purchase operations conducted with interests
in Amsterdam — but he admitted that it was very difficult
to keep a check on this matter.

Dean Jay believes that in the administration of the
exchange control measures the Bank of France and the French
Foreign Exchange Office have shown both a realistic and
a liberal attitude — as I have stressed in previous cables.
He attributes such action largely to the fact that at
heart exchange control is looked on as a repugnant war
necessity by Raymond, Fournier, Eneff and others who are charged with its administration. For instance, to show that the control really takes a liberal attitude, he cited the example that his bank recently obtained without delay permission for one of its clients to remit dividends to the United States once he gave proof that for a number of years past he had paid similar dividends — that is, the payment was a bona fide dividend and not an attempt at capital export. Barrett of the Guaranty Trust had told me that recently closer scrutiny was made of applications for exchange; Dean Jay however said he personally has not seen any evidence of this. He said he was particularly careful never to recommend anything but operations which were most clearly permissible. He said that he had discouraged the case of a French subsidiary of the International Telephone and Telegraph Company; they had wanted to declare a dividend for remission to the United States. He had discouraged it since this company has substantial franc credits — working on war orders — outstanding with his and other Paris banks, and obviously needs francs.

Dean Jay does not see any indication of a long term loan being floated soon in France; he does not think that the time is ripe for such a loan as yet.

END SECTIONS ONE TO FIVE, INCLUSIVE.

BULLITT.

EA: LNY
WASHINGTON

18, January 5, 6 p.m. (SECTION SIX)

The Paris financial press reports that the Swedish Government has requested declarations of gold and foreign exchange holdings and that in the future the Riksbank will furnish foreign exchange only for "imports, freight, insurance, commissions, etc.". It is stated that these measures have been taken owing to the "progressive weakening of the country's trade balance and the reduction in gold reserves (450,000,000 crowns or 22% from last year)".

Under a decree published in the Journal Officiel of today stocks of jute sacks must be declared to the Government by owners or holders. Under an arrest in the same Journal Officiel holders of waste paper and cardboard containers in excess of 1000 kilograms must declare such stocks before January 15th.

The securities market was fairly active and firm today. Bonds closed with small fractional gains and losses except...
1W -2- No. 18, January 5, 6 p.m. (SECTION SIX) from Paris

except the 1925 and 1937 exchange guarantee issues, which
gained 1.30 francs and 1.50 francs respectively. Changes
in the rest of the list were unimportant. Official
exchange rates remained at the same level.

(END OF MESSAGE)

BULLITT
Secretary of State
Washington

34, January 5, 7 p.m.
FOR TREASURY FROM BUTTERWORTH.
STRICTLY CONFIDENTIAL.

I was given by the British Treasury under conditions of strict confidence a copy of the agreement between the Bank of England and Sveriges Riksbank relating to payments between Sweden and the United Kingdom. Its secret character was emphasized both because, being an agreement between two central banks, it was not "a government document" (sic) and because "it was important that it should not fall into the hands of the enemy."

I am sending this in toto since it will no doubt be followed in its general form by other payment arrangements and because Articles XII and XIII are of particular interest to us. "One. Payments to Sweden by or for account of His Majesty's Government (other than payments in respect of goods purchased in behalf of a third country) will be made...

"(A) If the debt is expressed in sterling, by payment to a 'special account' of Sveriges Riksbank at the Bank of England;\n
Regraded Uclassified
RPP -2- #34, January 5, 7 p.m. from London

England;

"(B) If the debt is expressed in Swedish kroner, in kroner purchased from the Bank of England.

"Two. In the case of other debts expressed in Swedish kroner due to persons in Sweden from persons in the United Kingdom, Swedish kroner may be bought by the United Kingdom debtors from the Bank of England through the ordinary channels. Debts covered by this article are those in respect of trade, freight, insurance and of financial payments of a recurrent nature which, in the opinion of Sveriges Riksbank and the Bank of England, are reasonable in character and amount.

"Three. The Bank of England will use for the purpose set out in Articles I(b) and II any Swedish kroner balances coming into their possession: inssofar as such balances are inadequate Sveriges Riksbank will sell Swedish kroner to the Bank of England at the London middle rate for Swedish kroner on the day of purchase against credit of sterling to the special account. This rate should continue to correspond approximately to a parity calculated with the London middle rate for United States dollars and the official rate for United States dollars in Stockholm.

"Four. Sveriges Riksbank may credit to the special account sterling purchased from Swedish commercial banks or other
RFP -3- #34, January 5, 7 p.m. from London

other sellers in Sweden arising, as from the date of the agreement, out of payments between Sweden and the United States in respect of trade freight and insurance, and of financial transactions of a recurrent nature which, in the opinion of Sveriges Riksbank and the Bank of England, are reasonable in character and amount, provided that the exchange has not already been covered. Sveriges Riksbank will arrange, as far as possible, that sterling obtained by Swedish commercial banks from these sources will not be used otherwise except for the purposes set out in Article V below.

"Five. The special account may be used for all kinds of commercial or financial payments by persons in Sweden within the British Empire "except Canada, New Zealand and Hong Kong" and in Brazil, Egypt, and Belgium. Sveriges Riksbank will take steps to ensure as far as may be possible that the Swedish payments in sterling referred to above shall be made by use of the special account and not otherwise subject to the provisions of Articles IV and X.

"Six. If at any time after the existing sterling balances of Sveriges Riksbank have been used in accordance with the provisions of Article X the balance on the special account should be temporarily insufficient to meet th
RPP -4- #34, January 5, 7 p.m. from London

needs of Sveriges Riksbank the Bank of England will sell
to Sveriges Riksbank against Swedish kroner the sterling
required at the London middle rate on the day of sale.
Sveriges Riksbank will agree to re-purchase against
sterling at the same rate or rates the Swedish kroner thus
sold as and when moneys are received for the credit of the
special account.

"Seventh. Amounts in excess of £100,000 standing to the
credit of the special account may at the option of Sveriges
Riksbank be transferred to a special money employed account
in multiples of £25,000 where amounts so transferred will
be employed by the Bank of England for Sveriges Riksbank
in the usual manner. Such amounts may be re-transferred
to the special account.

"Eighth. On expiry of the agreement Sveriges Riksbank
will have the right to obtain payment in gold for any bal-
ance on the special account and the special money employed
account and the Bank of England will have the right to
obtain payment in gold for any Swedish kroner balance held
with Sveriges Riksbank.

"Ninth. Then the balance on the special money employed
account has reached and so long as it remains at £3,500,000
Sveriges Riksbank will have the right to obtain payment in
gold for any amount in excess of £100,000 on the special
account.
account. Similarly the Bank of England shall have the right to obtain payment in gold for any Swedish kroner standing to the credit of its account at Sveriges Riksbank in excess of Swedish kroner 56,800,000.

"Ten. Sveriges Riksbank will have the right to transfer up to £200,000 every month from its existing sterling balances to the special account. Sveriges Riksbank will not sell its existing sterling balances to third parties but if at any time the balance on the special account is insufficient they may be used for the purposes set out in Article V. Forward sterling arising from contracts entered into by Sveriges Riksbank before the date on which this agreement enters into force and proceeds of sterling securities held by Sveriges Riksbank on that date will be considered as part of their existing sterling balances.

"Eleven. All gold sold to Sveriges Riksbank under any of the terms of this agreement will be provided by the Bank of England in London or in South Africa at the option of Sveriges Riksbank. Gold sold to the Bank of England will be provided by Sveriges Riksbank in London. The Bank of England will, however, accept delivery in South Africa to the extent that Sveriges Riksbank had exercised its option to receive gold there in accordance with the terms of this article.

"Twelve.
RPP -6- #34, January 5, 7 p.m. from London

"Twelve. Throughout this agreement the price of gold will be reckoned at 188.6 per fine ounce against sterling and at Swedish kroner 142.3825 per ounce fine against Swedish kroner.

"Thirteen. This agreement will enter into force on the 20th December, 1939 and if not renewed will expire on the 20th June, 1940.

Signed Governor of the Bank of England. Governor of the Sveriges Riksbank."

Incidentally, I gather that the United Kingdom's adverse balance of payments with Sweden (calculated on the same basis as the American figure given in the third paragraph of my 3995, December 21, 7 p.m.) is estimated to amount during the first year of war to about £7,000,000.

JOHNSON

EMB
The following bills were introduced in the House of Representatives on January 3, 1940 providing for financial assistance to Finland:

H. R. 7630 - Mr. Hook (Dem., Mich.)

To authorize the Secretary of the Treasury, with the approval of the President, to negotiate a loan to Finland for the sum of $60,000,000, with such rate of interest, terms and conditions as will be in the best interest of the United States and Finland, said loan to be granted without restriction so as to meet Finland's general requirements. The bill authorizes an appropriation to carry out its provisions.

H. R. 7631 - Mr. Hook

The Secretary of the Treasury is authorized and directed to pay to Finland an amount equal to all interest heretofore paid on its debt to the United States in connection with or arising out of the World War. (Note - This bill does not provide an appropriation).

H. R. 7659 - Mr. Smith (Dem., Wash.)

Finland would be relieved of making further payments on its indebtedness to the United States until such time as by Act of Congress the resumption of payments thereon shall be required, and the sums of money heretofore paid on such indebtedness would be reloaned to Finland upon such terms and conditions as may be agreed upon with the United States. (Note - This bill does not contain an appropriation).

The President early in December announced that he had directed the Secretary of the Treasury to hold in suspense the amount of $234,693, to be received from Finland on December 15, 1939, and that he would recommend to the Congress that such amount be used for the benefit of the Finnish people.
### Data on Finnish indebtedness:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original indebtedness</td>
<td>957,533.23</td>
</tr>
<tr>
<td>Indebtedness as funded December 15, 1922</td>
<td>9,309,080.00</td>
</tr>
<tr>
<td>Payments received from Finland:</td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td>1,933,758.54</td>
</tr>
<tr>
<td>Interest</td>
<td>957,533.23</td>
</tr>
<tr>
<td>Balance of indebtedness:</td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td>8,042,466.77</td>
</tr>
<tr>
<td>Interest</td>
<td>100,423.44</td>
</tr>
</tbody>
</table>

In view of the President's announcement with respect to the use of the amount received from Finland on December 15, 1939, ($234,513) for the benefit of the Finnish people, does the President desire that a message be drafted transmitting such recommendation to the Congress.

1/ Includes $309,315.27 interest received prior to funding agreement.
2/ Represents interest postponed under moratorium agreement.
TO

Secretary Morgenthau

FROM

Mr. Han

DATE

January 5, 1940

SUBJECT

Lack of shipping facilities hindering the export movement of agricultural products.

In accordance with your request of this morning, I made an inquiry in the Department of Agriculture to ascertain the amount of agricultural products which have been sold for export but have not been shipped because of the lack of shipping facilities.

Mr. E. A. Wheeler, Director of Foreign Agricultural Relations, told me that the Department of Agriculture did not have any statistics to indicate the volume of agricultural commodities which were held up because of the unavailability of ships, but he felt that the difficulty centered almost entirely in cotton. He said that no inquiries had come to him with regard to any other products. The other products, he said, such as apples and tobacco which the British have ceased buying and other agricultural products such as dried fruit, etc., require less shipping space than does cotton, and cotton at the moment happens to be the commodity which the British are buying in volume.

Mr. Wheeler said that Mr. Creekmore, of the American Cotton Growers Cooperative Association, had brought several specific cases to his attention, asking for assistance. One of these was the case of a British ship which expected to take a cargo of cotton and was ordered by the Ministry of Shipping to return with a cargo of steel. Mr. Wheeler pointed out that the cotton shippers still want to make the shipments on British boats because the transportation costs are much less than on the neutral boats. Mr. Wheeler also indicated that the British shipping interests are giving priority to the movement of the barter cotton rather than the present commercial crop, despite all efforts of the Commodity Credits Corporation to prevent this.

I asked Mr. Wheeler what the Department of Agriculture was doing to alleviate the export difficulties. He said that on this problem they had to work through the State Department.
which they had done. The British representatives in this
country, both in the Embassy and in New York, are courteous
but operate only under instructions from their government.
The American Embassy in London has been working on the case
but with little success. He says the situation is somewhat
like this: The American Embassy representative interviews
the Ministry of Supply and is told that the problem is one
that concerns the Ministry of Shipping; the Ministry of
Shipping says it is a problem of the Board of Trade, as that
is the organization which determines what the country needs;
the Board of Trade says that Great Britain is at war and that
is their first consideration, although they realize and appre-
ciate the difficulties of the American cotton growers and
shippers; the American representative tries to convince them
that from the British war standpoint it is to the British
interest to move American cotton to the United Kingdom; but,
Mr. Wheeler said, the results so far have not been fruitful
and the British have been rather "hard-boiled" in the matter.

In this country, the Maritime Commission has been working
on the shipping problem, Mr. Wheeler added, and the recent sale
of American vessels to Norway was an attempt to improve the
export shipping situation. These ships, he understood, were to
be used in exporting cotton, etc. to the belligerents. He also
felt that the Maritime Commission, through their Traffic Depart-
ment, probably had as much information as any organization in
the government as to the magnitude of this difficulty. Mr.
Wheeler said he had not talked to Mr. Max Truitt, a member of
the Maritime Commission, for about a week, but would call him
again and would let me know if there were any new developments.
December 28, 1939

The President told us at Cabinet that he saw John Bankhead yesterday and told him that he wanted to wait and see what happened to agricultural prices and if they did not reach parity then he, the President, would be willing to have him introduce a bill for parity payments. Bankhead agreed to this.
To: 
Secretary Morgenthau

From: Mr. Haas

Subject: The Wheat Situation

Winter wheat prospect reduced by drought

Due largely to a severe drought, the December 1 condition of winter wheat in this country was the lowest on record for that date, and indicates a winter wheat crop in 1940 of about 380 million bushels. This compares with 563 million bushels harvested in 1939 and with a ten-year average of 589 millions.

Total 1940 crop probably below domestic requirements

An increase of about 10 percent in spring wheat acreage is expected, which would give a spring wheat crop of about 200 million bushels, if yields are average, making a total wheat production of about 600 million bushels. This compares with a total crop of 755 million bushels in 1939, and is about 60 million bushels less than estimated domestic requirements for food, feed and seed.

Indicates reduction of 105 million bushels in wheat supply

The carryover of old-crop wheat in the United States at the beginning of the next crop year, July 1, 1940, is expected to be about 50 million bushels larger than the previous year's carryover, hence the total domestic wheat supply (crop plus carryover) will show less of a decline than the reduction in the crop. The prospective total supply of about 904 million bushels in 1940 will be 105 million bushels less than the supply of 1,009 millions in 1939.

Crop handicapped by shortage of subsoil moisture

The final outcome of the winter and spring wheat crops may, of course, be greater or less than now indicated. In both areas, however, the crop prospect is handicapped by a shortage of subsoil moisture, resulting from the driest fall season in Weather Bureau records. Subsoil moisture is a major factor in wheat
yields in the western part of the wheat belt. Recent substantial snowfall over a large part of the winter wheat area has been a favorable influence, but is viewed by the Weather Bureau as making little change in the general wheat situation.

World wheat supplies largest on record

While the total world wheat crop (outside of Russia and China) for the crop year beginning July 1, 1939, is now estimated at about 335 million bushels less than the previous year's record crop, the world carryover has increased by about 590 million bushels, raising the estimated world supply of wheat to 5,442 million bushels, a new high record.

Wheat prices in this country relatively high

Wheat prices rose sharply during December, reflecting the reduced prospects for the domestic crop, severe deterioration of the Argentine crop, poor moisture supplies in Canada, and buying by European countries.

The combination of heavy foreign wheat supplies and a prospective small crop in this country has raised domestic prices to a high level relative to prices in other countries. A closing price of 106-1/8 cents for May wheat futures at Chicago on January 3 compares with 89-5/8 cents for May futures at Winnipeg and with an equivalent of 67 cents for February futures at Buenos Aires.

Farm incomes maintained by higher wheat prices

Farm incomes from wheat in 1940 may not be reduced by the smaller prospective crop, as compared with 1939 incomes, but on the contrary seem more likely to be increased because of the offsetting effect of higher wheat prices. Cash prices at Kansas City are now about 60 percent higher than they were last July, when the 1939 winter wheat crop was harvested, while the indicated crop is only 29 percent lower. Prices at Minneapolis are about 30 percent higher than they were during the spring wheat harvest months of August and September, while the indicated crop is also higher by 4 percent.
Farmers hold wheat off market

The withholding of wheat from market in anticipation of higher prices because of the war and the drought, encouraged by Government loan facilities, may have been an important price factor. The quantity of wheat under Government loan on December 15 totaled approximately 165 million bushels, of which about 35 million were stored on farms and 130 million in country and terminal warehouses.

All loans secured by wheat in warehouses will mature on April 30, 1940, and the Commodity Credit Corporation has announced its intention to take title to wheat collateral on which loans have not been paid at that date. Such wheat can be sold for not less than the loan value plus interest and charges, or transferred to the Federal Surplus Commodity Corporation for export sale or for relief uses. With wheat currently selling 20 to 25 cents above loan values, farmers are reported to be repossessing and selling some of their loan wheat.

The Secretary of Agriculture has announced the suspension of wheat and flour export programs, except on flour from the Pacific Coast to the Philippine Islands.

Drought will affect crop insurance program

The Federal Crop Insurance Corporation, just getting under way with its insurance program on wheat, will be called upon to meet very heavy insurance claims as a result of the drought, without having had time to build up an adequate reserve through premiums paid by growers. A severe impairment of mental, requiring an appropriation of additional funds, can doubtless be anticipated.
TO: Secretary Morgenthau
FROM: Mr. Hans

Subject: Current Developments in the High-Grade Securities Markets

SUMMARY

(1) The upward movement in the Government securities market slackened somewhat in the last two weeks. Short-term securities are now at about the same level as on June 5 — the all-time high for the Government market — while medium- and long-term bonds are lower (their yields higher) than at that time (Chart I).

(2) Weekly reporting banks increased their Treasury bond holdings by $389 millions and reduced their note holdings by $345 millions in the week in which new securities were issued in exchange for the March notes (Chart III). Out of a total of $1,100 millions of the new 3-3/4's, it is estimated that weekly reporting member banks acquired about $350 millions. Federal Reserve banks received $100 millions, and almost $75 millions were issued directly to governmental trust accounts. A substantial part of the remaining $575 millions was doubtless acquired by banks not covered in the weekly reporting group, although individuals probably obtained more than might have been expected.

(3) High-grade corporate and municipal bonds have continued their advance during the past two weeks, although at a slackened pace. Municipal bonds have reached a new all-time high (Chart III). New issues of securities last week were accounted for principally by bonds of the Louisville and Nashville Railroad totaling $60 millions. The Consumers Power issue, delayed several weeks by SEC hearings, was offered on Wednesday, January 3.

(4) The year-end statements of condition of New York City banks appeared this week. All but one of the largest banks have increased their Government security holdings since September 30 (Chart IV). Government security holdings of all weekly reporting banks in New York City are now below the new all-time high established last month, but are still higher than the previous peak made in June 1936.

(5) British consols made a new high since June 1 on Thursday, January 4 (Chart V). French rentes on Wednesday established a new high since June 27.
I. United States Government Securities

United States Government security prices have continued their upward tendency during the past two weeks, but at a considerably slackened pace. The average yield of long-term Treasury bonds, which declined nine basis points in the two-week period ending December 20, has fallen only four basis points in the two weeks since that date, closing on Thursday at 2.25 percent, a new low level for the present recovery.

All classes of Government securities have shared in the rise. The relative movements in the last two weeks are shown by maturity classes in the following table:

<table>
<thead>
<tr>
<th></th>
<th>Average Price Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 21 - January 4</td>
</tr>
</tbody>
</table>

(In thirty-seconds)

<table>
<thead>
<tr>
<th></th>
<th>+ 2</th>
<th>+ 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 to 3 years</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>3 to 5 years</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 5 years to call</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>5 to 15 years to call</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 years and over to call</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It will be noted that the longer maturities, both of bonds and of notes, experienced the greatest gains. The rise in the price of the intermediate class of bonds, however, was almost as great as that of the longest term bonds (over 15 years to call).

Long-term Treasury securities have now regained about 71 percent of the decline from the all-time high of June 5 to the low of September 25, following the outbreak of war. Chart I compares the yields of Treasury securities on June 5, September 25, and January 3.

It will be noted that the yields of short-term securities are about as low now as they were on June 5. Medium- and long-term bonds, however, still have higher yields than last June.
II. Distribution of the New 2-1/4's of 1951-53

Figures are now available showing changes in the Government security holdings of weekly reporting member banks during the week which included December 22, the date of issue of the securities offered in exchange for the March notes. Weekly reporting member banks increased their Treasury bond holdings by $389 millions and reduced their holdings of Treasury notes by $345 millions during that week (Chart II).

Although these data do not provide us with information specifically relating to the exchange offering, they would seem to indicate that reporting banks exchanged about $350 millions of the March notes for the new 1951-53 bonds. Of this amount, New York City banks accounted for about $100 millions, and banks outside of New York City for about $250 millions.

The Federal Reserve banks acquired $100 millions of the new bonds by exchange, and $73 millions were issued directly to government agencies and trust funds.

Out of a total of almost $1100 millions of bonds issued, we have thus accounted for about $525 millions. Of the remaining $575 millions, other banks (those not included as weekly reporting member banks) probably accounted for a substantial amount.

Individuals probably acquired a larger amount of the new bonds than might have been expected. They are believed to have held an unusually large amount of the rights, and they may have taken the new bond instead of the new note because of the difference in the coupon, notwithstanding the difference in tax-exemption and the difference in term.

III. Other Domestic Securities Markets

High-grade corporate bonds have continued strong in the past two weeks. The Treasury average of the yields on high-grade corporate bonds closed Thursday at 2.62 percent, a new low yield (high price) for the war recovery movement. Municipal bonds were unchanged in the week ended December 30 from the previous week when the Dow-Jones average of the yields on twenty 20-year bonds reached 2.56 percent (Chart III). This marks a new all-time low yield (high price) for municipal bonds.

The usual seasonal decline in the volume of new security issues was checked by the offering on Friday, December 29, of $60.0 millions of bonds of the Louisville and Nashville Railroad, which brought to $70.7 millions the aggregate of new
issues offered publicly in the New York market during the week ended December 30.

The Louisville and Nashville issues consisted of $30.0 millions of 10-year, 3-1/2 percent bonds offered at 101 to yield about 3.40 percent, and a like amount of 20-year, 4 percent bonds offered at 100-1/2 to yield about 3.95 percent. It is understood that both issues were sold out on the offering day and they are now quoted at small premiums over their offering prices.

This is the largest publicly offered railroad financing since 1936 when the Southern Pacific and the Virginia Railway each marketed $50 millions, and, with these exceptions, the largest since 1931. All three issues were for refunding purposes. The Louisville and Nashville securities were offered by Morgan, Stanley and Company, subject to ICC approval, and a competing underwriting house (Halsey, Stuart and Company) complained to the ICC because the issues were not opened to competitive bidding.

It was announced late on Thursday, December 28, that the SEC had authorized the Consumers Power Company to proceed with the marketing of its bonds. This issue had been delayed for several weeks by hearings before the Commission, occasioned in part by the demand of Otis and Company that the issue be opened to competitive bidding. The amount of the issue was ordered reduced from $28.6 millions to $18.6 millions, the remaining $10.0 millions to be raised by the sale of common stock. In accordance with this decision, $18.6 millions of 30-year, 3-1/4 percent bonds were offered on Wednesday, January 3, priced at 105-1/2, to yield about 2.97 percent. The issue was well received and went to a small premium on the offering day. No action was taken, however, with respect to the remaining $10 millions.

IV. New York City Bank Statements

In the past few days the large New York City banks have published their statements of condition as of the end of the year, and it is now possible to see what these banks individually have been doing with respect to Government securities in the last three months.

Chart IV shows, for selected dates, the holdings of direct and guaranteed Government securities of eight of the largest reporting member banks in New York City. These banks account for about 85 percent of the Government holdings of all New York City weekly reporting member banks. The chart also shows, for the same dates, the holdings of all weekly reporting member banks in New York City. The combined holdings of J. P. Morgan & Co. and Drexel and Co. are also shown, although these institutions are, of course, not weekly reporting member banks.
The dates used in the chart are June 30, 1936, when the
Government security holdings of New York City weekly reporting
member banks reached their highest level prior to the latter
part of 1939; September 30, 1937, the date which marked the sub-
sequent low point; December 31, 1938; and the two most recent
quarterly dates.

In the last three months, weekly reporting New York City
member banks increased their holdings of Government securities
by $255 millions, of which $249 millions was accounted for by
the eight member banks shown separately in the chart. The
National City Bank alone accounted for $127 millions of the
increase, and all but one of the other banks shown separately in
the chart reported some increase during the period.

The holdings of J. P. Morgan and Co. increased by $93 mil-
ions during the quarter, the largest percentage gain (29 percent)
reported by any of the banks shown in the chart. Morgan now has
about 67 cents in Governments for every dollar of deposits.

The following table (arranged in order of percentage in-
crease) shows the net changes during the quarter for each of the
banks shown in the chart.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Change Sept. 30 to Dec. 31, 1939</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Millions of dollars)</td>
<td></td>
</tr>
<tr>
<td>J. P. Morgan &amp; Co.</td>
<td>+93</td>
<td>+29</td>
</tr>
<tr>
<td>National City</td>
<td>+127</td>
<td>+19</td>
</tr>
<tr>
<td>Irving Trust</td>
<td>+20</td>
<td>+13</td>
</tr>
<tr>
<td>Guaranty Trust</td>
<td>+50</td>
<td>+12</td>
</tr>
<tr>
<td>Central Hanover</td>
<td>+24</td>
<td>+8</td>
</tr>
</tbody>
</table>
| All New York City report-
  ing banks               | +255                             | +6             |
| First National           | +12                              | +4             |
| Manufacturers' Trust     | +9                               | +3             |
| Chase National           | +11                              | +1             |
| Bankers Trust            | -34                              | -6             |

It was noted a few weeks ago that the Bank of Manhattan was
reducing its holdings of Governments, in contrast with New York
City reporting banks as a group. The year-end statement shows
that since September 30, this bank (not shown in the chart) has
reduced its Government portfolio by $35 millions, or by 30 percent.
This is a larger percentage change than is shown by any bank in the chart.

During the calendar year 1939, all but one of the banks shown in the chart increased their holdings of Government securities. The exception was Irving Trust, which reduced its portfolio by $23 millions, or 12 percent. The largest percentage increase (115 percent) was shown by Central Hanover, which raised its Government portfolio from $153 millions to $334 millions. Guaranty Trust showed the largest dollar increase ($244 millions), representing a gain of approximately 50 percent during the year.

At the present time, the Government security holdings of all weekly reporting member banks in New York City are below the new all-time peak established last month (December 13), but are still higher than the June 1936 peak. Four of the reporting banks shown in Chart IV and J. P. Morgan and Co. hold more Governments now than in June 1936, while the other four banks hold less.

V. Foreign Securities Markets

British 2-1/2 percent consols, after showing little activity for several weeks, rose one point on Thursday, January 4, to 69-5/8, equivalent to a yield of 3.60 percent. This is the highest price since June 1, (Chart V). French 3 percent rentes reached a new high since June 27, selling on Wednesday, January 3, at 77.10, to yield 3.89 percent. On Thursday they fell back about half a point.
Chart I

YIELDS OF TREASURY BONDS AND NOTES
Based on Closing Prices

YEARS TO MATURITY OR CALL

PER CENT

3.2

2.8

2.4

2.0

1.6

1.2

0.8

0.4

0.0

PER CENT

0

1

5

10

15

20

25

0

1

5

10

15

20

25

SEPTMBER 25, 1939

JANUARY 3, 1940

JUNE 5, 1939

Regraded Unclassified
Comparative Yields of Average of All Long Term U.S. Treasury and Dow-Jones Average of Municipal Bonds

Yields Based on Saturday Quotations

Office of the Secretary of the Treasury
Director of Financial Statistics

Regraded Unclassified
Chart IV

NEW YORK CITY BANK HOLDINGS OF U.S. SECURITIES
Including Guaranteed Obligations

DOLLARS Billions

All Weekly Reporting Member Banks in N.Y.C.

Selected New York City Banks

DOLLARS Billions

Chase National

National City

Guaranty Trust

Bankers Trust

J.P. Morgan & Co.

Central Hanover

Manufacturers Trust

First National

Irving Trust

Note: Figures are for the end of month shown.
Chart V

Comparative Yields of Average of All Long Term U.S. Treasury Bonds and U.K. 2½% Consols
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 3:15 this afternoon, Mr. Purcell of the Securities and Exchange Commission telephoned me that the President of the Curb Exchange of New York had been pressing him for an indication as to the attitude of interested Government departments and agencies toward the proposition which was advanced earlier this Fall of adding certain Canadian securities to those listed on the New York Curb Exchange. Mr. Purcell wanted an explanation of the Treasury's attitude to enable him to reply further to the President of the New York Curb Exchange.

I reminded Mr. Purcell that the conversation between representatives of his Commission and Mr. Dietrich (as reported in my daily memorandum of October 15, 1939) had been purely informal, and that the official views of this Department had not been requested. I added further that the Treasury Department would have no veto, as I understood it, on the proposed operations. I admitted Mr. Purcell's contention that there might be something in the matter of interest to the Treasury, and I promised to see the matter studied if he cared to send us a written letter or memorandum setting forth the points in question. He agreed to do this.
TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Knoke told me by telephone yesterday, and confirmed by his memorandum dated January 3, 1940, of the inquiry made by the Consul General in New York of the Sovereign Prince of Monaco in regard to the Federal accepting a gold deposit from the Prince of Monaco.

At Mr. Knoke's suggestion, I telephoned Dr. Feis in the State Department today and summarized Knoke's memorandum to Feis. I explained that the Consul General had made inquiry and was reporting to his Government. I thought that no action was required on the part of the State Department until such time as a formal inquiry might be received as to the identity of the accredited representative of Monaco in this country, since such individual will presumably have some authority, perhaps full authority, over the account under contemplation. Dr. Feis agreed with this; told me that he would pass on the word of this inquiry to his colleagues in the Department; and that nothing further was required by the Department of State from the Treasury or from the Federal Reserve Bank at present.

I told Mr. Knoke by telephone this afternoon of my conversation with Dr. Feis, which satisfied him.

I see no reason why the account should not be opened, provided the Federal Reserve Bank and Board are satisfied, and I should favor the Treasury selling gold to Monaco if it has the dollars here with which to make the purchase.
Mr. Paul Fuller, Jr., Consul General in New York of the Sovereign Prince of Monaco, called this afternoon at 2 o'clock by appointment and inquired whether it would in principle be possible for the Principality of Monaco to make a gold deposit with this bank. Mr. Fuller explained that there was no central bank in Monaco; that there was a caisse des dépots, etc., in whose name the deposit might be established if that were possible; that although the country had its own money, French currency was the one generally in circulation; and that the country was very jealous of its privilege to have its own money. I replied that in isolated instances in the past this bank had accepted gold deposits from foreign governments in cases where there was no central bank in existence but that such deposits had to be approved by our board of directors as well as the Board of Governors of the Federal Reserve System. Under the circumstances I could not, of course, answer his questions either in the affirmative or in the negative.

Mr. Fuller then inquired whether it would be possible for the Principality to buy gold in this country and I explained that such purchases were possible only with the approval of the Treasury Department.

His third question was as to our general conditions for this kind of business and I explained that in cases where no account was kept with us (and we could not keep an account for a foreign government) our charge was 1/8 per mil per annum.
Mr. Fuller inquired whether an attorney could be appointed here to issue instructions to us in case we accepted the deposit and I explained that one possible way would be for the diplomatic representative in this country of the Principality, if and when his government was ready, to make formal request of us through the State Department in Washington. Mr. Fuller replied that he is the representative of his country and duly accredited to the State Department. I repeated that as stated at the outset any request if received by us would be submitted to our board of directors and to the Board of Governors in Washington.

Mr. Fuller is going to pass this information on to Monaco.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 5, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When I talked with Mr. Knobe at 2:50 this afternoon I mentioned the
order received today for the sale of $25,000,000 from the earmarked gold
amount of the Sveriges Riksbank.

In this connection Knobe told me that on January 3 the Federal Reserve
Bank had cabled Governor Booth further with respect to the latter's inquiry
of last month, to the effect that after consideration by the Directors
of the Federal Reserve Bank of New York and by the Board of Governors of
the Federal Reserve System it had been decided that the New York Bank should
adhere to its present policy under which the only way it could accommodate the
Sveriges Riksbank would be through loans against gold held in this country.
(This closed out the possibility of Booth borrowing against gold held in
Scandinavia, or upon Swedish commercial bills held in Scandinavia.)

A reply to Governor Harrison came this afternoon to the effect that
Booth was at present not interested in borrowing against gold in the United
States.

Knobe told me that he had informed the Swedish Minister in Washington
of the above message from the Federal Reserve Bank of New York to Governor
Booth.

At 4 o'clock this afternoon Mr. Ericsson, Commercial Counselor of the
Swedish Legation telephoned me and gave me practically the same report as
Knobe in regard to the Federal Reserve Bank's reply to Booth. The Swedish
Legation has not yet received any further information from Booth in the
premises, and is not aware whether he desires that the Legation pursue its
efforts to obtain a credit from the Export-Import Bank. Ericsson remarked
that the $75,000,000 which he understood was to be requested from Congress
for the Export-Import Bank would obviously be inadequate to meet the many
demands for loans which he presumed the United States was now receiving from
call of Latin America and many other countries.

Mr. Ericsson promised to let me know if he received further instructions
from Governor Booth with respect to obtaining credits in the United States.
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

To     Mr. Cochran

From  Mr. Dietrich

Date: January 5, 1940

The following is a comparison of the holdings of the Bank of Sweden at the Federal Reserve Bank of New York as of August 30, 1939, the peak of their holdings, and the close of business tonight:

<table>
<thead>
<tr>
<th></th>
<th>August 30, 1939</th>
<th>January 5, 1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance</td>
<td>$114,948,000</td>
<td>$73,000,000</td>
</tr>
<tr>
<td>Gold</td>
<td>$77,794,000</td>
<td>$26,600,000</td>
</tr>
<tr>
<td>Securities</td>
<td>101,000</td>
<td>-0-</td>
</tr>
<tr>
<td>Total</td>
<td>$202,743,000</td>
<td>$99,600,000</td>
</tr>
</tbody>
</table>

The Swedish Bank has on the water about $13,800,000 in gold consigned to the Federal Reserve Bank.
The Reserve Bank of New York received a cable from the B.I.S. containing a request for the acceptance of a new account in the Federal Reserve Bank of New York.

The Reserve Bank of New York has accepted this request and opened an account in the Federal Reserve Bank of New York, to be used for the acceptance of transfers of gold.

The Reserve Bank of New York has accepted the following transfers of gold:

- 1,000,000: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 500,000: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 200,000: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 100,000: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 50,000: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 25,000: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 10,000: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 5,000: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 2,500: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 1,000: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 500: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 250: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 125: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.
- 62.5: From London, representing transfers from the Reserve Bank of New York, to be accepted for the account of the Reserve Bank of New York.

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CONFIDENTIAL
The prices fixed for copper for spot and forward delivery were 21-9/16d and 21-11/16d, up 1/16d and 3/16d, respectively. The U. S. equivalents figured out at 37.5 and 37.88c. The improvement in the prices was attributed to some small higher speculation buying.

Bandit and Benson's price for foreign silver was unchanged at 3A-3/4c. The Treasury's price was also unchanged at 35c.

To make four purchases of silver totalling 390,000 ounces under the Silver Purchase Act. All of this silver was new production from foreign countries and was purchased for forward delivery.
Mr. Bell
Mr. Foley
Mr. Sullivan
Mr. Gaston
Mr. Schwarz
Mr. Harris
Mr. Haas
Mr. Cochran
Mr. Thompson
Mr. White
Mr. Cotton
Mrs. Klotz

E.M.Jr: Herbert, Mr. Lepke seems to have been in the narcotic business. Are you at all interested in that?

Gaston: Yes, quite a little.

E.M.Jr: Could you prepare for me on Mr. Lepke a similar kind of story, what the U. S. Treasury had to do with the development of the case?

Gaston: Yes, it is strictly a narcotics case.

E.M.Jr: Well, nobody knows it. I didn't. I thought that this - what is the fellow that goes on the air every Sunday night, this columnist?

Foley: Walter Winchell?

E.M.Jr: Walter Winchell. I thought this was Walter Winchell's case. Didn't he handle Lepke?

Gaston: He turned him over to J. Edgar Hoover. The only thing they had to arrest him on was a narcotics charge and he was charged on a narcotics charge against the advice of our people, because he offered to plead guilty and take fifteen years and he finally got a sentence of fourteen.

E.M.Jr: Well, who does this - he got fourteen?

Gaston: Yes. He offered to take fifteen without trial.

E.M.Jr: Anyway, somebody prepares these cases for me.
Gaston: Yes.

H.M. Jr: Who does that, is that done in your office? We had a nice one, for instance, done on the Kansas City case.

Schwarz: Pendergast?

Foley: No, that wasn't done in my office.

Gaston: Elmer and Harry Anslinger prepare them.

H.M. Jr: The point is - I want Chick to note this - on the Pendergast case we had a factual statement prepared as to just what the Treasury had done from beginning to end, which was only released after he was found guilty and people constantly keep referring to it and they see that it takes time and that Governor Stark had nothing to do with it and Mr. Murphy had nothing to do with it. After the man was convicted, we did that. On these important cases, I just want a factual statement gotten out, what the Treasury did or didn't have to do with the case and then distribute it. It takes time, but gradually they realize that the Treasury keeps its mouth shut until the man is found guilty and then gives the story out afterwards.

Schwarz: What we did in that case, the agent, the agent in charge of the investigation, prepared a report.

H.M. Jr: Why isn't it done in narcotics as well, why isn't it done with Lepke?

Schwarz: I think that in this case that consciously we have held some of our fire because of the fact that he was not the major violator in this conspiracy and we don't want it to boomerang. We don't want a "Wallace".

Gaston: We will get up the memorandum. We have all the material.

Schwarz: We have a good memorandum on the conspiracy of which he was a member.
E.M.Jr: Well, look, let's do this thing and have it ready the day the indictment is handed down. That would go for customs, too, see. Then gradually the newspaper men will look for those things. O.K., gentlemen? And lady?

Herbert, anything?

Gaston: No, nothing.

E.M.Jr: I see that this man Amen is finished. It looks as though he is finished. It is on the front page of the Times. The story looks as though he has reported in.

Sullivan: Who is that, Jake Amen?

Foley: I think he is just preparing for a presentation this spring. I am pretty sure, but I will check it.

E.M.Jr: Find out, because he is a good man.

Foley: He hasn't really started yet.

E.M.Jr: What about the man I suggested?

Foley: He looks pretty good. I haven't finished, but he is about thirty-nine years old and he was Assistant Solicitor General under Tom Thatcher in the Republican administration. He is a member of Thatcher's firm, Thatcher and Bartlett. He does a good deal of appellate court work.

E.M.Jr: Mention his name.

Foley: Whitney Seymour.

E.M.Jr: Do you know him?

Foley: He graduated from Columbia Law School in 1924.

E.M.Jr: How many of these —

Foley: He went to Wisconsin College. I talked to Lloyd Garrison and Lloyd said he was swell and I gave the name to Eddie's secretary and to Jim Landis' secretary and asked them
to call me some time today and tell me what
they know about him.

H.M. Jr: He is Yale?

Foley: No, Columbia Law School, Wisconsin, A.B.

H.M. Jr: Sounds good.

Foley: Yes.

H.M. Jr: Is he a Democrat?

Foley: No, he is a Republican.

H.M. Jr: That is all right. He has been down here
as an Assistant Solicitor General. They
tell me he is a liberal Republican.

Foley: They say on matters of civil liberties,
he is. He defended some negro in the South
and did a pretty good job. On matters of
economics and other things —

H.M. Jr: Will you push hard on that?

Foley: Yes.

H.M. Jr: He has had trial work?

Foley: Yes. Tom Thatcher in that firm is the out-
standing trial lawyer in New York now.
He gets all the good stuff. I suppose this
fellow is an understudy to Tom Thatcher and
gets a great deal of stuff Thatcher can't
handle.

Cotton: Did you talk to John Cahill about him?

Foley: No, I haven't.

Cotton: He would know.

Foley: He is a little younger than John, but he
might know.

H.M. Jr: This is in connection with the Bank of America.

Cotton: I should think that might be worthwhile.
Gaston: There is some advantage that he is a Republican.

H.M. Jr: He is related somehow or other to Lloyd Garrison.

Foley: Well, Garrison didn't say that. He said he was swell and he didn't know why he hadn't thought of him.

H.M. Jr: Good. Will you push on that?

Foley: Yes.
E. Jr.: Could you (Cotton) inquire up in New York a little bit?

Cotton: Yes, but Ed — I mean if he'd — if you would like anybody's opinion, I can get it. I will talk to Ed.

E. Jr.: O.K.

Foley: Dean Bates is coming in this morning at half past ten. Would you like to see him?

E. Jr.: I have got every minute sewed up. I will have to leave it with you.

Foley: The deficiency letter on Darryl Zanuck and his wife is ready and will probably go out today. We are through with it. The total tax, interest and penalty are $675,000.

E. Jr.: You would be interested to know that last night when I congratulated the Attorney-General, he said, "There is only one thing in the six months that I have been Attorney-General that I am not satisfied with, and that is what I have done for the Treasury." And my wife thought that my answer wasn't too hot. I said, "Don't let it worry you." Don't anybody repeat any of this stuff.

Gaston: You can't argue with the Attorney-General, you know.

E. Jr.: So he said, "Don't worry, Henry, I am going to take care of you before I leave that office."

Foley: He is going to stay a month more.

E. Jr.: And Sam Clark came up and thanked me, threw his arm around me, and thought it was wonderful what I had done for him. So I told Sam Clark that it was unfortunate we hadn't met earlier. So maybe we will get somewhere.

Cochran: Knoke sent word this morning that the Consul General in New York of the Sovereign Prince of Monaco had called on him in regard to establishing a gold deposit with the Federal Reserve Bank of New York.

E. Jr.: Did Miss Henricks talk to you about Leroy-Beaulieu?
Incidentally, Mr. McKay takes over as of Monday. He will be here regularly, so everybody who wants anything can see him. I am afraid that Kieley isn't going to be well enough. If Kieley comes back, fine, but pending his coming back we will have McKay out there. He can be very helpful because he knows my peculiarities. He has traveled around the world with me.

George? George, Mr. Harris tells me that there are three million bales of cotton awaiting shipment, which have been sold. Supposing you ask the Department of Agriculture how many bales of cotton they admit have been sold and are waiting shipment and what provisions they are making to get it out of the country, see. Don't mention Mr. Harris' name, but just say we understand there are three million bales of cotton which have been sold awaiting shipment and what are they doing to get it moved.

Harris: I understand that Mr. Wallace asked Admiral Land for a statement of commodities that were backing up and he wrote Mr. Wallace and they have promised to send me over a copy of that letter.

E.M. Jr.: Why not then say all commodities that are awaiting shipment, George, will you?

Hass: Yes. I wonder who is who on that.

E.M. Jr.: Ask Wheeler, wouldn't you?

Hass: I think so.

E.M. Jr.: Basil?

Harris: No, I haven't anything.

E.M. Jr.: Harry?

White: Nothing.

E.M. Jr.: Present?

White: And accounted for.

E.M. Jr.: How are you feeling?
White: Very well, thanks.
R.M. Jr: I don't get any more from you until Monday?
White: I am hoping to have something for the week-end, Saturday noon.
R.M. Jr: What are you going to do, mail it to me?
White: Aren't you going to be in town?
R.M. Jr: If the weather permits, I am going to fly this evening.
White: I will know better tonight.
R.M. Jr: Don't strain anything.
White: If we have something, we can get it to you somehow.
R.M. Jr: Chick? I was interested in the story that Senator Harrison advocated this committee. You know the story about my originally advocating it, but just whether it is the same I don't know.
Schwartz: Well, we will ask the boys for a fuller report on what he said.
R.M. Jr: Yes. My own impression is to let it ride. That wouldn't help it or hurt it.
Bells: I think it is the same thing. He talked to Johnny yesterday. He said he had to make some sort of a statement on this thing and Johnny called his attention to your recommendation for the committee to look over the whole budget situation. He said he would look that up, your statement, and probably include that in his statement.
R.M. Jr: Well, that is the way it happened.
Bells: I think so, yes.
R.M. Jr: What else?
Bells: I called Mr. Noble and he didn't seem to know just exactly what you had in mind. He was wondering if it was the statement he takes to Cabinet every week. He said he would be glad to furnish it to you. He asked for nothing in return.
E.M. Jr.: Good. That is the statement I meant. You told him I was impressed with it?

Bell: Yes, I did.

E.M. Jr.: Mr. Spencer will be here Monday and the other two will not.

Bell: That is all right. How many lawyers have you got here Monday?

Foley: Two. Eddie and Jim.

E.M. Jr.: If it is possible that you two fellows could agree on this fellow Seymour and have him down here Monday it would be swell.

Foley: Why not ask him to come down? We can look over him.

E.M. Jr.: With the recommendation of Dean Garrison, I don't see what we need.

Foley: I don't think we can tell much more without talking to him and seeing him and telling him what we have in mind and seeing whether he is available or not.

E.M. Jr.: Are you busy Sunday night? Are you going away over the week-end?

Foley: No.

E.M. Jr.: Couldn't you have him come down and spend Sunday evening with you?

Foley: Yes.

E.M. Jr.: You could then talk to me the first thing Monday morning.

Foley: Yes.

E.M. Jr.: Could you do that?

Foley: Yes.

Gaston: Want to look up his tax returns?

E.M. Jr.: Yes.

Bell: Have you set a time Monday so that when Spencer comes in we can tell him?
Bell: He wants to get back.

H.W.Jr: 10:30. Will you let Preston Delano know?

Bell: Yes.

The matter between the Federal Reserve and the Comptroller's office is more or less at a standstill. Preston couldn't get hold of Marriner all day yesterday. He got hold of John McKee and told John he would have to come or somebody would have to come with the technicians and he said he wouldn't come.

Bell: Who wouldn't?

H.W.Jr: McKee?

Bell: Yes, unless he was ordered to by the Board and suggested they call - Delano call Eccles.

H.W.Jr: Why not?

Bell: I think it is a matter of dignity, a member of the Board coming over and talking to the technicians. We impressed Delano with the importance of letting him know that the Comptroller would sit in, if that would help matters any.

Bell: Does the Comptroller agree with the view I expressed to you yesterday?

H.W.Jr: Yes, I think he does. At first he didn't think it was so important, but when we raised these questions he said he thought you were right.

Bell: Well, if we deprive the Federal Reserve Board members of their dignity, what would happen?
Bell: I think that somebody said here yesterday that two directors had called the office of the examiners and gotten their letters.

H.M.Jr: No, you are my sole source of information. Two directors?

Bell: Two directors called and picked up the letter. They wanted to see the contents.

H.M.Jr: You mean the Secretary of the Board has not forwarded it?

Bell: Apparently not up to that time.

Foley: He telegraphed and said that his counsel was thinking about it further and it was possible they might reach some decision before the meeting of the Board of Directors on the 9th of January, but he had not distributed the letters when he sent the telegram.

H.M.Jr: What else, Dan?

Bell: There have been a number of bills introduced in Congress regarding Finland, going all the way from cancelling the debt to the loaning of sixty million dollars. I am wondering if the President wants to send up any special message on it.

H.M.Jr: Will you give me a memorandum on that to take to Cabinet, please?

Bell: Yes.

H.M.Jr: I just have the number of the bills. Will you give me a little short description of them?

Bell: All right.

Thompson: Here is your annual report to Congress that you sign.

H.M.Jr: Any snappy stories in it?

Chick, what are you doing about those names of the distinguished few who got seventy-five thousand dollars or over?
Schwarz: The lucky seven hundred fifty-nine?

H.M.Jr: Yes.

Schwarz: I wanted to talk to Mr. Sullivan. They are all prepared at the Bureau. They are awaiting orders from the Treasury. They were awaiting orders from Mr. Hanes and this transition means they are waiting orders from Mr. Sullivan.

H.M.Jr: I will be back Monday morning. I am leaving some time this afternoon, weather permitting.
Supplementing information concerning deliveries of the Curtiss P-40, I learned from an officer of the Curtiss-Wright Corporation that this is not the ship which was shown at the review attended by the President in October, 1938.

That ship was practically a converted P-36 with one of the original Allison motors installed. It was an experimental type in every sense of the word. The ship was further developed for the competition at Wright Field in Dayton which began in May 1939, and submitted by Curtiss-Wright as their entry. After an agreement on their part to make certain changes in the wings and fuselage which were made necessary by the installation of the improved Allison motor at present being produced, they were given a contract in June, 1939, one month after the ship had been shown and flight-tested at Dayton.

The first ship was completed and flown last week, and it is anticipated that two more will be completed by the latter part of next month in order that the three indicated for March delivery, 1940, which are for flight and static tests may be delivered to Wright Field in Dayton on schedule.

Director of Procurement
Receipt acknowledged and copy of material sent to Mr. Blough 1/6/40.
The Honorable Henry Morgenthau Jr.
Secretary of the Treasury
Washington, D. C.

Dear Henry:

I am returning the memorandum that you sent me several days ago together with some comments on the Income-Certificate Plan. I have retained the photostat copies of the memorandum and of the Department of Agriculture Sales Prospectus for my confidential files, but if you wish to have them returned I will do so at once on word from you.

The memorandum is an excellent statement of the distribution of the burden of the proposed Income-Certificate Plan for agriculture. It seems to be essentially accurate, and I am in agreement with the major conclusions. In the comments that I am sending I have added a few additional points that seem to me to be worthy of consideration.

Most of the work in analyzing this proposal has been done by N. Slade Kendrick and M. P. Catherwood, who are Professors of Public Administration and Finance in this Department. I have combined the major points which they have suggested into one brief statement. This can be expanded with a fuller discussion if it would be helpful to you.

I expect to be in Washington on Wednesday and Thursday of next week, January 10 and 11, and if you have time to spare I would be glad of an opportunity to see you for a few minutes. In any event, I'll call your office when I arrive between 11 and 12 Wednesday morning.

The Income-Certificate Plan is in effect a concealed tax on the bread and overalls of many families who are in as great distress as the families it is intended to benefit. In my opinion, it would work a serious injustice to the farmers and city people of the Northeast without any compensating public benefit.

I am very glad to have the opportunity of giving even minor assistance in bringing out the true facts of this situation. With warm personal regards, I am,

Yours sincerely,

[Signature]

N. L. Myers

Enc.

CC. Ladd, Kendrick
    Catherwood, Babcock
COMMENTS ON THE PROPOSED INCOME-CERTIFICATE PLAN FOR AGRICULTURE

1. The Income-Certificate Plan would, in effect, be a highly regressive tax and would bear most heavily on low income families.
   a. Persons with small incomes spend a larger proportion of their incomes for wheat, cotton and rice products than do persons with large incomes.
   b. Persons with low incomes commonly buy low priced articles. Since this tax is based on weight, its cost would be greater in relation to price for low priced articles than for high priced ones.

2. Although proposed as a means for increasing farm incomes the Income-Certificate Plan would benefit a group of about three million farm families engaged in the production of wheat, cotton and rice at the expense of four million other farm families and twenty-two million non-farm families. The number of families in the two latter groups who are in distress greatly exceeds the number of distressed families in the group benefitted.

3. The benefits of the Income-Certificate Plan would go to these three million farm families in proportion to their production of wheat, cotton and rice and not in proportion to their need. Large producers would get the greatest payments and small producers, the lowest.

4. Since the Plan makes no provision for compensatory taxes there would be a definite tendency to increase the use of competing products and discourage the consumption of cotton, rice and wheat. This
would be especially true in the case of cotton. Rayon would be expected to make further inroads on cotton consumption thereby increasing the problem of marketing the crop and adding to the difficulties of the control program.

5. The Plan contains no provision for the exemption of wheat processed for feed for poultry, cattle and other farm animals. Unless the tax were allocated by processors entirely to wheat products used for human food — a most unlikely proceeding — this tax would result in increasing the cost of feed purchased by other farmers as well as in adding to the cost of the wheat, rice and cotton used in their households.

6. The Income-Certificate Plan is avowedly advocated as a method of deception. It provides funds for benefit payments to certain farmers outside the regular budget and without annual appropriation. Such an evasive method is in direct conflict with the attempts being made to simplify and improve federal and state tax systems. Moreover, it is in conflict with democratic procedure as applied to public finance. Regardless of the type of taxation used, such expenditures should be included in the budget and subject to annual appropriation since it is only by this means that they can be subjected effectively to public opinion.

7. No floor stock tax is levied. In view of the shifting of the tax forward to consumers, advantage will attach to processing and stocking up in advance of the effective date of the Plan or of any increase in the tax. Conversely, disadvantage will attach to the holders of stock on any decrease in that rate.
At the beginning of each crop year when a change in the rate might be expected, the processing and handling trades will experience a period of great uncertainty. Adjustment of their operations to this uncertainty would result in increased margins to meet the cost of carrying the increased risk. Thus public action in the adoption of this plan would result in increasing the spread between producer and consumer and would make the marketing system more inefficient.

8. Even if adopted the results of this plan to raise and maintain the unit return from single agricultural products substantially above the general level of prices of other farm products will probably be disappointing. Increased substitution from competing products will reduce demand while farmers will strive to raise more of the profitable product through increased intensity of production or increased acreage, or both.

9. The Income-Certificate Plan emphasizes the return per unit from wheat, cotton and rice and ignores the fact that a farmer's income is the result of production times price. If, as seems probable, production would have to be curtailed to maintain a relatively high return per unit, the increase in net income of the farmer would be small without any diminution in the increased cost to consumers. With a reasonably stable price level the gross returns from large and small crops of staple farm products are approximately equal.

Conclusions

The disparity between the prices received by farmers for their products and the prices paid by them for goods and services remains as
the basic cause of agricultural distress. It is also a major cause of unemployment. This disparity will not be corrected until the price level of farm products rises enough to restore the equilibrium that was destroyed by the decline of 1929-33.

The situation has been improved by the general upward trend of recent months since, as always happens, farm prices rise more rapidly than retail prices. Further improvement can be expected as long as the trend of the price level continues upward.

If payments are to be made to farmers as a partial corrective of this price disparity, they should be distributed as fairly as possible among all farmers who suffer from it. The funds should be obtained from general taxation and should be appropriated by the Congress.
December 28, 1939

MEMORANDUM FOR THE SECRETARY:

In response to your request there is attached a memorandum on "The Distribution of the Burden of the Proposed Income Certificate Plan for Agriculture," which indicates reasons for believing that the net effect of the plan would not be appreciably "progressive," if at all.

It would seem that emphasis should not be placed on the "progressiveness" or "regressiveness" of the plan as a whole, since the fiscal problem of agricultural benefit payments is not substantially different from that of any other type of governmental service or expenditure. Emphasis might properly be placed rather on the burden of the tax itself as is the case in considering taxes for other purposes. Our original memorandum pointed out the high degree of regressiveness of the income certificate tax. No one has denied this conclusion.

[Signature]

Regraded Unclassified
The Distribution of the Burden of the Proposed Income Certificate Plan for Agriculture

The proposed income certificate plan for agriculture is a combination of processing taxes and farm benefit payments. Certificates would be employed to collect taxes on the occasion of the first domestic sale of certain agricultural commodities in processed condition, for the purpose of distributing benefit payments to the producers of these commodities.

The plan is a device to provide one type of agricultural benefits – parity payments – outside the Budget, without direct recourse to the general fund of the Government, and without annual appropriation by the Congress. The method is such that it can be applied successfully to only a few agricultural commodities. The Department of Agriculture has proposed to make the plan applicable to wheat, cotton and rice.

The certificate plan would impose a tax on certain necessities. It would tax the consumption of wheat, cotton and rice. Experience with the processing taxes under the Agricultural Adjustment Act of 1933, invalidated in 1936, indicates that the burden of taxes on these commodities would fall, in large part, on consumers. Inasmuch as the consumer expenditures for the products of these agricultural commodities account for a much greater proportion of the total
expenditures of individuals and families with small incomes than of the total expenditures of those with larger incomes, the burden of the tax would be regressive. It would bear more heavily on those with small incomes than on those with larger incomes.

The tax would be unusually regressive for it would be imposed on physical units of an agricultural commodity, without regard to the price of the product consumed. Unlike a sales tax which is imposed on the basis of value, the certificate tax would be imposed on the basis of weight or volume. Low income consumers purchasing low-priced articles, such as overalls would pay a higher tax with each dollar spent than higher income consumers purchasing high-priced cotton articles.

It may be that in some cases processors would find it necessary and practical to transfer some of the tax burden from their low-priced to their high-priced products. Under the invalidated processing taxes cigarettes, for instance, appear to have borne more than their share of the tobacco taxes. This type of adjustment, however, is very uncertain and cannot be predicted as a likely occurrence in the case of other products.

The rate of taxation contemplated by the proposed certificate plan would be far heavier than the rates which in the
past usually have been applied to necessities in the United States. The general sales taxes imposed by States in no instance exceed 3 percent of the amount of the transaction, and moreover, in many cases exempt food items from taxation.

The rate of the tax under the proposed certificate plan would be equal to the difference between estimated parity prices and the average farm prices of the particular agricultural commodities affected. In some instances, the rates of these taxes would be even higher than those imposed under the invalidated processing taxes. A 6-cent tax on 9-cent cotton, for instance, would be equal to 66 percent of the selling price. The imposition of indirect taxes of this magnitude, superimposed on an already regressive Federal-State-local tax system, would severely affect the already limited purchasing power of the low-income families. They would bear a large part of the heavy burden which a tax on wheat would impose annually on domestic consumption of bread and other wheat products.

The effects of the certificate plan would be especially burdensome to those who, just like wheat, cotton and rice farmers, are receiving less than "parity" incomes. There are large numbers of other persons on farms and in the cities who have incomes and standards of living as low as the growers of
wheat, cotton and rice. The whole body of the unemployed and the under-employed laborers in all industries have less than "parity" incomes and would be subjected to a heavy burden on account of the tax.

There is general agreement that the adoption of the certificate plan would constitute, in effect, a tax on consumption. It, nevertheless, has been maintained that the regressive effects of the tax would be offset by the "progressive" effects of the expenditures and that the net result would be "progressive." Underlying this position is the assumption that the plan would benefit a low-income farm group largely at the expense of a higher-income non-farm group.

At the outset, it should be noted that this distinction between farm and non-farm population is not relevant to the issue at hand. The certificate plan has been designed for the benefit of wheat, cotton and rice (and possibly some tobacco) growers only. It cannot be employed successfully, and it is not proposed, for the benefit of the growers of the many other farm commodities. In consequence, the plan does not propose to benefit the entire farm population at the expense of the entire non-farm population. It proposes, rather, to benefit wheat, cotton and rice growers as distinct from all other farm groups as well as all the non-farm groups.
There are at present in the United States approximately 7 million farm families. About 3 million of these are engaged, to a small or large extent, in the growing of wheat, cotton and rice. Thus, even if all wheat, cotton and rice growers cooperated in the AAA production and soil conservation programs and were eligible for parity payments, the certificate plan would benefit not more than 3 million farm families, at the expense of another group consisting of 4 million farm families and more than 22 million non-farm families, not to mention several million single individuals.

Moreover, the plan, if adopted, may not be of much help to some wheat and cotton growers. That likelihood is indicated by the fact that a portion of these 3 million wheat, cotton and rice growers produce these commodities in such small quantities that the benefits they would receive from their share of the certificates, if they complied with the farm program would be offset largely by their share of the tax burden as purchasers of wheat, cotton and rice products.

The certificate plan is said to have progressive effects because the average income of the farm population which would be benefited is lower than the average income of the non-farm population which would be taxed. However, a comparison between farm and non-farm population on the basis
of per capita incomes is subject to misinterpretation. The incomes of the two groups are not comparable. A dollar of income in a rural area is something entirely different from a dollar of income in an industrial area. Its purchasing power is different because the cost of living generally is lower in rural than in urban areas. For those on farms, food and clothing, two important elements in the budget of the low-income groups, require a smaller expenditure than for those in the cities.

In comparing the income of the farm and the non-farm population it is emphasized that a larger proportion of the farm population falls in the low-income group than is the case in the non-farm population. It is pointed out, for instance, that a considerably larger percentage of the families on cotton farms have low annual incomes than is the case with an industrial population. Such use of percentages, however, does not bring out some of the important aspects of the low-income problem. The percentages relate to entirely different magnitudes. In 1935/36, one-third of American families are estimated to have had incomes of less than $780. No information is available on the income distribution among wheat, cotton and rice farmers. However, in that year, 37.6 percent of all non-relief farm families
were estimated to have had annual incomes under $750. For all non-relief families, the corresponding proportion was only 23.5 percent. However, in actual numbers, almost 6 million non-relief families had incomes less than $750. Non-relief farm families accounted for a little over 2 million of the six. However, families of wage earners also accounted for over 2 million. Even if the percentage of wheat, cotton and rice growers falling in this low income group were much larger than that reported for all farm families - an extreme assumption - the adoption of the certificate plan would result in the taxation of at least 5 million non-relief families with incomes of less than $750, for the benefit of wheat, cotton and rice growers, only part of whom have such low incomes. In other words, it is at least not evident that the net effect of the plan would be a distribution of income from higher to low income groups.

Moreover, we are here dealing with families whose incomes range from minus quantities upward. In consequence, even if, on the average, the families taxed had a higher income than those which received the benefits, the families taxed would still include a number whose incomes would be lower than the incomes of many receiving the benefits. In
other words, despite the fact that on the average farm families have lower incomes than urban families, the plan would tax some consumers with little or no income for the benefit of farmers with relatively larger incomes. This is the converse of progressiveness.

Finally, it should be noted that the benefits under the certificate plan would be distributed among farmers approximately in proportion to the present distribution of incomes. Wheat, cotton and rice growers would benefit in proportion to their normal production. Therefore, in general, farmers with large farms, producing large amounts of wheat, cotton or rice would receive more money from the plan than small farmers producing smaller amounts.

This analysis indicates that the certificate plan would not have progressive effects. The cost of the plan would be distributed inversely to tax paying ability. The benefits of the plan for these commodities would be apportioned roughly according to the present distribution of incomes among the growers. Moreover, some purchasing power would be transferred from low income families to higher income families. At all events, if the effects of the certificate tax on consumers for the benefit of producers would have progressive effects, then the degree of that progressiveness certainly would be less than could be achieved by the use of almost any other taxing device.
These conclusions, however, concern only the distribution of the burden of the proposed certificate plan and, of course, have no necessary bearing on the case for increased parity payments to farmers. These conclusions do imply that if the Congress elects to make additional appropriations for such parity payments, it would be undesirable to finance such appropriations from taxes falling exclusively on the consumers of necessities.
TREASURY DEPARTMENT
ENTER OFFICE COMMUNICATION

DATE January 6, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was very dull. Sterling opened at 3.93 and, on some Japanese and West coast buying, the rate appreciated to 3.93-7/8. It subsequently tended to close at 3.93-1/4.

Sales of spot sterling by the four reporting banks totaled £223,000, from the following amount:

By commercial concerns..................£ 91,000
By foreign banks (Europe)................£ 132,000
Total...£ 223,000

Purchases of spot sterling amounted to £85,000, as indicated below:

By commercial concerns..................£ 45,000
By foreign banks (Europe)................£ 40,000
Total...£ 85,000

The following reporting banks sold cotton bills totaling £35,000 to the British Central at the official rate of 4.02:

£ 24,000 by the Guaranty Trust Co.
£ 11,000 by the National City Bank
£ 35,000 Total

The other important currencies closed as follows:

French francs .0223
Soviet .5327
Swiss francs .2243
Belgian .1674
Canadian dollars 12-1/16% discount

There were no gold transactions consummated by us today.

The State Department forwarded to us a cable stating that the National City Bank at Calcutta shipped gold valued at $360,000 to its office at New York. This shipment, on arrival, will be sold to the U. S. Assay Office.

Mr. Kissel telephoned us Friday evening that as of the opening of business on that morning, January 5, the balance of the State Bank of Russia with the Chase Bank had descended to a new low level of $500,000. Balances for letters of credit
amounted to $5,300,000. The Antwerp balance with the Chase was $2,200,000. During
the day $2,000,000 was received from the Rotterdam Bank, thus increasing the bal-
ance from $500,000 to $2,500,000 for the State Bank account with the Chase. The
following indicates the source of the $2,000,000: under instructions from the B.L.S.,
the Federal Reserve Bank this week paid $4,300,000 to the Chase Bank, in favor of
the Rotterdam Bank. The Chase Bank was yesterday instructed by the Rotterdam Bank
to transfer the $2,000,000 to the Russians. Since the last information on these
balances was provided us on December 25, there have been few in or out payments of
such interest. One in payment of $750,000 was received from the Swiss Bank Cor-
poration in New York and one of $750,000 from the Union Bank in Switzerland. The
State paid to the Antwerp three lots of $750,000 each. A few local payments had been
made, but of only small importance.
January 6, 1940

(Dictated by Mr. Cochran in 
HM, Jr's office 1-8-40.)

Purvis telephoned at 11 o'clock on Saturday and he stated that he would like to arrange to see you as soon as he could; that he had two or three things to tell you. First, after some difficulty, it had been arranged that those deliveries would be extended over three months instead of two. (That refers to nickel to Japan.) But he said the cablegrams which he got back indicated that this had been a pretty hard fight to get that done.

He said further that Monnet was anxious to get some idea as to the reason for the delay, for the postponement, of the Frenchmen from Europe and Purvis said he did not want to press you for that; presumed you would tell him in good time.

Then he referred to a letter to you of January 2nd, in regard to copper and another letter in regard to stocks in China and he said there was something already started in regard to control of one other factor mentioned. In this whole conversation he was rather indefinite because that must have been some other metal. What it was, I don't know.

And he gave me his private number in his apartment in the Hampshire House -- Columbus 5-0667.

I did not phone you Saturday noon because I did not want you to be bothered with this and I told him that if I did speak to you I would convey his message.

(HM, Jr's comments: I don't want to see Purvis until I have seen the President, so we will let him stall a little bit.)

The other thing I had you in for was, I would like to get over to Pimsent -- I suppose he's the only fellow here -- this thing of the English and the French, or the English, indicating ten securities that we could see whether we can't get -- I mean, for instance, U.S. Steel to buy its stock, the N.Y. Central R.R. to buy its stock, that the English offer.

Mr. Cochran: There is one thing on that. I am no
lawyer. I think some of these companies may have a provision against buying in their own securities.

HJnJr: That's what I want to clear with Jerome Frank. I will get hold of Jerome Frank and ask him if it is convenient to come over at 11:30 o'clock.
London, January 6, 1940.

Federal Reserve Bank of New York

New York

No. 25/40 CONFIDENTIAL FOR EKOCX

We intend to quote dollars here 638 1/2 to 638 1/2 as from Monday. Margin for certain other exchanges will also be reduced.

Boltem
Jan 7, 1946

HOPEDELL JUNCTION
DUTCHESS COUNTY, NEW YORK
TELEPHONE: HUG 921

1. English and French should plan to combine their security forces along the lines outlined by me to defend this plan with gunfire from and tank it hard.
Small business loans to be

be handled. Bring Freedom

from Chicago to study plan.
Secretary of State,
Washington.

25, January 8, 4 p. m. (SECTION ONE)

FOR THE TREASURY FROM MATTHEWS.

As you are aware from my previous telegrams much is being written and said here of the "closed capital circuit" and the importance of its smooth and rapid functioning to French financing of the war. I believe it worth cabling you, therefore the following full summary of an article by Frederic Janny in last night's TEMPS entitled "Reflections on the "circuit"":

He bases his article on a speech during the budget debate in the Chamber of Deputies by former Finance Minister Pietri on the necessity of maintaining the capital circuit, in the course of which the latter observed "correctly" that "If it were necessary to pay out definitively only half of the gigantic sum which the state will have to spend in 1940 the whole monetary edifice would crash and fall in pieces".

BULLITT

ELP
Secretary of State,
Washington.

25, January 8, 4 p.m. (SECTION TWO).

It is therefore essential that as large a part as possible of "the huge sums put in circulation by the state return to its coffers in the form of loan subscriptions to be utilized for new expenditures which, in their turn, will feed circuit." In theory this can continue indefinitely but only if all of certain essential conditions are fulfilled and it is these which the authorities must closely watch.

BULLITT

KLP
HSM

GRAY

Paris

Dated January 8, 1940

Rec’d 2:55 p.m.

Secretary of State,
Washington.

25, January 8, 4 p.m. (SECTION THREE).

As a first condition there must be no export of capital. Such export of capital produces a contraction in the quantity of internal means of payment to the extent that the outflow of funds breaking the equilibrium on foreign exchange markets involves gold exports and to the extent that the latter in turn requires the bank of issue to withdraw its notes from circulation. An export of capital would soon bring about a fall in the franc and shortly thereafter a rise in prices which, in turn if sufficiently great would hinder the functioning of the capital circuit. However exchange control and the natural tendency of owners of capital to bring back their funds in time of war assure he says (with perhaps undue optimism from the long term point of view) that there will be no export of capital.

BULLITT

CSB
GRAY

Paris

Dated January 8, 1940

Rec'd 3:10 p. m.

Secretary of State,

Washington,

25th, January 8, 4 p. m. (SECTION FOUR)

The second essential condition of the capital circuit is a relative stability of prices. If the internal purchasing power of money is reduced the expenses of the public will absorb a greater part of the sums poured into circulation by the state and consequently a smaller part will return to the Treasury. Thus the Government must logically fight against an increase in living costs. He continues "this struggle, however, poses delicate problems. If the authorities wish to stabilize prices by sheer force without taking into consideration the elements for a rise escaping their action nor the grievances in which the articles sold can be replaced, production and interchange of goods will be exposed to a progressive paralysis from which the Treasury itself would in the end inevitably suffer."

BULLITT

C/OH
GRAY
Paris
Dated January 8, 1940
Rec'd 4:45 p.m.

Secretary of State,
Washington.

25, January 8, 4 p.m. (SECTION FIVE).

If on the other hand no brake is placed on a rise in prices the mechanism on which the Finance Ministry depends steadily to feed the state's coffers will be broken sooner or later. What is necessary in this question therefore is a middle course; this is moreover what the Minister of Finance has implicitly admitted in his reply to Pietri when he indicates that if the Government cannot prevent the repercussion on internal prices of factors such as rises in freights and raw materials on the world market he will continue on the other hand his efforts on points where his action can be effective."

A third essential of the capital circuit is that the banknotes poured out by the state must not be hoarded.
Secretary of State,
Washington.

25, January 8, 4 p. m. (SECTION SIX)

Pietri asked somewhat paradoxically whether the government does not risk having its money hoarded if it inspires confidence while on the other hand would not it see banknotes flowing back to the treasury windows if depreciation were feared? The reply, says Jenny, is in the negative. If the public has confidence in the franc it will likewise have confidence in the credit of the state; it will therefore subscribe to loans. If on the contrary it distrusts the currency it would be tempted either to hoard because of the extreme liquidity of banknotes or to purchase goods or acquire real property of some sort.
Secretary of State,
Washington.

25, January 8, 4 p.m. (SECTION SEVEN)
He adds: "This latter very significant phenomenon which
Monsieur Pietri considers as an indirect form of hoarding
and which constitutes in fact a fluctuation from money (*)
has recently been in Germany." Fortunately he says
for the past year the return of capital bears witness of
French confidence in its currency and the immense majority
of the investing public know that in lending their resources
to the state they are aiding the government retire this
money and at the same time hastening a victory. Furthermore,
an intelligent campaign of publicity should convince hoarders
that armament bonds "the principal vehicle by which sums
are coming back to the treasury" are almost as liquid as
money and that therefore it would be absurd to deprive
themselves of interest by hoarding banknotes.

BULLITT

(*): Apparent omission
Secretary of State,  
Washington.  

25, January 8, 4 p.m. (SECTION EIGHT)  

This leads him to point out that while the Government  
properly is solicitous that interest rates be as low as  
possible to keep down public debt service charges nevertheless he would not go as far as M. Pietri in saying that the state is master of interest rates in a regime of the closed capital circuit. What the government must do as Reynaud has so well done is to raise public credit and fortify the confidence of savers so that interest will fluctuate by the sole play of supply and demand; but it must not arbitrarily impose rates judged too low by the public for if an abnormally high interest rate creates doubts with respect to the credit of the state an interest rate considered by the investor as insufficient runs the risk of encouraging hoarding. Here again the circuit requires a middle course.
GRAY
Paris
Dated January 8, 1940
Rec’d 5:40 p. m.

Secretary of State,
Washington.

25, January 8, 4 p. m. (SECTION NINE)

He warns, however, against any illusions that the closed circuit is one of total and mathematical perpetual movement. There are bound to be leakages: prices cannot remain absolutely stable and there will always be some hoarding. Furthermore, there is an inevitable though variable time lag. The circuit must be stimulated therefore. He warns against any massive injections of paper money but advocates periodical long term loans. The latter consolidate a more or less important part of armament bonds and treasury bills in circulation thus creating for these issues new subscription demand and also draw to the treasury capital reserves capable of supplementing at least in part the insufficiency of the circuit.

BULLITT

NPL
Secretary of State,
Washington.

25, January 8, 4 p. m. (SECTION TEN)

Finally he joins in the plea of Abel Gardey for a "rational policy of bank deposits and a greater use of checks by the public". The advantage would be double: on the one hand a much greater credit base than exists today would be built up and "the treasury would find as at London much greater facilities for short term borrowing". On the other hand obligations of the floating debt would be to a greater extent in the hands of banks thus assuring this debt a greater stability. (He omits any reference to the inflationary dangers of encouraging too great a ratio of bank to private subscriptions).

The LONDON ECONOMIST for January 6 in commending Reynaud for presenting a budget which is "both courageous and clearly arranged" contains the following interesting paragraphs:

BULLITT

NFL
EMB
Secretary of State,
Washington.

25, January 8, 4 p. m. (SECTION ELEVEN)

"All the evidence goes to show that the treasury is not overestimating the yield of taxation. Estimates of the direct taxes are based on the year 1938 -- a dull business year -- and the aggregate value of income declarations for 1940 is anticipated to be 20% less than the corresponding figure for 1938. The actual proceeds of taxation are assumed as only 60 to 70% of the 1938 declaration total. This compares with an assumption of 77% for the 1939 (†). In the same way the estimates of indirect taxation are considerably reduced in comparison with those for 1939. It is intended that the yield of new taxation shall fill the gap. As far as war experience goes the outlook is favorable. The payments on direct taxation fell short of the estimates by 31% in September and 30% in October.

BULLITT

NPL

(*) Apparent omission
Secretary of State,
Washington.

25, January 8, 4 p.m. (SECTION TWELVE)

If these percentages are reckoned against the expected yield for 1939 of 77-1/2% they produce a return of about 55% of the nominal assessment figure for 1939: the 1940 estimates do not in fact exceed this proportion.

"As far as any opinion is possible yet it may be said that the problem of financing the war is in the hands of a man whose competence is beyond any doubt. But his task will be hard. He will have to steer a course between the scylla of budgetary deficit and the charybdis of over-taxation and to strike either of these will be to sink all immediate hope of regaining prewar levels of prosperity."

BULLITT
Secretary of State,
Washington.

25, January 8, 4 p. m. (SECTION THIRTEEN)

The conditions of application of the decrees of October 27 and 30, 1939 under which 40% of pay for overtime must be deducted by the employer and paid over to the treasury by the latter (Embassy's dispatch No. 5339 of November 21, 1939) were published in the JOURNAL OFFICIEL of January 7.

An arrêté published in the JOURNAL OFFICIEL of January (*) sets up a technical committee to study various problems connected with the production and utilization of flax.

The securities market was unfavorably influenced today by foreign developments such as the resignation of Hore-Belisha and renewed German threats against the neutrals. Losses in rentes ranged from 50 centimes to 1 franc but loss in industrial issues ran in some cases over 5%.

Official exchange rates were unchanged.

(END OF MESSAGE)

NPL

(*) Apparent omission
The President read this and was amazed.
From December 19, 1939 through January 3, 1940, there were no exports from the United States to the U.S.S.R. (There was a trivial item of $55 exported.) During December, prior to December 19th, we exported $5.3 million to the U.S.S.R. Exports in October, 1939 were $5.5 million, and in November, 1939, $7.0 million.
January 8, 1940

I rode down with Collins and showed him the memorandum that I made yesterday. (This is HM, Jr. notes in his own handwriting written on Farm stationery, dated 1-7-40 and filed that date.)

I told him that I wanted him to prepare charts showing what deliveries, by months, for 1940 the Army and Navy expected and what deliveries the English and French expected in this country. I said that I wanted to take over these two sets of figures to the President as he will have to decide what part of our own production he wants to give up to the Allies because otherwise I seriously question whether the Allies can get very many more planes in 1940 than they now have on order.

When I finished, Collins said that he had come to the same conclusion after having spent all of last week on this problem.
A meeting was held in the Office of the President at 1:50 this afternoon at which were present, in addition to the President, the Secretary of the Treasury and the Director of Procurement.

At the suggestion of the Secretary, the Director of Procurement explained to the President the meeting that had been held on Friday, January 5th, at which were present Colonel Greenley, H. Plewes, Colonel Jacquin, and the presidents of the three engine manufacturing companies.

It was further explained to the President that the engine manufacturers were informed that it was fully realized that the engines would probably prove the bottleneck of any aviation program; that the Allies were making a survey to determine what were the possibilities of obtaining 6,666 bombers and 3,333 pursuit ships which, with spares, would account for approximately 20,000 engines; and that it was desired, if possible, that this program be completed during the year 1940.

Both Colonel Greenley and H. Plewes emphasized the urgency of obtaining at the earliest possible date the airplanes being discussed.

The meeting was recessed for three hours during which time the engine manufacturers made some estimates of what might be done in the way of furnishing engines during the calendar year 1940. The estimate provided for only 4,000, or 20%, of the motors desired. Colonel Greenley expressed a desire that the period of providing planes be extended, for estimating purposes, into the calendar year 1941 and asked that, inasmuch as these estimates had been hurriedly prepared, whether or not a more detailed study might change the schedule of deliveries. The manufacturers felt that they would prefer to make a further study, and the meeting was thereupon adjourned to meet again on Thursday, January 11th.

During the meeting the proposal to utilize automobile factories for the production of parts was discussed, but Mr. Evans, President of Allison Motors and Vice President of General Motors, related an experience they had recently had wherein $180,000 worth of available machinery in the Cadillac plant was examined to see what of it might be utilized in the new Allison Motor plant, and of that amount but $9,000 worth of machinery was obtained, and that of a semi-precision type. It was the reaction of Mr. Evans that no great amount of help might be expected from the automobile industry owing to the high precision character of work done on aero-engine parts.
The President asked if any efforts had been made to see what might be done by such firms as Allis-Chalmers, International Harvester, Maline Flow, etc. The Director of Procurement stated that these names would be borne in mind for use at the Thursday meeting.

The Secretary stated to the President that it was his opinion that if deliveries to the Allies were to be expedited, some action looking toward the diversion of Army planes to the Allies would have to be taken and suggested with reference to the F-45 Curtiss pursuit, for which the Army has a contract, that 25 out of the first 50 be allocated to the French. To this the President agreed and suggested to the Secretary that the matter be handled by him through General Watson.

[Signature]
Director of Procurement
Hello.

Operator: Mr. Purvis. Go ahead.

H.M. Jr.: Hello. Hello Mr. Purvis.

Arthur Purvis: Good afternoon Mr. Secretary.

H.M. Jr.: How are you?

P: Very well thank you.

H.M. Jr.: Mr. Purvis, the reason I'm calling is that we had a chance to clear this matter with the President today, on the twenty-five planes.

P: I'm sorry, I - it's funny, there's something gone wrong with the wire. I don't quite hear.

H.M. Jr.: Hello.

P: Yes.

H.M. Jr.: Hear me better?

P: Oh that's better. I'm sorry.

H.M. Jr.: You remember you asked the President, when you saw him, about twenty-five planes.

P: I do.

H.M. Jr.: Well I saw him again today.

P: Yes.

H.M. Jr.: And he's given the orders directly to the Army.

P: Oh!

H.M. Jr.: That's between the - I believe the first of April and June 30.

P: Yes.

H.M. Jr.: That the French be given, during those three months, twenty-five of these P-40's.

P: Yes. Thank you very much.
H.M.Jr: Well now, the reason I'm calling you is that the Army is taking it up directly with Curtis Wright, you see?
P: Yes.
H.M.Jr: And I suggest that your people also take it up with Curtis Wright, you see?
P: Yes.
H.M.Jr: Be - when we - the figures - I don't think the French were to get any of these P-40's before the first of July.
P: Oh, I see.
H.M.Jr: So now they're to get, I mean their contract didn't call for any before the first of July.
P: No, exactly.
H.M.Jr: Well now they're going to get twenty-five, scattered, see, April, May and June.
P: Thank you very much indeed. That's simply excellent.
H.M.Jr: And, as I say, this will be handled just the way the searchlight thing was.
P: Yes, I see.
H.M.Jr: It is handled -
P: One and one.
H.M.Jr: Well almost.
P: Almost. But I mean the method of handling it will be the same and I keep out of it you see.
P: Yes.
H.M.Jr: The orders go right from the President, to the Army.
P: Yes.
H.M.Jr: But -
I understand exactly. So what we have to do is to establish the appropriate channel and find out that it's possible in the ordinary commercial course, you might say.

That's what I want.

I understand exactly.

And if - repeat - as far as you know, you don't know how it happened.

No, exactly.

And - hello.

Yes.

And may I suggest that you don't cable this until you've got it all finished.

Exactly. I promise that.

I mean, because - I'll explain to you why sometime.

I was going to ask you one of these days whether I could have - if you could mark certain things with an "X" that you wanted to remain for a time entirely between two people.

Well -

I would mark - mark them with an "X" accordingly.

Well this one I would not put on the cable.

No I won't do it.

And wait until it's all finished and then it's just something that happened. You don't know how, it just happened.

Exactly.

But that the French order was pushed forward to that extent.

Yes, exactly. Thank you so much.

Do I make it clear?
F: Completely. Mr. Secretary, there's one thing, while I'm on the telephone, I'd like to say to you.

E.W. Jr: Right.

F: I wrote you a letter on January 2nd, in regard to a certain alloy tungsten.

E.W. Jr: Yes.

F: That was based on some preliminary information that Monnet felt I should send to you because that was what they had. I have just received a warning cable from him saying that he has found that the information given in that preliminary 6th December despatch looks as if it's far from accurate and that he will get me the more accurate information as quickly as I can get it. I thought I ought to tell you.

E.W. Jr: Well thank you very much, and I'm seeing you, as I not, this week?

F: Yes, at three p.m. on Wednesday.

E.W. Jr: Is that convenient?

F: Yes, oh yes, absolutely.


F: I shall look forward to it.

E.W. Jr: Thank you.

F: Thank you. Goodbye.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm, Sweden
DATE: January 8, 1940, 4 p.m.
NO.: 8

Reference is made to telegram No. 1 of January 3 from the Department.

The following is for the Secretary of the Treasury:

Rooth has just given to Greene a summary of his views on the present economic situation in the three countries, Sweden, Finland and Norway. There follows a paraphrase of this summary:

The general economy of Sweden has been affected to an astonishingly small degree by the European war. In industry production has gone on at about the same rate as went on before the war broke out; it is only in limited fields that disturbances in supplies of foreign raw materials, coal and coke have been felt. There has been a remarkably high level of imports, with only a limited decrease in exports from Sweden. It has been possible to keep a good level for employment.

Shipping difficulties have led to increased costs for freight and insurance, which in turn have caused the prices of imported goods to go up. There has not been much of a rise in f.o.b. export prices. The increase in costs of freight is partly reflected in income to shipping companies of Sweden.

Governor Booth said the money market is fairly tight,
and gave the following reasons for this:

1. Forced imports, part of which are prepaid but have not been delivered as yet.

2. Withdrawal of foreign money from Sweden.

3. Deposits in banks and savings banks have been reduced, and there have been increased loans, particularly because of the hoarding of Swedish banknotes.

4. A certain amount of capital has left the country.

Rooth stated that local banks are cooperating in privately restricting the export of Swedish capital, and that it may be advisable to impose some restriction on imports into Sweden.

He said that during the coming months the general economic situation will be influenced by the developments resulting from the war, and by the necessity of adapting industry, at least in part, to producing material for the war.

A budget deficit for Sweden will be unavoidable. He stated that this year the interest on government debt will equal about half of the income from State investments. In Norway and in Sweden foreign exchange holdings have been greatly reduced. The foreign exchange reserve and gold which the Riksbank holds abroad amounts to about $150,000,000 in U.S. currency. The gold in Sweden amounts to about $225,000,000, with a lower book value. As of the end

Regraded Unclassified
of 1939, declarations of private Swedish holdings of foreign assets are to be made.

The position of Norway is similar to Sweden's, under conditions prevailing at present.

Approximately 160,000,000 Norwegian crowns are held abroad as Norway's reserve of gold and foreign exchange. It is estimated that 250,000,000 crowns in gold are held by Norway at home. The export trade of Norway has been facilitated by her geographical location compared with the other Scandinavian countries.

The mercantile marine of Norway, which is relatively much greater than that of Sweden, has been and will continue to be of the greatest importance to Norway's exchange situation. Through close cooperation between the central bank and the private banks, there is exercised an effective unofficial control of foreign exchange imports.

As for Finland, every reserve has to be devoted to defense of the country. Because of German control of the Baltic Sea, it is extremely difficult to ship exports from Finland to England. Exports were at a very satisfactory level before the Russians began their attack on the country. As for the foreign exchange reserve of Finland there is no information available. To a great extent industry in Finland is on a war basis.

END OF MESSAGE.

EA: LWV

STERLING.
DEPARTMENT OF STATE
WASHINGTON

January 9, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of telegram No. 8 of January 8, 1940 from the American Legation, Stockholm.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France
DATE: January 6, 1940, noon
NO.: 23
FOR THE TREASURY.
FROM MATTHEWS.

On Saturday I dined alone with the Rists. Rist said that his trip to the United States has been postponed in view of word he received from Purvis; I understand that this is in accordance with your desire. However, on Tuesday Rist is going to London.

I asked Rist about the progress of negotiations with the Greeks and the Turks; he said that about 210,000 tons of crude chromite are produced each year by the Turks, and they have agreed to furnish 200,000 tons to the Allies, and to limit to 250,000 tons their total production. In return, however, the Turks insist that the Allies shall buy their raisins, figs and hazel nuts, which Rist says are not in the least needed by the Allies. They have continued their discussions on this question, but he said there was no doubt in his mind that the Allies would have to agree to buy these products - but the British financial counselor, Norman Young, was aghast at the prospect of purchasing large quantities of these products which they do not need. Rist did not know how the negotiations with the Greeks were going - it is reported in the press yesterday that a successful conclusion
ful conclusion was reached.

Rist said that they were experiencing difficulty with the Swiss - reference: telegram No. 7 of January 3 from the Embassy - and they were still carrying on negotiations. He said that the agreement with the Belgians recently completed was very complicated, but was satisfactory, on the whole. The agreement is that the French will continue to furnish iron ore and other raw materials so essential to Belgian industry, and the Belgians agreed that they would not sell to Germany any of the products produced from these materials. Rist said that the Germans were very much annoyed by this provision; they have threatened to cut off coal shipments to Belgium because they say that through the use of German coal Belgium produces articles which are sold to the Allies. Another provision of the agreement is that the Allies will permit normal Belgian exports to neutrals. Furthermore, the Allies have agreed that as far as Belgium or any other neutrals contiguous to Germany are concerned, they will not try to prevent normal exports to Germany of industrial or agricultural products, provided such products are not derived from imports which come through the blockade of the Allies.

I asked Rist about payments in dollars, and he replied that the neutrals naturally were trying to get part payment for their exports in dollars, at least; However, I gather
that they are not being very successful in this - Rist spoke of how much could be bought in the sterling and franc areas. In dealings with Yugoslavia, Rist said, the Allies have experienced particular success; extremely little amounts are to be paid for in dollar exchange, most of the exports to the Allies are to be paid for in blocked dinars. Arms and munitions are sought from the Allies by the neutrals, but he said it was difficult to furnish them because the Allies had need for them themselves.

Incidentally, Rist told me that Royal L. Tyler, in view of the "improvement" in the attitude of Hungary - reference: telegram No. 3 of January 2 from the Embassy - is very anxious to have the Allies buy substantial quantities of the exports of that country. However, it was difficult for the Allies to see their way clear to doing so, because they do not really need most of such products, and because they must make heavy expenditures elsewhere. Rist made reference to a theory he previously expressed - reference: telegram No. 2567 of October 26 from the Embassy - that the Allies should encourage "competition" in Europe by the United States for all those products which cannot be furnished to the neutrals by the Allies because of their concentration on arms and belated production, and which are being bought from Germany by the neutrals. Unfortunately, he said, there is considerable opposition to this thesis.
coming from those who are afraid that this competition from the United States might prove to be more than temporary. Rist himself was not worried about this point, taking the view that after the war we could not continue such competition in most instances because of our higher costs of production, freight, insurance, and other costs.

I asked about shipments of coal from Germany to Italy. Rist said that it was his hope that such shipments would soon be replaced by British coal to the extent of 4 million tons; he went on to say that unfortunately coal cannot be supplied to the world by Great Britain. There has necessarily been an increase in British exports to France, in view of the shutting off of the heavy German imports for the industrial eastern part of France, and there has also been increase in shipments elsewhere in competition with Germany, but unfortunately there are limits and difficulties in transporting the goods.

END SECTIONS ONE TO SIX, INCLUSIVE.

BULLITT.
PARAPHRASE OF SECTIONS SEVEN AND EIGHT, TELEGRAM
NO. 23 OF JANUARY 8, 1940, FROM THE AMERICAN EMBASSY, PARIS

We spoke of the holding up of American mails on neutral vessels, and I remarked that quite aside from the legal merits of the question, it seemed to me that psychologically it was very shortsighted on the part of the Allies, particularly the British. I made reference to the growing public criticism of this procedure in the United States, and tried to explain the attitude of people in the United States toward the war, and the possible repercussions on politics in the United States. I said that I could not believe that the material harm the Allies did to Germany by such action was in any way commensurate with the psychological harm such procedure did to their own cause. In answer he said that of course the idea of the Allies was to prevent all possible remittances of dollars to Germany, though he admitted that there was probably a very small amount involved. Incidentally, he said (as had Pernot, the Blockade Minister—reference: telegram No. 7 of January 3 from the Embassy) that there is constant pressure from the Navy for a "tougher" blockade attitude on the theory that the war is shortened by every seizure of products destined for Germany, no matter how small the amount.

I was again told by Riet that his work on blockade measures had kept him so busy that as to financial questions he has no real information—reference: telegram No. 1956.
of September 14 from the Embassy; I believe that Rist has resigned from the Advisory Committee on Foreign Exchange Control on the ground that he does not have the necessary time to give to the Committee.

Rist said that he did not have any idea as to whether it will be found when the war is over that French requirements in sterling have exceeded those of the British in francs or the other way around, but he suspects that when it is all over "the Bank of France will have to present the Bank of England with a substantial sum of gold". Rist does not anticipate any serious French financial difficulties over the next few months, which is in accordance with views expressed by others, both French and American, with whom I have spoken, and this is my own feeling.

END SECTIONS SEVEN AND EIGHT.

BULLITT.

EA:LMW
Secretary of State,  
Washington.

25, January 8, noon. (SECTION NINE)

Under an arrête published in the Journal Officiel of January 12 the declarations required from dealers in foodstuffs and agricultural products under the decree published in the Journal Officiel of November 1 (my telegram Nos. 2632, November 1, 7 p. m., and 2644, November 2, 6 p. m., and Embassy's despatch 5539, November 21) are to be checked and severe penalties may be applied to those who have not fully declared their stocks or who have otherwise made faulty declarations.

All further arrête holders of stocks of coffee of more than 100 kilograms must declare such stocks as of the first Saturday of each month as well as stocks en route.

Under a decree published in the same Journal Officiel the stamp duty code is modified with respect to the cost and conditions of the issuance of identity cards to foreigners. Under this measure Article 203 of the code is
ham -2- No. 23, January 8, noon (Section 9) from Paris

is replaced by new provisions which, among others, increase
the cost of renewal or delivery of identity cards (with
certain exceptions) from 260 francs to 400 francs.

(END MESSAGE).

BULLITT

MLP
McL

Plain.
London.

Dated January 8, 1940.
Received 12:45 p.m.

Secretary of State,
Washington.

54, January 8, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

The margin between buying and selling rates of all the officially fixed currencies was narrowed today with the exception of the currencies of Canada, Norway and Sweden. The dollar and the French franc had not been altered since mid-September and the Swiss franc since October 26. The Dutch and Belgium rates were last altered on January 2 and the Norwegian and Swedish on December 21 when the margin between the buying and selling rates was narrowed. The Argentine rate was altered last on December 16.

Commenting on this the British Treasury recalled that when these rates were first fixed on the declaration of war it was an experimental and somewhat haphazard step and that since then the trend had been towards narrowing the spread. As regards the dollar it was pointed out that theoretically there was no reason for any spread at all and that the existing spread really had the effect of a tax but that
# 54, January 6, 4 p.m. from London.

A spread was necessary as regards most of the other currencies if the British fund was to avoid losses since they tended to move against the dollar. The British Treasury also stated that the reason both the buying and selling rates for the dollar were changed one half a point was in order to make clear to the market that the intention was not so much to alter the rate as to narrow the spread. The alteration in the French franc rate was to remove disparity between the London and Paris rates. Presumably under official inspiration the London evening press plays up this step under such headlines as: "Sterling strong under new exchange control".

JOHNSON.

HPD
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 9, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

There was considerable strength in the sterling rate in New York, with the volume of sterling transactions slightly less than that of the last full working day on Friday. After the rate was quoted in Amsterdam at 3.95-1/15, it opened in New York at 3.95-1/4. There was good commercial buying of sterling, especially by the rubber houses, and this demand may have been due to the alteration of the British Control's selling rate for dollars from 4.02 to 4.02-1/2. This change by the Control may have created a fear in the market that such further upward adjustments would result in higher quotations for sterling in the outside market. An explanation of the British Control's action is given further on in the report. During the day, the sterling rate advanced steadily, with the exception of a slight reaction in the mid-afternoon. Just before the close, the high of 3.95 was reached, and the final quotation was 3.94-3/4.

Sales of spot sterling by the four reporting banks totaled $303,000, from the following sources:

By commercial concerns........................................... $ 95,000
By foreign banks (Europe, Far East and South America)........ $ 208,000
Total.............................................................. $ 303,000

Purchases of spot sterling amounted to $459,000, as indicated below:

By commercial concerns........................................... $ 351,000
By foreign banks (Far East and Europe)......................... $ 108,000
Total.............................................................. $ 459,000

The British Control today changed its selling and buying prices for dollars to 4.02-1/2 and 4.03-1/2, respectively. The former prices were 4.02 and 4.04. The Control also changed the buying and selling prices for several other currencies. Comment by the British Treasury on this action was reported in the cable sent by Butterworth today. The British Treasury recalled that when these rates were first fixed it was an experimental and somewhat hazardous step and that since then the trend had been toward narrowing the spread. As regards the dollar, the British Treasury pointed out that theoretically there was no reason for any spread at all and that the existing spread really had the effect of a tax, but that a spread was necessary as regards most of the other currencies if the British fund was to avoid losses, since they tended to move against the dollar. The British Treasury also stated that the reason both the buying and selling rates for the dollar were changed one half a point was in order to make clear to the market that the intention was not so much to alter the rate as to narrow the spread.
The Guaranty Trust Co. sold cotton bills totaling $16,000 to the British Control on the basis of the official rate of 4.02-1/2.

The other important currencies closed as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>French francs</td>
<td>.0223-1/2</td>
</tr>
<tr>
<td>Guilders</td>
<td>.5328</td>
</tr>
<tr>
<td>Swiss francs</td>
<td>.2243</td>
</tr>
<tr>
<td>Belgas</td>
<td>.1877</td>
</tr>
<tr>
<td>Canadian dollars</td>
<td>12-1/8% discount</td>
</tr>
</tbody>
</table>

The rates for the Cuban and Mexican pesos were steady at 10-7/8% discount and .1672, respectively.

The Federal Reserve Bank purchased 20,000 belgas for the account of the Bank of Latvia.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York received cables from the B.I.S., and the Bank of Sweden requesting it to apply for a license to transfer approximately 15,000 ounces of gold (about $560,000) from B.I.S. Account #2 to the account of the Bank of Sweden at the Federal Reserve Bank of New York. B.I.S. Account #2 is gold owned by that institution. The Treasury granted permission to the Federal to make this transfer.

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

- $1,125,000 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.
- 1,013,000 from Norway, shipped by the Bank of Norway to the Federal Reserve Bank of New York, for account of the Bank of Finland. The disposition of this shipment is unknown at present.
- 11,000 from Canada, shipped by the Royal Bank of Canada, Montreal, to its New York agency for sale to the U. S. Assay Office at New York.

Total $2,149,000

The State Department forwarded to us cables stating that the following gold shipments would be made:

- $6,027,000 from Australia, shipped by the Commonwealth Bank of Australia to the Federal Reserve Bank of San Francisco, to be sold to the U. S. Mint.
- 2,245,000 from England, shipped by the Bank of England to the Federal Reserve Bank of New York, to be earmarked for account of the Swiss National Bank.
- 134,000 from Australia, shipped by the Bank of New South Wales to the American Trust Co., San Francisco, to be sold to the U. S. Mint.
- 14,000 from England, shipped by Firley & Ahell to the Chase National Bank, New York, to be sold to the U. S. Assay Office at New York.

Total $8,420,000

CONFIDENTIAL
Spot silver in London was fixed at 21-13/16d, up 1/4d, and forward silver at 21-3/4d, up 1/16d. The U. S. equivalents figured out to 38.55¢ and 38.17¢, respectively. This is the first time since November 6, 1939 that the spot price has been fixed higher than the forward price.

The prices fixed for foreign silver by both Handy and Harman and the Treasury were unchanged at 3¼-3/4¢ and 35¢, respectively.

We made seven purchases of silver totaling 750,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory by one of the refining companies and 100,000 ounces was trading silver purchased some time ago by one of the New York banks. Both of these purchases were for delivery tomorrow. The remaining 450,000 ounces was new production silver from foreign countries purchased for forward delivery.

[Signature]
E.M.Jr: Bell?
Bell: I have nothing this morning.
E.M.Jr: Harry?
White: We will have a study ready on Brazilian debts, a very careful and detailed study. I think probably that it is the best that has been done. I take it it is all right to send it around to the State Department.
E.M.Jr: Yes.
White: If you can set —
E.M.Jr: You might send it over my signature or Gaston’s.
White: Yes, as we did last time.
E.M.Jr: Yes.
White: If you can save half an hour or an hour to go over the draft of the proposed bank tomorrow afternoon —
E.M.Jr: Tomorrow afternoon what?
White: Any time. To go over the proposed draft of the Inter-American Bank.
E.M.Jr: Three o’clock?
White: Yes, three o’clock Tuesday.
E.M.Jr: Who else comes in on that?
White: Well that, I thought, would be just Treasury people.

E.H. Jr.: Will you arrange this meeting?

White: Yes.

E.H. Jr.: Give you an hour?

White: I think we will want an hour. That is all.

E.H. Jr.: New Hampshire?

Sullivan: The Glenn Martin people wrote to you about — or rather they sent you a copy of a letter they sent to Mr. Vinson on a proposed amendment to the Vinson-Trammell Bill. Did you want to answer that?

E.H. Jr.: No, you answer it.

Sullivan: All right, very well sir.

E.H. Jr.: You handle it.

Sullivan: Well, it wasn't a letter to us, it was merely a copy of a letter that was sent to Mr. Vinson.

E.H. Jr.: Dispose of it in the way you think is proper.

Sullivan: Very well, sir.

Now, on the release of the salaries, we have two different forms which may be used and I haven't discussed it with Mr. Schwartz, but in facilitating this for the Press, do you want the addresses of the corporations?

E.H. Jr.: Work it out with Schwartz, I am not interested. Is that all?

Sullivan: Yes, sir.

E.H. Jr.: Could you let me know whether the following companies have done anything about plant expansion, I mean whether Curtiss Wright Engine Factory somewhere in New Jersey and the Curtiss — I guess it is the same thing in Buffalo, Glenn Martin and Douglas, how they handle their plant
expansion. They implied to us that they just go ahead and add to their plant, you see. In other words, is there anything in the records?

Sullivan: I will find out, sir.

H.K.Jr: Oh yes, and Pratt and Whitney.

Sullivan: There is something on Pratt and Whitney.

H.K.Jr: Well, none of those have --

Sullivan: They asked us to let them write off six and a half million dollars and we weren't interested and they went ahead and I think they are moving into that building this week.

H.K.Jr: I think all of them have spent considerable money and I am just curious if there is any request of any kind for those people in the Treasury.

Gaston: I think Hamilton Standard is a separate corporation, although it is housed under the same roof, from Pratt and Whitney.

H.K.Jr: All right.

Sullivan: Yes, sir.

Cotton: I talked to Mr. Traphagen on Saturday.

H.K.Jr: That is more than I have.

Cotton: And he went to see the Colombians. I don't know what has happened.

H.K.Jr: I will call Traphagen later and ask him.

Cotton: All right.

H.K.Jr: Well now, this afternoon when Welles comes, I would like you here and I would like White here, at 3:00 o'clock. Welles and Jones are coming.

White: Are we going to take up anything new?

H.K.Jr: No, just Colombia. Do you sit in on that?
Cochran: I have been, yes sir.

H.M. Jr: O.K.

Gaston: Do you mind if I get in on that?

H.M. Jr: Swell.

Cochran: The British sent word through the Bank of England to Knobe on Saturday that they were changing as of this morning their official rate for sterling. It had been 402 to 406 from the 5th of September when they reopened until about the 9th, then they changed to 402-04. Now, this last change is 402\frac{1}{2} to 3\frac{1}{2}. That narrows the spread quite a bit and raises by a half a cent the price that people would get here for free sterling balances.

H.M. Jr: Anything else?

Gaston: No, sir.

Foley: Marvin Jones called up Saturday and asked questions relative to shipment of gold from Mexico and we sent him a copy of the Regulation and the press release.

Jim Treanor of the S.E.C., who is handling the Trans-America case, has asked us specifically for a copy of our letter of April 14th and our letter of July 31st on Bank of America. Those are the two letters of criticism based on the March and July examination.

E.M. Jr: What do you recommend?

Foley: I think we ought to send them.

H.M. Jr: O.K.

Foley: Leon Henderson has spoken to Joe O'Connell about designating Kade as the Treasury Alternate on the Economic Committee, since Peoples left the Department we have had no Alternate and they are going to clean up - it looks as though the Committee isn't going to get any more money and it will be necessary.
to hold dual hearings and they would like to have Kadea as well as O'Connell available to vote, if necessary.

H.M.Jr: What do you recommend?
Foley: I think that is the thing we ought to do.
H.M.Jr: O.K.
Foley: Jim Landis came in at 9:00 o'clock and he is down in my office. We are coming in at half past ten?
H.M.Jr: Right.
Gaston: Both Harry White and Bill Johnson spoke to me about the difficulty of giving literal application to that order that was framed the other day about reporting meetings of the State Department, and if it is all right with you we will sort of feel our way and give a broad application to it until we find the best means of working it out.
H.M.Jr: Would you keep Bell and Thompson posted?
Gaston: Yes.
H.M.Jr: Then whatever the three of you agree on is agreeable to me. But God help somebody the first time that I jump on the State Department, because they jumped on me and now the Treasury is in the wrong.
Gaston: To protest myself I have got to horn in on a lot of these meetings.
H.M.Jr: All right.
White: There is a good deal of misunderstanding, but I wanted to wait until we had cleared it through, although that order —
H.M.Jr: Harry, excuse me. I am not interested. You have got the Under Secretary, the Assistant Secretary, the Administrative Assistant, three men, all capable people, and they are a committee of three and they can pass on it and if you don't
mind, I don't want to hear about it again.

White: Not until you write a different order, because we can't be breaking orders here.

E.M.Jr: You have got three gentlemen to talk to and they are very nice people, very reasonable, much more so than I am, so I will leave you at their tender mercy, but I still say I don't want to be in the position of defending the Treasury unless I am in the right.

White: I hope you haven't assumed that you have been in the wrong in this yet.

E.M.Jr: It is up to you and Harris to prove on that case.

White: You are just suspending judgment, I take it?

E.M.Jr: Oh, yes. You are feeling all right, Harry?

White: Fine from the neck up.

E.M.Jr: Harry, I just didn't want to be picking on a cripple that is all.

Gaston: We got a hurry-up urgent letter from the Maritime Commission, Admiral Land, Saturday, asking that we give telegraphic instructions to our people on the Pacific Coast to work with agents of the Maritime Commission in getting evidence to indicate the falsification of bills of lading by Japanese shippers and by Japanese shipping lines. It seemed best to comply with it. It seemed to be within their jurisdiction and they wanted rush action, so I told Bill Johnson that on his own authority, to use his own judgment in agreeing to it and giving the telegraphic instructions.

E.M.Jr: O.K.

Gaston: It seems they believed the bills of lading were falsified, although the inward manifests are not.

E.M.Jr: Anything else?

Gaston: The Coast Guard, in cooperation with Customs, has prepared an executive order abolishing
the Bureau of Mine Inspection. It is just about all ready to —

E.M.Jr: Oh.

Gaston: Would you like to take it up or do you have any objections to our taking it up with the Director of the Bureau of the Budget?

E.M.Jr: You can do it direct.

Gaston: All right. We will go over there in a body and talk to him about it.

E.M.Jr: Sure. Is that all?

Gaston: That is all.

White: There is an item of passing interest that I forgot to mention. Exports to Russia have stopped entirely since the 19th. Nothing at all except one little shipment of fifty-five dollars. Very unusual.

E.M.Jr: Since the 19th?

White: 19th of December.

E.M.Jr: Will you give me a little memorandum on that?

White: All right, I will do that.

E.M.Jr: Today, this morning. I would like to give it out to the Press.

White: I will have it ready.

E.M.Jr: Who would I ask in the Treasury, as your (Bell's) successor, I mean in the old days I would ask Bell — I don't know who to ask now — how the silver certificates are going now. How far behind were you when you used to let me have that?

Bell: We were right up, almost current.

E.M.Jr: How many millions now?

Bell: Last time I looked at it it was only six million.
Would you report to me?

I will get you the figures on it.

Who does it now?

Well, I get a report. It will come to my office down there. Phil can tell you about it.

Six or seven million?

That is the last time I looked at it.

All right.
H.M. Jr: Hello
Operator: All right. Go ahead.
H.M. Jr: Hello.
Traphagen: Hello.
E.M. Jr: Hello Mr. Traphagen.
T: Hello Mr. Secretary.
E.M. Jr: I was curious to know how you got along with the
Colombian Ambassador.
T: Well I didn't make a great deal of progress with
him. It was all very friendly but I couldn't -
I couldn't storm beyond the point where we had gone
in our previous talk. He says that he is definitely
limited to two million dollars, a million seven
hundred and fifty is in the budget for 1940 and
he says he has no authority to go beyond that point
and he doubts that his Government will give him
authority to go beyond that point but that the
only thing that he can do is to go back to them
with a proposal from us. He says to go back to
them and try to get them to raise it without a
proposal from us, in his opinion, is out of the
question.

E.M. Jr: I see.
T: And he said, "I have made a proposal to you".
He said, "I've told you how far I can go". He
said, "If you want to make it a little easier
for me, make it possible for me to go back". He
said, "I wish you'd come to me with an offer of
some kind". So I told him I thought that was a
reasonable request on his part and that I would
endeavor to develop an offer.

E.M. Jr: Good.
T: I felt him out on the - on this flexible plan which
I went - I talked to Cotton about and I must say
it rather appeals to me.
E.M. Jr: The one of - that Riefler memorandum.
T: Yes, that Riefler memorandum. I thought that was very interesting and had some possibilities.

H.M. Jr: Good.

T: But the Ambassador is quite opposed to it.

H.M. Jr: Uh-huh.

T: He feels that it would be a very difficult thing to get through his Congress.

H.M. Jr: Well, as I understand it, the President of Colombia has full power to do anything he wants.

T: Well I think that's so, but I think on the other hand he feels that Congress would look very much askance upon it.

H.M. Jr: What's the use of being a President of a South American Republic.

T: (laughs) I don't know. I don't know. I thought if he had full powers he could do as he pleased and work it out later.

H.M. Jr: Well -

T: But apparently they don't like it, and I'm afraid there isn't much chance there.

H.M. Jr: Well I'll tell you what I'll do. I'll have Mr. Welles, see if he can educate the Ambassador from Colombia on the flexible plan.

T: I think that would be a very good scheme.

H.M. Jr: I do.

T: I called up Cotton this morning.

H.M. Jr: He gave me a memo on his conversation.

T: And I told him that I thought that if that Riefler plan could be modified so that the minimum sum could be brought up something in the naturehood - nature of a million seven fifty or something along there, that we might be able to get him to really give some thought to it.
H.M.Jr: Well now, when am I going to hear from you again.

T: Well, what I would like to do Mr. Secretary, is to - is to get from you some idea of how you and your committee would feel on a return offer to that.

H.M.Jr: Well -

T: And if I could get your ideas.

H.M.Jr: All right.

T: However informally you might want to put them to me, I would get the counsel together and see if we couldn't go to the Ambassador and offer him something.

H.M.Jr: Well Mr. Welles and Mr. Jones are coming here at three and that's why I wanted to talk to you.

T: Yes.

H.M.Jr: And after I've talked to them, if I have a suggestion, I'll call you tomorrow.

T: First rate. Thank you very much.

H.M.Jr: Thank you.

T: Goodbye.

H.M.Jr: Goodbye.
Frank Murphy: Hello Henry.

E.W.Jr.: Hello Frank.

M.: How are you my boy?

E.W.Jr.: I'm fine Grandpa.

M.: That's right. (laughs) You're going to make me a stuffed shirt completely, aren't you?

E.W.Jr.: I think I'm three or four years older than you.

M.: Henry -

E.W.Jr.: Only in the age, not in experience.

M.: I called you Saturday.

E.W.Jr.: Yes.

M.: You were in the country.

E.W.Jr.: Right.

M.: I wanted to tell you that we had the indictment all drawn on this bozo out there.

E.W.Jr.: On the who?

M.: On that bozo out on the coast.

E.W.Jr.: Known as Boff eh?

M.: You bet your life.

E.W.Jr.: Yes.

M.: And it will be out by Wednesday.

E.W.Jr.: Wonderful.

M.: And I'm striking now to get the other one cleared up.

E.W.Jr.: Well, Mr. and Mrs - whatever those people's name are - the producer, you know, Metro-Goldwyn Mayer, I can't think - 20th Century.
Yes.

H.M. Jr.

Or I can't think.

M.

I know the one you mean. Starts with Z.

H.M. Jr.

Zamukh. Well they got a little bill this morning from us for $271,000.

M.

That's a nice item.

H.M. Jr.

They got that this morning. That went out Thursday or Friday. So the next couple of weeks, why I think the movie colony may realize that this is a democracy.

M.

Yes. Can't be handled. But I couldn't have left here without getting that cleared up.

H.M. Jr.

Well I'm awfully pleased.

M.

All right. I wanted you to be Henry.

H.M. Jr.

Staff will go out about Wednesday.

M.

It'll be out by Wednesday. It's in the mail now.

H.M. Jr.

Oh it's in the mail now.

M.

Yes. I mean we did it here.

H.M. Jr.

Now what will that do to him?

M.

Well the Grand Jury will return it on Wednesday.

H.M. Jr.

I see.

M.

See?

H.M. Jr.

I see. That's a criminal indictment.

M.

Yes. Criminal.

H.M. Jr.

Right.

M.

As it ought to be.

H.M. Jr.

Right. Oh yes. He's a bad boy.
M: And it'll be a great relief to people there. I'm only doing it because it's one of those things that I know has to be done.

H.M. Jr: Well I'm awfully glad you called me, and at that rate we ought to clear those things up in another week or ten days.

M: Oh yes. Be in fine shape. You'll be very happy about it.

H.M. Jr: Well I'm sure Mr. and Mrs. Zamuck were surprised when they opened their mail this morning.

M: Too bad you didn't send it on Christmas Eve.

H.M. Jr: Well I couldn't do that.

M: (laughs)

H.M. Jr: All right Frank.

M: All right.

H.M. Jr: Goodbye.

M: Goodbye.
January 8, 1940

Dear Henry,

Having been away from my Chicago job for over six months, I have naturally found a great accumulation of matters and a large number of persons making urgent demands upon my time. I was therefore unable until recently to complete my reading of the material you sent me on the excise tax plans. I have given this subject so study before, so that the material is essentially new to me. I cannot therefore undertake any detailed comments, and must confine myself to the general impression which the two Treasury memoranda have made upon me.

They both seem to me excellent in substance and manner. They are closely-reasoned documents, written in the right tone, and taking what seems to me to be unquestionably the sound position from the point of view of national policy. The notion that the government must accept responsibility for maintaining any specific income-parities, or price-parities, for any specific occupational group, seems to me absurd. It could not possibly be generalized to all groups without freezing the whole economy and without preventing absolutely essential adjustment to changed technological and market conditions. If proper for the farmers, may not also be fit for coal miners, millinery-workers, retail grocers, etc.? If the farmers need relief, they should be given it according to their needs and not on an arbitrary basis. And the relief granted should be financed from taxes which do not make the tax system press with special severity on other groups who are in the whole less well off than the farmers. There may be points of detail in the two Treasury memoranda to which the Department of Agriculture can make an effective rejoinder. But I feel sure that the memoranda as a whole constitute first-class state papers, which are a credit to the Treasury, and that you can safely stand on them. I believe you will be serving the Administration — and even more so, the country — well, if you throw all your weight against the present scheme. I suggest that you ask, as a minimum, that the scheme be revised (a), so as to be financed from the general fund of the Treasury, the necessary tax adjustments to be planned by Congress and the Executive in the light of the tax-structure as a whole, and (b) so as to limit the payments to farmers by some formula which makes certain that only farmers in reasonable need of relief receive payments.

Thank you very much for your very generous letter to me, which
I deeply appreciate. I hope things are going well with the Department. I was delighted at the news of Dan Bell's promotion.

Cordially yours,

Jacob Viner

JV-M

Jacob Viner
Employment under the Works Projects Administration increased by 8,000 persons, from 2,144,000 persons during the week ended December 20, 1939, to 2,152,000 persons during the week ended December 27, 1939. This represents an increase of 128,000 persons over the 2,024,000 reported for the end of the preceding month.
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Source: Works Projects Administration.
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1939

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<td>December</td>
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Source: Works Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include uncertified and noncertified workers.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO
Secretary Morgenthau

FROM
Mr. Haas

Subject: The Business Situation, Week ending January 6, 1940

Summary

(1) Seasonally adjusted business indices were well maintained through the last week of December, the New York Times index for that week rising 1.0 point to 106.7. In early January, however, steel activity has been declining. The recovery in the steel output rate after Christmas failed by 4.3 points to reach the pre-holiday level, and declines are scheduled for several districts during the current week.

(2) Our unfilled order index declined slightly in November, but the unfilled orders apparently remain high enough to maintain production for several months above the level of new orders. The volume of new orders in November was equivalent to a production rate of about 1.1, in terms of the FRB index. New orders in December, however, according to our less-inclusive weekly data, were below the November level.

(3) Our estimate of inventories at the end of November shows a moderate upturn, but not sufficient as yet to be considered an important business factor. Commercial loans, which in the past have closely followed the trend of inventories, have expanded sharply in recent months, but a considerable part of this expansion appears to represent an increase in "term" loans for various business purposes.

(4) Stock prices have shown an improving tendency since the first of the year, but remain low in relation both to current industrial activity and corporation earnings.
The general situation

The New Year starts out with steel activity in a declining trend, and no indication as yet of an immediate upturn in new orders sufficient to restore the output rate to its early December level. The rate for the first week of January, at 85.7 per cent of capacity, compares with 90.0 per cent for the week before Christmas. Tentative schedules for several districts call for moderate further reductions for the second week of January. In contrast, the normal trend of steel activity is strongly upward during January.

Nevertheless, the volume of unfilled orders for steel and other industrial products provides a cushion against any immediate sharp setback in industrial production, and appears sufficiently large to maintain production for several months above the level of incoming orders.

New orders received during November, according to our composite index (in physical volume), dropped to the equivalent of an FOB index of about 11¼ (see Chart 1), while production was at a level of 12¾. Thus unfilled orders (lower section of chart) have been reduced somewhat from the October estimate. While some further reduction has doubtless occurred during December, since new orders have declined, the backlog of unfilled orders at the beginning of 1940, according to our approximate index, will about equal the peak reached in early 1937.

Inventories somewhat higher

Our estimate of inventories as of the end of November shows an increase of 2 per cent over the October figure. (See Chart 2) The fact that most potential inventories of finished products are still in the form of unfilled orders, however, makes any figures at this time of minor significance. Inventory accumulation usually becomes more noticeable after business activity has started to decline.

In contrast with the moderate rise in estimated inventories, commercial loans in recent months have sharply increased. (Shown on Chart 2) While these loans in the past have closely followed the trend of inventories, they have apparently deviated from that trend recently because of an increasing proportion of "term" loans.
Secretary Morgenthau - 3

Such loans, having maturities running from one to five years or more, usually with amortization provisions, are being contracted by business concerns for such purposes as retiring outstanding debt, purchasing equipment, and financing improvements. According to the National City Bank, a good part of the increase under the commercial loan classification since August has been in loans of this type, while the demand for genuine commercial loans continues very moderate.

The price situation

Sensitive price indices have flattened out over the past two weeks, following their substantial upturn during the first half of December. (See Chart 3) Extensive snowfall over the mid-western drought area has been somewhat bearish for grain prices. In addition, both wheat and cotton prices have reached levels where they are meeting pressure from the liquidation of loan stocks by farmers. This will tend to restrict further gains in prices of these two commodities. Silk prices, which have recently been raised to high levels by a speculative boom, are meeting heavy selling. Industrial materials for the most part continue to reflect current slackness in industrial demand, partly of a seasonal nature.

The pressure of loan stock liquidation, in the case of wheat, may shortly become accelerated if prices remain around current levels, since farmers have only until April 30 to take advantage of any profit above loan values plus accrued charges. On that date the Commodity Credit Corporation will take title to wheat held as collateral against unpaid loans. Liquidation of wheat loans during December is reflected in a reduction of nearly 4,000,000 bushels in wheat collateral held by the Commodity Credit Corporation, from 164,987,735 bushels on November 30 to a tentative figure of 161,159,165 bushels on December 28. Owing to a considerable lag in reports from interior banks, which carry most of the loans, the actual reduction to date has probably been considerably greater.

In the case of cotton, it is estimated in the trade that farmers may have actually repossessed as much as 50 per cent of the 1938-39 loan stock, which on November 30 amounted to 3,941,881 bales. Repossession notices received by the Commodity Credit Corporation through December 28, however, totalled only 101,537 bales. In addition, the Commodity Credit Corporation holds 6,867,441 bales from prior loans, to which it has acquired title.
Stock prices improve

Somewhat greater optimism in speculative circles, first reflected in a sharp rally in second grade rail bonds late in December, was shown last week by a moderate upturn in stock prices. Among the factors favoring the market have been the usual cessation in tax selling after the end of the year, and a recent shift in foreign transactions on our markets to smaller net purchase balances.

A background factor has been a relatively low level of stock prices during the past half year or more, as compared both with the level of business activity and with corporate earnings. In view of this disparity, it is conceivable that stock prices might gradually work higher even with business activity temporarily declining. In early 1936, it will be noted, stock prices moved contrary to the trend of business.

In Chart 4 (upper section) we compare the movement of industrial stock prices monthly since 1935 with the movement of industrial production, plotted on scales that represent an average relationship between the two. It will be noted that during the latter part of 1935 stock prices failed to reflect the sharp upturn in industrial production. This action is in marked contrast with the rise in stock prices which accompanied the business recovery in 1935 and 1936. In the lower section of Chart 4, it will be noted that stock prices have also failed to follow the marked improvement in earnings of industrial corporations during the last quarter of 1939.

There has been some tendency for corporation earnings to lag behind industrial production on the recovery which began in 1936. (See Chart 5) This lag may have been due to a number of factors, among them being a lag in shipments of goods as compared with production.

New orders lower

Our new orders index for the last week of December, affected by the Christmas holiday, dropped to 80.7 from 100.3 the previous week, reaching the lowest figure since the week of the fourth of July holiday. Steel orders accounted for most of the drop, textile and other orders being rather well maintained.
Of interest to the steel industry during the week was a $4,000,000 order from the Delaware and Hudson Railroad for 20 locomotives, the first important locomotive purchase by this road since 1918. Railroad equipment buying was also featured by orders for 50,000 tons of new steel rails from the Pennsylvania Railroad for early delivery, which follows a similar order placed last September. Substantial rail orders from the Northern Pacific and the Southern Railway are expected soon.

New York Times index higher

The New York Times index for the week ended December 30 rose 1.0 point to 106.7, keeping within the range established over the past two months. Year-end seasonal influences, however, tend to obscure underlying trends in business activity, despite attempts at seasonal adjustment. During the week under review, the 1.0-point upturn was due to fairly substantial increases in the adjusted indices of automobile production, steel production, lumber production, and miscellaneous carloadings, which were partly offset by a drop in the index of electric power production.
INDICES OF NEW ORDERS AND INDUSTRIAL PRODUCTION SHOWING APPROXIMATE UNFILLED ORDERS
1923 - '25 = 100

Approximate Unfilled Orders
Cumulated Deviations between New Orders and Production

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

C - 286
STOCK PRICES COMPARED WITH INDUSTRIAL PRODUCTION AND CORPORATE EARNINGS

Stock Prices and Industrial Production, Monthly

Stock Prices and Corporate Earnings, Quarterly

Officer of the Secretary of the Treasury
Division of Research and Statistics
January 8, 1940
4:30 p.m.

PRESENT:

Mexican Ambassador, Najera
Mexican Minister of Finance Eduardo Suarez
Dr. Feis
Mr. Cochran

Ambassador: How are you?
HM, Jr: Fine.
Mr. Suarez: How do you do, Mr. Secretary?
HM, Jr: It has been quite a while since you have been here.
Mr. Suarez: Yes, Mr. Secretary.
HM, Jr: I am sorry there was a misunderstanding on Friday about the appointment.

Ambassador: It was the fault of the secretary who wrote it down. He put four o'clock. Mistake in the lines. He said, "Well, I don't know it was eleven but I am sure I wrote it in the line to correspond."

HM, Jr: Well, I am sorry.

Ambassador: It was his mistake.

HM, Jr: Well, Mr. Minister, what have you got on your mind today?

Mr. Suarez: Just to present my respects, Mr. Secretary. Nothing particular in mind, just present my respects.

HM, Jr: That's nice. Things going along pretty well with you?
Mr. Suárez: Not very well.

HM, Jr.: You are here on a sort of vacation?

Mr. Suárez: Yes, Mr. Secretary. Taking advantage of my stay here to have some conferences on governmental matters here and in New York. Just present our respects.

HM, Jr.: I was in Nogales on the Mexican side about a month ago. Saw a bull fight, had a very good dinner at the inn. You don't know Nogales?

Mr. Suárez: Yes, I do.

Ambassador: I fought all down there. I was married down there.

HM, Jr.: He married and fought. You won the battle first and then got married.

Ambassador: I was there the first time about 25 years ago.

HM, Jr.: You know, Herbert, Merle Cochran and the Ambassador after a certain battle must have been in the town some time.

Mr. Cochran: We went to dinner there about 1915.

Ambassador: 1916 at the end of the year.

Dr. Feis: And whose battle were you fighting?

Ambassador: We were fighting with Obregon. I was Sergeant of the Obregon forces. It was on the 25th of November.

Mr. Cochran: The night before, the Governor wanted to come across the line, you remember? And you had a barbed wire fence and he had been permitted to arrange a private matter for us and you sent word to us, "You have the only key, Cochran. Will you come down and open the gates so the Governor can cross the border?" The next day the battle took place.
Ambassador: Later I was 16 years without going.

Mr. Suárez: Mrs. Morgenthau is well?

HM, Jr.: Yes, fine thank you. We enjoyed the china that you sent us. The silver plates were very nice.

Ambassador: Will you not decide to have holidays in Mexico?

HM, Jr.: I am afraid not. I would like to have gone very much but I am afraid until I am out of office -- then go down there and enjoy some of the good things that I have missed.

Ambassador: Well, next summer -- you always go to Europe. It may be very bad. You were there when the war started?

HM, Jr.: I was in Norway.

Ambassador: But you had been in France a little before?

HM, Jr.: Not this year. The year before.

Well, I hope you have a nice stay while you are here.

Mr. Suárez: Thank you, Mr. Secretary.

HM, Jr.: And I take it there is nothing you care to discuss with me?

Mr. Suárez: I have nothing particular, Mr. Secretary. The only problem that worries us is future sale of silver but I don't think you can tell us anything about that.

HM, Jr.: If that's your only worry you are very fortunate. No, we still operate here on a day to day basis and as long as world conditions stay the way they are we must continue to have to operate that way -- from one day to the next.

Mr. Suárez: Very happy to have seen you again, Mr. Secretary.
TO THE SECRETARY:

Sale of Government Annuities

In accordance with your request the following report is submitted on the matter of the Treasury arranging for the sale of Government annuities.

Recent Developments - Apparently the President has asked the Treasury, the Department of Labor and the Post Office Department to study this matter and to make a report to him. It also appears that on or about November 14th the President suggested the matter to Senator Wagner, because shortly after the Senator left the White House he announced to the press that he planned to introduce into the next session of Congress an amendment to the Social Security Act which would provide for the sale of annuity insurance to individuals at much cheaper rates than such insurance is now obtainable from private companies. He said that his amendments would permit individuals to take out insurance which would pay annuities up to $100 per month during their old age and that his program, as contemplated, would not provide competition with private companies because of the small size of the income insurance policies proposed. He said that he had been advised by one insurance official that such an annuity program would do little harm to the private insurance business as the insurance companies are interested primarily in annuities paying more than $100 per month.
Following Senator Wagner's announcement, Mr. Holger J. Johnson, President of the Institute of Life Insurance declared, in commenting on Senator Wagner's proposal, that while it might be possible for the Government to sell such annuities or any other form of service or commodity through the Post Office cheaper than they could be handled through private enterprise, this could only be accomplished at the expense of the taxpayer and the Treasury. He contended that annuities are part of the complete service provided the American public by life insurance companies and that these companies are prepared to continue to offer this kind of service. In commenting upon Senator Wagner's reported statement that insurance companies are interested only in annuities of $100 per month or more, he pointed out that the average annuity payment of the life insurance companies last year was considerably less than $100 a month. He indicated that the figures of 137 companies, representing ninety-two per cent of the life insurance in force in this country, averaged approximately $349 annually for each contract. Mr. Johnson indicated that more than 1,500,000 annuity contracts are now in force with insurance companies representing an ultimate annual income to individuals of more than $550,000,000.

Social Aspect - I think it is fair to say that those individuals in the Congress and outside of the Treasury who have been urging the sale of voluntary annuities have approached the matter purely from a social angle. Of course from the Treasury viewpoint this is primarily a fiscal problem and must be considered as such.
In any discussion of annuities and other forms of savings certificates, it should be recognized that from the viewpoint of the individual "thrift" is the primary objective. The government should do everything possible to encourage thrift and to offer inducements so that the average citizen can provide for his old age.

The difficulty with an approach from a purely social viewpoint seems to be that, in practice, very few people actually purchase such annuities voluntarily and without sales pressure. This is amply shown by foreign experience. The few who do, furthermore, are the more provident group who would have adequately provided for their own old age in any event.

This is true if the annuities are sold by the Government at cost. On the other hand, if annuities are subsidized, a subsidy, even if large, probably would not be as effective in promoting their widespread sale as might be supposed. Also, the benefit of the subsidy goes primarily to the more well-to-do persons who have the ability and initiative to fulfill their part of the contract, while the poorer and more improvident persons, most likely to become public charges, are not in a position to afford the purchase of annuities. Consequently, as a rule, this class of persons is unable to obtain the benefit of a subsidy ostensibly made for them.

Previous consideration - The Treasury has discussed the subject of annuities for a number of years. They were under discussion during the period when the Treasury was selling war savings and thrift stamps. Again in 1934 they were under discussion and we drew up at that time a plan whereby a person could save as little as $7 a month for a period of three
nents and could then with those savings obtain a savings certificate valued at $21, which bore interest at the rate of 3½ per cent per annum, compounded semi-annually, so that at the end of five years this certificate would have a maturity value of $29. These certificates would continue to bear interest after the five year period until such time as the holder decided to convert his savings certificates into an annuity. We prepared various tables showing the values of these contributions over a period of years at varying rates of interest. For example, if a person should save $7 a month for a period of forty years he would have accumulated, with interest at 3½ per cent per annum compounded semi-annually for the first five years and annually thereafter, a sum of approximately $7,200. This accumulated sum would purchase for a person having reached the age of 65 an annuity, computed in accordance with the American Committants Selected Mortality Table, at an interest rate of 3½ per cent compounded annually, of approximately $730, or about $60 a month. You will recall that this discussion developed the United States Savings Bonds.

You will also recall that when the Social Security bill was first under consideration by the Congress in 1935, it contained a provision whereby the Department of Labor (Social Insurance Board) could sell Government annuities. You appeared before the Ways and Means Committee and made a statement, without taking a definite position for or against annuities, that Government annuities, as contemplated by the bill then pending, were in effect public debt obligations and should be that
reason be under the administration of the Treasury Department. Following your statement the Treasury submitted a draft provision amending the Second Liberty Bond Act which would have authorized the Secretary of the Treasury to sell Government annuities. After the Ways and Means Committee had considered the matter it reported the Social Security bill without any provision for the sale of Government annuities, but after the bill had passed the House and had been referred to the Senate Finance Committee, this latter committee added substantially the same annuity provisions as submitted by the Treasury. When the bill was under consideration on the floor of the Senate, Senator Harriss asked that this particular amendment be laid on the table and not considered, so it was eliminated from the final bill. The Treasury was not advised as to why this provision was eliminated from the Social Security bill in its various stages, but we thought at the time that it might have been because of pressure from insurance companies.

Immediately following your request to consider this matter, I appointed a committee consisting of Mr. Julian, Mr. Broughton and Mr. Sloan to study the subject and submit a report thereon. As a basis for discussion this Committee has submitted a draft of an amendment to the Second Liberty Bond Act, which it recommends and which would authorize the Secretary of the Treasury to issue "United States Annuity Bonds". The various issues and series of annuity bonds under this proposed legislation would be offered in such amounts, within the debt limits established by that Act, would be issued and payable in such manner, subject to such terms and
conditions, and based upon such standard tables of mortality as the Secretary may from time to time prescribe. The language proposed is broad in scope as it should be in embarking upon a new undertaking of this kind. The annuities payable would be for (a) a term of years fixed; (b) life of one annuitant; (c) the lives of two (but not more than two) annuitants with continuation of all or part of the annuity to the survivor; (d) a term of years fixed, or the life of the annuitant, whichever period may be longer, or (e) a term of years fixed, or the lives of two annuitants with continuation of all or part of the annuity to the survivor, whichever period may be longer. The rate of interest specified in this draft is three per cent, and annuities shall not be less than $50 nor more than $3,000 in any one year.

However, the rate of interest to be used in determining the amount of the annuities and the maximum amount of an annuity are questions which you will have to determine, if it is decided as a matter of policy to sell annuities. The rate of 3 per cent seems fair, although it contains on the basis of present rates some element of subsidy, but the maximum annuity of $3,000 probably should be lowered to around $1,200.

Another question of policy to be determined in connection with this plan is the one concerning administrative expenses. No doubt when Congress considers this matter it will decide that the Government should stand all administrative expenses and that such expenses should not be loaded onto the annuity costs to the individual. While there is always a tendency on
the part of the Government to give the individual a break in matters of
this character. It should be borne in mind that whenever there is any
criticism of the Government for its activities in the field of private
enterprise, it is always contended that the Government's costs never in-
clude its administrative expenses covering the venture and therefore the
Government cost figures on performing a function of this character are
never comparable with the cost figures of private enterprise. By not
adding the administrative expenses to the cost of the annuities to the
individuals, it might give the insurance companies further grounds for
criticism.

Another important matter for decision, if annuities are decided
upon, is whether the purchaser shall have the privilege of paying in
monthly, quarterly or annual installments amounts in the form of premiums
necessary to accumulate funds upon which their annuities will be based.
If this method is adopted, as distinguished from that of purchasing of
annuities by lump-sum payments, the cost will undoubtedly be very heavy
in relation to the funds raised.

Whatever policies are determined upon with respect to the sale of
annuities, I feel strongly that any scheme adopted should be sound finan-
cially and one that a private company could undertake from a business
point of view. If we start a scheme with part of the costs loaded onto
the Government I am quite certain that the matter will sooner or later
attract the attention of Congress and from time to time the scheme will
be liberalized so as to increase the rates of interest allowed in the
fixed maturity of 25 years for a bond purchased by anyone under the age of 55 with interest at 3 per cent (this rate may be too high on basis of current money rates), or for anyone over that age different maturities and different interest rates would have to be fixed. Some provision could also be made whereby an individual could pay in a lump sum and have it returned to him over a specified number of years, payments to begin at such time as the purchaser might indicate, with interest but at a rate lower than the rate for the long-term bond. In order for a person with small means to accumulate his savings to the point where he could buy a $500 bond he could place his money in postal savings, or he could buy a United States Savings Bond for as little as $18.75. Under this scheme he would be permitted to turn in any other Government securities which he owns, including United States Savings Bonds and Postal Savings deposits, in the purchase of these income bonds.

It is realized that in permitting people to invest in bonds of this character it would be necessary to make some arrangements whereby cash could be gotten for these securities, although anyone purchasing an annuity does not expect the return of his money. I believe, however, that in the purchase of a bond we could permit its redemption under certain conditions such as complete failure in business, sickness and death of someone in the family other than the owner or beneficiary. Determination as to the circumstances under which redemption could be made would have to be left with the Secretary of the Treasury and under such circumstances the purchaser should not, of course, get the benefit of a 3 per cent rate. The rate should therefore be graduated somewhat along the lines of United
computation of the annuities and liberalize the payments to be made under the annuity contracts. I think it is important that a matter of this nature be kept at all times on a strictly business basis and never in any manner subsidized.

Alternate Bond Plan — If it is decided that as a matter of policy the Government should not enter a field which competes with private insurance companies, the Treasury could adopt, without any new legislation, a scheme under which it would sell "income bonds". While it is possible to proceed along these lines under our present authority you may deem it advisable to submit the matter to Congress for its approval in order that any program undertaken would be permanent. These securities would be sold only to individuals in registered form; they would bear a definite rate of interest and have a definite maturity date, with a condition that the bonds would mature before that definite date upon the happening of some contingency, such as death or total disability. The purchaser would have the right to name one primary beneficiary and possibly one contingent beneficiary. Provision could be made so that the purchaser could get his interest semi-annually as it accrues, if he so desires, or he could let it accumulate with interest thereon at the same rate as the bond bears, and at maturity or upon his prior death he could stipulate that he or his beneficiary would receive the full amount due in one lump sum or would receive the amount over a fixed term with interest at the same rate. A minimum limit of $500 and a maximum limit of $100,000 should be fixed as the amount which could be invested in these bonds. There should be a
States Savings Bonds. For example, if it were redeemed within the first
five years he would get, say, 1 per cent; second five years 1-1/2 per
cent; third five years 2 per cent and so on and if he had received his
interest currently, the difference between the 3 per cent rate and the
rate that he would be entitled to under this advance redemption scheme
would be deducted from the principal proceeds of his security.

It seems to me that a bond of this character might be popular,
especially to that class of persons who must rely on their accumulated
savings to furnish current income for their support, as well as to fur-
nish a bulwark against want in their old age. It might also furnish a
means of eliminating some of the outstanding demand obligations hanging
over the Treasury such as United States Savings Bonds and Postal Savings
deposits, and also keep the Treasury out of the insurance field. The
Department could be in a position to issue them in a relatively short
time, and we could promote them in conjunction with our Savings Bond
campaign.

Foreign Experience - Other Governments have sold annuities to indivi-
duals, but the amount of outstanding contracts does not seem to have
reached any significant proportions. The British Government has sold
annuities in various forms for a period of about 130 years. Their sale
originally was started to accelerate the reduction of the public debt, but
later they were regarded as a facility for persons of small means to invest
their savings. The total estimated capital liability outstanding as of
March 31, 1938, was approximately twelve and a half million pounds.
($62,000,000). The Canadian Government has sold annuities for almost thirty years and the aggregate net present value as of March 31, 1938, of about 39,000 contracts, of which 16,200 represent immediate annuities and 22,800 represent deferred annuities, was $107,844,000. The purpose of the Canadian system is to encourage and aid the people of Canada in the formation of habits of thrift so that voluntary provision may be made for their old age.

The British Government sells annuities through the offices of the National Debt Commissioners and through the savings banks. Apparently the differences between the annuities purchased through these two offices are in the size and method of payment. Under the National Debt Commissioners annuities may be either immediate or deferred annuities for life or for a term of years, and are granted upon single lives or upon two joint lives and the life of the survivor, or on the joint continuation of two lives. They have the full security of the Government behind them. These annuities may be purchased by various methods; (1) by payment in cash; (2) by transfer of Government stocks, 2-1/2% Consols, perpetual annuities payable as part of the permanent annual charge or any war security; (3) by transfer of annuities chargeable to the national debt. The minimum annuity to be purchased through this office is 100 pounds, for immediate annuities, although additions as small as 20 pounds may be added to this annuity. Amounts not less than 5 pounds a year may be paid for deferred annuities.
There is no maximum limitation and they are sold only to persons fifteen years of age or older. The rate of interest used in determining the annuity is based on the price of Consols, with a maximum rate of 5 per cent.

Savings Bank annuities are sold through the Trustees Savings Bank and the Post Office Savings Banks. These annuities are paid for only in cash, cannot exceed a maximum of 100 pounds on any one life, and are granted to any person not under the age of five years. The purchaser of an annuity may make use of his savings pass book, by having the amount he desires to use in purchasing an annuity charged to his account, whereupon the bank notifies the proper authorities who issue the annuity contract.

The Canadian system of selling annuities is rather interesting. While the number and present value of the contracts now outstanding are not large, yet they have shown substantial increases since 1927. It is important to note that the Canadian system is based upon an interest rate of 4 per cent compounded. For the year ended March 31, 1935, interest on the fund at 4 per cent amounted to $3,500,000, and in addition it was necessary to transfer $6,941,000 from the Consolidated Revenue Fund to maintain the annuity fund reserve.

These annuity contracts may be entered into by the Government of Canada with any person over the age of five, resident or domiciled in Canada. Any annuity sold by the Canadian Government under this system represents a fixed yearly income paid by the Government to an individual. It may be paid in quarterly installments (unless otherwise expressly
provided) for life, but may be guaranteed for 10, 15 or 20 years in any event. The minimum amount of annuity obtainable on the life of one person or on the lives of two persons jointly is $10 a year and the maximum is $1,200 a year. The annuity contracts are of two classes: (1) deferred, which is a plan whereby a younger person provides for his old age, and (2) immediate annuity is a plan whereby older persons wish to obtain immediate incomes through the investment of their accumulated savings.

The Canadian Government also has a system whereby industry can participate in Canadian Government annuities. Under this system the employer contributes a sum equal to each dollar paid in by an employee up to a maximum of approximately 3 per cent of the employee's rate of earnings. Employees may deposit additional sums if they so wish (which are not matched by the employer) and thereby secure larger annuities. As an example of the way this system works with industry, an employee whose weekly wage rate is $23.50 would contribute to the annuity fund 70 cents a week and the company would also contribute 70 cents, or $1.40 weekly premium. If the employee and the company contribute this weekly sum from age 26 until the employee reaches age 65, he can then retire with an annuity, in the case of a male employee, of $523 per annum, and in the case of a female employee, with a salary of $20.00 per week, if like contributions are made from age 22 to age 60, she would receive an annuity at 60 of $456 per annum.

It would be questionable whether any such scheme for industry could now be inaugurated in the United States because the contributions under
such a system in addition to the contributions under the Social Security Act would probably be too burdensome for the employer and employee.

Other countries which also issue annuities are: France, Japan, New Zealand, the Netherlands and Italy, but it does not appear in any case that the amounts of annuities in force, either from a financial or social standpoint, are substantial, notwithstanding the fact that most of the systems have been in operation for a long period of time.

I should like to discuss the various phases of this report and after you have determined the matters of policy involved, we would proceed to draft a set-up for whatever scheme you approve.

[Signature]
Assistant to the Secretary.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 8, 1940

TO Secretary Morgenthau
FROM Mr. White

Subject: Preliminary Report on Columbium and Tantalum

1. Uses - Both metals are used in steel alloys. Columbium-bearing stainless steels are more weldable than ordinary stainless steel and are more resistant to corrosion. The great affinity of both metals for all common gases has led to an extensive use of both metals in the vacuum tube industry.

2. Production - World production of tantalum and columbium ores rose from about 6 tons in 1930 to 220 tons in 1934, and probably to about 750 tons annually in 1937 and 1938. This expansion is due almost entirely to increased output of columbium.

The only country producing a large quantity of tantalite is Australia, which produces 20 or 30 tons yearly. Nigeria is the only large producer of columbite, reporting shipments of 707 tons in 1937 and with reserves approximating 10,000 tons. Belgian Congo is said to be a possible producer of both metals.

3. Position of the United States - The United States produces only a part of its domestic consumption, and imports tantalum ore from Australia and raw material for making ferrocolumbium from Nigeria. In 1935 the imports of tantalite rose to 42,000 pounds, valued at $80,000 compared with 21,000 pounds, valued at $40,000 in 1934; the imports of columbite declined to 645,000 pounds, valued at $228,000 from 923,000 pounds, valued at $306,000 in 1937.

4. Position of Germany, Japan and U.S.S.R. - None of these countries have any known supplies of these metals but they are apparently not essential and their present use is still in the experimental stage.
TO: The Secretary

Hereewith date requested on Harris Mettis.

From: MR. COCHRAN
It will be recalled that the cablegram from the Chinese Ministry of Foreign Affairs which the Chinese Ambassador here made available to you stated that 7,000 tons of tungsten and antimony had been seized by the French in Indo-China. When we asked the Chinese Embassy to get a breakdown of this figure, they reported to us on January 4 that 4,000 tons represented tungsten and 3,000 antimony. They confirmed that all of this metal was in French Indo-China, stored at Haiphong, and that to date the French authorities had not removed any part of it.

Under date of December 28, Matthews quoted Dayras as stating that as of December 6 there were some 3,000 odd tons of tungsten in French Indo-China, and on the Chinese side of the frontier there still remained a further 3000 tons. Dayras stated that antimony did not interest France, but that it was the hope of the French Minister of Blockade that all exports of tungsten from China would go through French Indo-China which would give the French complete control over it.

In a cablegram dated January 5 from Paris it was reported that Dayras had received a reply to his inquiry made of the French authorities in Indo-China, indicating that there are actually in French Indo-China now 4,500 tons of tungsten and 4,200 tons of antimony. Dayras said that he had cabled again asking for a list of the consignees of these materials.
January 8, 1939

Secretary Morgenthau

Mr. Cochran

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In a cablegram dated January 3 from Paris it was reported that Bayras had received a reply to his inquiry made of the French authorities in Indo-China, indicating that there are actually in French Indo-China now 4,500 tons of tungsten and 4,200 tons of antimony. Bayras said that he had cabled again asking for a list of the consignees of these materials.

[Signature]
AMERICAN CONSULATE GENERAL
American Foreign Service, Hanoi, Indochina,
January 8, 1940

Subject: Woodoil shipments.

The Honorable
The Secretary of State,
Washington,

Sir:

I have the honor to report, as of possible interest to the Department, that the exportations of wood oil by the Foo Shing Trading Company, from Haiphong to Hongkong for refining and reshipment, amounted to approximately 11,700 tons during the last six months of 1939. By months the exportations were roughly as follows: July, 1,485 tons; August, 1,261 tons; September, 1,308 tons; October, 2,271 tons; November, 1,951 tons; and December, 2,919 tons.

The containers used in these exportations were 280,013 tins (1 tin equals 16.7 kilograms), 30,285 tubs (1 tub equals 100 kilograms), and 23,939 drums (1 drum equals 166.7 kilograms).

Because of the bad condition of the containers arriving from China, there is an appreciable loss through leakage. To remedy this situation, the Foo Shing Trading Company is endeavoring to secure permission from the Indochina Customs to import without payment of duty empty steel drums from Hongkong, to place these drums in a bonded warehouse, and to transfer to these drums, for immediate exportation, the wood oil from leaky containers. So far the Customs have not agreed to this procedure.

It would appear that, despite the closing of the Heng Hing-Hanning road, wood oil is entering Indochina in at least normal quantities. However, I am informed by the Foo Shing Trading Company that deliveries under the Universal Trading
Company loan are about 600 tons in arrears.

Respectfully yours,

For the Consul at Saigon,

CHARLES S. REED
Charles S. Reed II,
American Consul.

Original and 2 copies to the Department
Copies to Embassy, Chungking and Peiping
Copies to Consulates, Kunming and Saigon
Copy to the Consulate General, Hongkong

CS 817-4

CSE: cas
Would you like me to report on what Mr. Traphagen did with the Ambassador?

I think it would be exceedingly helpful. Would you like me first just to tell you what the Ambassador's views are?

Please.

The Ambassador tells me that he and Dr. Jaramillo are somewhat nonplussed and somewhat discouraged because they thought that when they had the next interview with Mr. Traphagen that Mr. Traphagen would make known to them what his group's point of view was. They had so informed their Government. They found that all that Mr. Traphagen in essence, according to them, wanted was to have them say again what their position was as announced by them in a previous interview. However, at the end of the interview the Ambassador tells me Mr. Traphagen said he would have a further meeting with them the latter part of this week and then after talking with you and the Secretary of the Treasury, make known to them what the point of view of his organization might be.

Well, I talked to Traphagen but what I talked with him wasn't nearly as complete as what Cotton talked with him this morning. I will read what Cotton wrote to me.

"Mr. Traphagen called saying that he had heard the Treasury had been trying to reach him. I told him that you said you were going to call him this morning. He said that since he was leaving for Philadelphia about 3:00 o'clock today, he would like to tell me, for
your information, about the upshot of his talk with Turbay last Saturday.

*The conversation was amicable but still more or less in generalities. Turbay said he was formerly authorized to offer one million seven hundred fifty thousand dollars for the first year and two million dollars thereafter. Mr. Traphagen got the impression that these sums would not necessarily have to include the British debt. Mr. Traphagen reiterated that the guaranteed mortgage bank debt should be included in any settlement and there was some talk of how the sums mentioned should be applied as between interest and amortization on the basis of fifty million dollars of bonds, which would include the guaranteed debt on the assumption that it has been reduced to five million dollars, since the direct debt totalled forty-five million dollars. However, the sums offered for service were in general talked of as applying only to the direct Government debt.

*Turbay said that he understood that the one million seven hundred fifty thousand dollars to two million dollars which he was offering was not acceptable to the Council. He therefore asked that the Council formulate a counter-proposal which he could be assured would be acceptable to it and which he would submit to his Government.

*Mr. Traphagen raised in principle the possibility of a flexible provision, geared to export volume to increase service above a fixed minimum. Turbay expressed the view that this would be very difficult politically and would not be understood in Colombia, and generally opposed the idea. For this reason Mr. Traphagen would not be inclined to push the idea further, but nevertheless mentioned the possibility that if Turbay were given something in writing along the lines of the Riefker memorandum (but with a higher figure for
minimum service), he might take more kindly
to the proposal.

"Mr. Traphagen said he thought the time had
come when a minimum counter-proposal would
have to be formulated to give the Colombians.
He would hope to secure the backing of the
committee of three in this matter and would
like information of its views as to the
nature of such counter-proposal. On the
whole, Mr. Traphagen expressed moderate
optimism."

Well, in talking with me he said, one,
that he liked very much what I called
a Riefler Plan, for lack of a better
name, having a basic amount and then
changing it depending upon the exports.

Jones: Is this Traphagen or the other fellow?

H.M.Jr: Traphagen. He liked it. We were all
afraid they wouldn't like it. He said
that he would like to be advised if we
cared to advise them whether we thought
he ought to make them a counter-proposal,
that he would do nothing until he heard
further from us. I made the suggestion that
if you, Mr. Welles, thought well of it and
liked the so-called Riefler Plan, that you
might send for the Colombian Ambassador and
try to sell it to him. Then Traphagen said
if you would do that, he would consider it
very helpful.

Welles: I would like to clarify one point in this
memorandum. The Colombian Ambassador stated
to me specifically that the British debt
was not to be regarded as a part of this
one million seven hundred fifty thousand.
In this memorandum, Mr. Traphagen says that
he doesn't think it is and it specifically
is not.

H.M.Jr: Herbert, have you seen the Riefler memorandum?

Feis: Yes.
W.M.Jr: What do you think about it?

Fels: I approach it wholly and solely from the practical point of view-point of practicability. If by the use of it we can more easily arrive at terms, I would use it, the flexible idea. If we found that the use of the flexible idea was an added impediment in giving an adjustment, I would drop it.

W.M.Jr: The thing that I like about it — I was very slow to say I liked it. I felt it was throwing something new in. I got the impression the committee in New York wouldn't like it. It seemed to me that if they agreed on the flexible basis the chances for the thing lasting a year or two would be much better. Right now Colombia is going to have trouble on account of its coffee. If it was on a flexible basis and could go up and down, always having a basis, it seemed to me the chances of its lasting ten years would be better. Of course, on the Riepler thing it would only start at one million three fifty, wouldn't it?

Cotton: Yes, I think Mr. Traphagen was a little afraid of that being shown.

Jones: One, three fifty?

W.M.Jr: It started with that, yes. But on a basis of ten years average - you check me - if this had been enforced for the last ten years, the Colombians would have paid over two million dollars a year. Is that right?

Cotton: Yes.

W.M.Jr: What?

Cotton: Yes, that is right.

W.M.Jr: On the basis of the last ten years, if that had been enforced they would have
paid over an average of two million a year.

Welles: From the Colombians' standpoint, I think probably their objection politically would be that they want to be able to budget in advance, know exactly what their figures are going to be each year. They don't want to have to make their yearly budget contingent upon an "X" quantity. I think you are advised correctly when he said that politically it would be very difficult to put over. I am not questioning the merits of it, I am just talking about the expediency.

H.M. Jr: Do you want to try it on him?

Welles: I would be very glad to speak to him about it.

H.M. Jr: Then if you thought it was hopeless, we could drop it, Summer.

Welles: I think that is all right. I would be glad to do it.

H.M. Jr: Then, would this be all right, to say to Mr. Traphagen that you were going to try this on him and that we would not offer any advice until after you have seen the Colombian Ambassador?

Welles: I would make an amendment to that suggestion. I would be glad to do that. Wouldn't it be wise in the meantime to telegraph Traphagen to formulate what he thinks his counter-proposal should be so not to waste any more time on this? Three weeks have gone and absolutely nothing has been done.

Jones: I question the advisability of that procedure on the ground that the State Department is trying to prevail upon the Colombian Government to do something that they have indicated they don't want to do and I also believe we would be better off under a fixed amount rather than something which is going to have to be interpreted and determined by audits and controversies and things of that kind. I don't believe there is going to be enough improvement to the bondholders to warrant that. It won't be just an easy thing
to state how much is available under this formula. There could be controversy all
the time on that, requiring all these
delays and so forth and so on, and if
you could agree upon a fixed amount.
I think it would be better for us and
for the Colombian Government and from
the standpoint of our two countries
getting along amicably. That would be
my judgment. You gentlemen are two and
I am one. I am just giving you the
benefit of my views and I feel them
pretty strongly.

Welles: I didn't understand, Jesse, that the
suggestion was that I should try and
sell this to him, but that I should
try and find out whether he really
understood it and whether he wanted
to take the matter up with his Govern-
ment. The reason I suggested the amend-
ment --

Jones: It looks to me like they are getting along
pretty well. I mean they are not so far
apart. This fellow is up to two million
dollars.

Welles: After the first year.

Jones: Yes. Well, it doesn't matter much. A
year is a short time. My suggestion of
a million eight in my letter I wrote you
gentlemen would gradually go up. I still
believe that some such formula as that
would be better. I think that if these
people get the impression from this
committee that this is what we think they
ought to do and they go and they do that
because we thought so - now, we have per-
suaded them to do something that they have
indicated they would rather not do. It
gives them an excuse to say later, "Well,
we are sorry, we didn't like that at the
beginning but we agreed to it," and so
forth and so on. I think it would be a
lot better if we could take the form they
like and try to agree on the figures.
That is my --
E.M.Jr: What do you think, Harry?

White: Well, I am inclined to agree with Herbert Feis that it has advantages and it has some disadvantages. Mr. Jones has pointed out - I think the decisive consideration should be whether it enables them to get together, because it does provide for a little more leeway, flexibility and bargaining and it may be possible that they may get together on a flexible provision which may - when it may be impossible to get together on a straight provision, but I think the difficulty is sufficiently unimportant so as to make the decisive consideration that which Herbert Feis points out, namely, will it enable them to get together.

Cotton: It would be very difficult to present it without having the figures, which might be misinterpreted one way or another.

E.M.Jr: It is not my child. I have no --

Jones: No pet ideas about it?

E.M.Jr: No.

Gaston: This budgetary difficulty might be overcome. The difficulty of budgeting the payments might be overcome by adjusting in a subsequent year to take care of transactions in the prior year so that they could always budget it by that figure.

White: I think there is little doubt but what the idea of flexibility is an excellent one to introduce into these settlements. It is fair and it makes possible larger payments to the bondholders if the country prospers, particularly when the adjustment is being made at a time when things aren't any too well.

On the other hand, if the attempt to achieve that principle is going to cause difficulties, I think it should be set aside, but I think an attempt might be made to throw it into the
Jones: But they can always pay more.

White: But they might be able to settle for less now in promise of paying more if things improve.

Jones: Well, suppose we --

White: For example, coffee has dropped as the Secretary has said, three cents a pound, almost a twenty-five percent drop in the last month. It makes a difference of over five million dollars a year in exchange available. That is an important consideration for them. That must be a factor in their determining at this time how much they are willing to pay, how much of a settlement they are willing to pay. Now, it would be unfair to the bondholders to permit the present low coffee price to be an important factor in determining payments indefinitely, whereas the bondholders might be willing to accept the lower payment with the hope and expectation that if that improved they would get some of the benefits thereof, so I should think it would make some sort of a compromise easier, but again it is a matter purely of negotiation.

Cotton: Mr. Jones, you are also interested in the treatment of the arrears. There is some idea this might help that. The Counsel, I take it, was unwilling to agree to just recognition of the arrears and wanted a sixth of it. You thought it ought to be more. Perhaps that idea would have some virtue.

Jones: I would be willing to accept the total amount that you arrive at by taking one-sixth for the five years and then the three and the three and a half and the four, but run it straight through and
not have such a low rate to begin with. I would be willing to accept, if I represented the bondholders, the amount of dollars that Colombia would pay over that period under that formula. But I think from our standpoint we would be in better light to concur in or aid in a settlement where there wasn't such a terrible cut in this past due interest. That is just a different way of saying the same thing and saying something that we can defend. When we say we are going to lend Colombia money and she is only proposing to pay one percent where she promised to pay six, it is a little bit hard to defend, to justify.

Welles: May I make a concrete suggestion?

H.M. Jr: Please.

Welles: That I see the Ambassador early tomorrow morning. If I find that he won't even consider this Riefner plan, I will then let you know on the telephone.

H.M. Jr: All right.

Welles: I will not undertake any salesmanship at all, simply get his point of view. If I find, as I anticipate, that he doesn't want to consider it, then I suggest that Mr. Traphagen be requested to formulate his counter-proposal and to take it up with the Colombians on Friday.

H.M. Jr: Well, if you would speak to him in the morning, I will get in touch with Traphagen at once, so there is no time lost.

Welles: Right.

Jones: I think that is good. I certainly would avoid saying anything that would prevent him some time in the future to say, "Well, I am repeating what I said a while ago, that we didn't like this and that it was your suggestion and it doesn't work."
Welles: I think all three of us have agreed that none of us should take that position.

H.M.Jr: Well, isn't that about as far as we can go today?

Welles: Yes.

Feis: You might want to clarify the question of whether the conversation leads into the question of amount.

Jones: How was that?

Feis: Whether if the conversation leads likewise into the question of amount. What if the Ambassador says, "Well, perhaps if you start from a low enough point or something -" whether any suggestion is to be given to him as to what we consider the minimum starting point.

Welles: I should prefer to leave that with Mr. Traphagen.

H.M.Jr: Traphagen keeps saying two, three and they said one, seven five to two. Now, the thing is - they are not so terribly far apart.

Welles: I think we might as well agree and I think it is perfectly fair, just as was indicated in your own suggestion, that in view of their situation they ought to be allowed for the first year to make a smaller offer than for the subsequent years. Traphagen, so far as I know, hasn't agreed to that in principle, has he?

H.M.Jr: Well, he has said two, three, hasn't he?

Cotton: That is what he said. I think he would be accommodating on the first year all right.

H.M.Jr: Up to date, he has said not a penny less than two, three. Today he says, "If you people could throw out a hint that you think we might do so and so, we would
be glad to consider it." I think the
feeling, don't you, Joe, of Traphagen,
as far as I can tell, is that he is
absolutely playing straight with us?

Sutton: Oh, I think so, yes sir.

Welles: Then I think what you said a minute ago
is quite right. I think the Colombians
like him and have confidence in him.
They are only disappointed that no
brass tacks have come out so far.

White: Well, they are closer together than any
previous discussion has brought them.

K.M.Jr: Are you perfectly happy?

Jones: I would like to - for Traphagen to get
my point of view on this settlement and
I would like for this Ambassador to get
it, about this three percent stuff,
because I know what is going to happen
when we go on the Hill to get money for
the Export Bank and my judgment is that
I have stated here. There apparently
doesn't seem to have been very much
consideration given to it. I would
like for these men who are really in-
terested, Colombia and Traphagen, to
get that point of view.

K.M.Jr: How about what you said earlier, that you
didn't think we ought to try to sell them
anything.

Jones: I don't. But I don't see why - well,
I have got that pretty deep in my system
and I may be all wrong about it. I may
not have the right idea.

Welles: Why not think about this: If Traphagen
comes down on Friday, as the Colombians
think he is coming, and they then have
what amounts to a satisfactory conversation
and they still have details to work out,
why couldn't both sides then move into an
informal meeting with you and Secretary right
here —
H.M.Jr: And you.

Welles: And myself, and from our standpoint express that point of view, because the Colombians are as keenly interested in getting the Export-Import Bank additional capital as any of us are, as you know.

Jones: Yes.

Welles: Do you see any objection to that, Henry?

H.M.Jr: I think it would be good. I think if Jesse has this - I mean, let these people come in and then they feel that it is a united front here and that the three of us are moving together and I don't want them to sort of get the idea that we are not and --

Jones: We are together. If I can't get my wife to agree with me, I agree with her. That relationship isn't quite the same here, but it is pretty intimate.

Feis: I have an idea that you will find that you are putting them up against the hardest thing politically, to fund those interest arrears. It is usually the hardest thing to get through a Congress.

Welles: The President of Colombia now, Doctor, has the ability to make any settlement. He has full powers to make the settlement.

Jones: Not only that, Doctor, when you approach this thing you have got to add up over a period of years, you have got 'X' dollars. Now, when you take the same amount of dollars and you can call so many dollars for debt service.

Feis: I realize that.

Jones: You can write this up. You are pretty good at writing things so that you don't spell it out entirely in the lines. Some of it will be between the lines. I think this thing can be put black on white to do
the thing I am talking about so that it will make our problem a little bit simpler. I may be wrong about the - how much interest Congress is going to take, those Committees are going to take about it. It is 1940 now and not 1939 or 1938.

H.M.Jr: If we were going to have these people in, the Cabinet is usually Friday so we would have to have some idea before.

Welles: I suggest Saturday morning, because I imagine Traphagen would be having his talks with the Colombians Friday afternoon. My thought is to have our meeting afterward.

H.M.Jr: Then, Joe, after Mr. Welles calls me tomorrow I will send for you and you remind me when I talk with Traphagen to ask him if he would come in Saturday morning. Would that be all right?

Jones: Any time.

H.M.Jr: Shall we make it tentatively 10:00 o'clock Saturday morning?

Welles: All right.

White: Mr. Welles, are you waiting for us in any way in going forward with the other, Brazilian and Ecuador and Peru things, or is that still in abeyance until Colombia is cleared up?

Welles: Dr. White, I was asking for postponement of adjournment until I could pick up the Brazilian dollar. In principle, I think we all agreed that nothing could be done until the Colombian matter was established with a good precedent. There have been certain developments with regard to the Brazilian debt situation. I wonder, Doctor, if you would just give the statement of the situation as of the moment.

Feis: The holders of the sterling and the French bonds have been very active. They are very discontented with the continuous default.
They are prepared to take a very small range of payment. Now, they have got resident representatives in Rio and those resident representatives, particularly the British, are very intimate connections with their Embassy and the British representative, in fact, of the Council is now actually on the staff of the Embassy, so that the British succeeded then so that their Government is now controlling all their purchases.

Jones: The British and the French?

Fels: The British and the French. The Governments are in a direct position to say to the Brazilian Government, "We may buy this or we may not and if you should settle with our bondholders, we would be more inclined to buy and there would be an offset, an exchange offset, give us the exchange that would enable us to do it." With that background, they have been able apparently to interest Souza Costa, the Finance Minister. He has talked with them rather actively and apparently terms were suggested which both parties at interest were prepared to accept. It was for Federal bonds only and the suggestion was fifteen million - no, three million pounds, I believe, twelve million dollars a year, for all Federal bonds. All of this developed rather rapidly and was reported to us.

Now, our chief holdings are State and Municipal bonds. We hold a far larger percentage of State and Municipal than we held of Federal. That is why in the settlement of 1934 we had a classified settlement of six grades and the better State and Municipal bonds did fairly well in their relative positions. Our Ambassador warned us that if we continued a purely passive attitude toward this, it wasn't impossible that some deal might be consummated and that Aranha was persuading himself by that and trying to persuade the Ambassador that that would be favorable to us, because once the Federal debt was out of the way he would be in a better position to do something.
for State and Municipal and in the light of that fact and our Ambassador's warning that we shouldn't sit passively, that something very unpleasant might develop, the Ambassador was instructed to tell the Brazilian Government that if they put through a settlement for sterling and French securities without at the same time reckoning with dollar securities, it would leave a very unsatisfactory sense here and was instructed to tell them also that any settlements to be equitable to the American interests would have to include the dollar for the State and Municipal bonds.

Apparently the Ambassador was very glad to get the instruction, felt that we had avoided a very unpleasant surprise.

He then has come back since, at least once and perhaps twice, with a recommendation that we have got to take a positive role in this matter right now, at least make it clear to the Brazilian Government that if they are ready to move ahead and talk debts, we are.

Now, one last point and I think that about covers it. The Brazilian situation is disturbed, although their exchange situation has at times been much worse. The best Brazilian offer is likely to be a very low level offer. For that reason, it seemed that the chances of working something out on a temporary basis were far better than working it out on a permanent basis and that idea, too, has been passed on to Rio.

Now, I think as far as my understanding of the situation goes, we are rather waiting to hear from the Ambassador.

Welles:

The situation as of today is that Aranha tells us definitely that they will not conclude negotiations with the British and the French without having reached an agreement with us. The point that I want to make is that if any progress is to be made, the Council has got to send somebody down to Rio. Exactly the same thing happened last autumn and it
happened in the case of Colombia two years ago. The man they sent down had to get back to Princeton University to undertake his classes and I don't see that the Council can possibly do business that way.

H.M.Jr: Why, if Traphagen is in Saturday, couldn't we talk to him about this?

Welles: That is the reason I brought it up today.

H.M.Jr: Jesse?

Jones: All right. Can I get out of the book all that dope about Brazil?

White: No, but we are just preparing something now and within a few days you will get a complete story of the debt, to which will have to be added pending information which is in possession of the State Department, this last lot which hasn't been available to us and I thought you would be able to get it or they could give us a memorandum to go with it.

Jones: Will I have it before Friday?

White: Oh, yes.

Welles: That is all.
January 6, 1940

Secretary Morgenthau
Joseph P. Cotton, Jr.

Re: Colombian debt.

Mr. Traphagen called saying that he had heard the Treasury had been trying to reach him. I told him that you said you were going to call him this morning. He said since he was leaving for Philadelphia about three o'clock today, he would like to tell me, for your information, about the upshot of his talk with Turbay last Saturday.

The conversation was amicable but still more or less in generalities. Turbay said he was formally authorized to offer $1,750,000 for the first year and $2,000,000 thereafter. Mr. Traphagen got the impression that these sums would not necessarily have to include the British debt. Mr. Traphagen reiterated that the guaranteed mortgage bank debt should be included in any settlement and there was some talk of how the sums mentioned should be applied as between interest and amortization on the basis of $50,000,000 of bonds, which would include the guaranteed debt on the assumption that it has been reduced to $5,000,000, since the direct debt totals $45,000,000. However, the sums offered for service were in general talked of as applying only to the direct government debt.

Turbay said that he understood that the $1,750,000 to $2,000,000 which he was offering was not acceptable to the Council. He therefore asked that the Council formulate a counter-proposal which he could be assured would be acceptable to it and which he would submit to his government.

Mr. Traphagen raised in principle the possibility of a flexible provision, geared to export volume to increase service above a fixed minimum. Turbay expressed the view that this would be very difficult politically and would not be understood in Colombia, and generally opposed the idea. For this reason Mr. Traphagen would not be inclined to push the idea further, but nevertheless mentioned the possibility that if Turbay were given something in writing along the lines of the Riesler memorandum (but with a higher figure for minimum service), he might take more kindly to the proposal.
Mr. Traphagen said he thought the time had come when a minimum counter-proposal would have to be formulated to give the Colombians. He would hope to secure the backing of the committee of three in this matter and would like intimation of its views as to the nature of such counter-proposal. On the whole, Mr. Traphagen expressed moderate optimism.

(initialed) J.P.C., Jr.

JPC, JR: BJ
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FROM: Joseph P. Cotton, Jr.  

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For release morning papers

Tuesday, Jan 9th.

ADDRESS OF

JOHN V. HAVIS

JACKSON DAY DITTLER

DALLAS, TEXAS

JANUARY 8, 1940

FUTURE RELEASE

OBSERVE DATE

Regraded Unclassified
I am very grateful to my good friend Aven Carter for his kind and generous introduction. Of course, I know what he says about me is a generous distortion of the truth but I appreciate the care for that. Governor Aycock of North Carolina used to say it never made a pretty woman happy to tell her she is beautiful. She knew it already. But, said he, if you want to see joy and bliss irradiate a woman's face, get an ugly woman and tell her she is beautiful and you will make her the happiest creature under the sun.

My friend might have taken less chance with you and I might have been more comfortably happy if he had put me up here on my own until you had tasted the fruits of my effort and observed the rough spots of my political publicitize.

I am sure you are aware of my deep appreciation of your invitation to associate with you in this Jackson Day dinner. 'was it was first suggested that I speak to you tonight, I doubted my ability to provide the kind of talk that this occasion ordinarily calls for. I have never attempted to make a political speech. I could not make a partisan political speech if I were foolish enough to try. But I have been told that you will nonetheless be willing to take the same chance that I do.

In this connection I want to say that by birth, inheritance and breeding I am a North Carolina democrat, by preference an independent liberal, and by practice a political agnostic — whatever that is.

I was also born a Methodist, but I reserve the right to become a Full-Holler if I am desire in this land of freedom of religion and freedom of speech. While one of my political intolerance, frequently I have been mortified at — bad judgment. I was invited to Washington not as a reward for party service, but to take an active part in my government. And I told you with all sincerity that, while at times I may have been a political heretic, I have always tried to secure the welfare of my country before the welfare of any political party.

Do not misunderstand me. I recognize that government in this country is administered through political parties and the policies of government are determined by the party in control. I think this system is definitely preferable to government controlled by blocs and groups and dependent upon coalitions in order to achieve desired results.

It is a distinguished honor to visit this amazing city in the great State of Texas. I have enjoyed the helpful privilege of meeting with and coming as we southern friends, several of the outstanding members of your distinguished delegation in the Congress. I love and admire, as I wish, the courage, the integrity, and the personality of the distinguished and able Vice-President of the United States, John Nance Garner — of Texas. In his conference of faith a few years ago Mr. Garner gave utterance to an encomium of government in America. He said:

"There are just two things to our Government as I see it. The first is to safeguard the lives and properties of our people. The second is to insure that each of us has a chance to work out his destiny according to his talents."
If I were called upon to write a political platform today I would give liberal interpretation to this thought, and with full confidence in the destiny of my country.

I have also had the privilege of knowing and on occasion working most harmoniously with your distinguished Senator on the Finance Committee, Hon. Connolly, Senator Sheppard, Chairman of the Senate Committee on Military Affairs, and with the experienced and alert Leader of the House of Representatives, Sam Rayburn, and also with my good friend on the Ways and Means Committee, Hon. Houston "Bert". There's a two-fisted American citizen who is doing a magnificent job. It is proper that people of Texas have great pride in the contributions of their representatives in the legislative branch of our government. I might go so far as to say that Texas has the second best delegation in the Congress — I know you wouldn't expect a North Carolinian to surrender the first place to anyone.

In the administrative side of government, I can not pass without a word about one other famous Texan, my warm friend Jess Jones. Then the history of this era is written, the name of Jess Jones is sure to be a shining among those who have made real contributions to sound and constructive government.

In an area that is now part of a neighboring state, a great American general one hundred and fifty years ago moved to the world the salvation of a young republic, to work out its own salvation. Andrew Jackson, Old Hickory, the seventh President of these United States — it is in his honor that we meet tonight under such happy auspices, not to observe his birthday but to pay honor to his contributions to democratic government in the United States. To symbolize that contribution we commemorate the most spectacular exploit in his colorful career — his dramatic victory at the Battle of New Orleans.

It is an interesting commentary on the progress of our nation since that time that the victory we observe tonight — the only important American military victory in the war of 1812 — was won after the war was over. The treaty of peace had been signed in Europe but the news had not yet reached Louisiana and Old Hickory and his troops still thought they had fighting to do.

I have just said that I am not a politician. Yet, to my thinking, Andrew Jackson is one of the picturesque, fascinating, matchless, great figures of our country.

Born of humble parents but of good stock, on the line between my native state of North Carolina and South Carolina, his birth is marked by each and claimed by both of the Carolinas. A casualty of the Revolutionary War, he was but fourteen years of age when, by dint of his indefatigable spirit, he got an education, taught school, became lawyer, migrated to Tennessee, became local politician, attorney, married a most beautiful woman. Forget chickens, forget ducks, became the first representative of Tennessee in Congress, was elected senator, was nominated to the Supreme Court of Tennessee, became major general of the Tennessee militia, fought the Indians and whipped them, became a major general of the United States regular army, saved the pride of
prestige of the army and of the country at New Orleans and returned to Tennessee as a private citizen suffering from old wounds and ill health to put his affairs in shape because he believed that his time was not far off; then characteristically refused to die, was defeated for the presidency in 1824 after he had received the largest popular vote and electoral vote of any of the four candidates, and then came back and was overwhelmingly elected President in 1828 because he was the idol of the masses of the common people, and was overwhelmingly reelected in 1832. He selected and elected his successor in 1836 and then went back in his home lines to his beloved Hermitage in Tennessee and waited for eight years for the summons to call him.

As a man, he was adored by his friends and hated and feared by his enemies. As a general he was energetic, decision, and knew how to control his men and defeat his enemies. As a lawyer he was, according to his own admission, without much learning. He was a good farmer and generally a poor business man. As a politician he first made really effective the doctrine that "to the victors belong the spoils." As an opponent he swung a battle-axe and never touched the ragged.

It was his fate to live on the frontier. He was a great actor. On the national scene he staged the most conspicuous and romantic show in American history. He had actually become legendary before he became President. He conformed to no known rules. Yet he was intensely human. He was President in a glorious war. He was President at a time when a fascinating group of men of unusual ability played their parts in the national forum. There were Calhoun and Clay, Webster and W. H. Seward, Blair and Trumbull. The greatest of these was Jackson.

As President he had his way. In his ways he made mistakes, big ones. He also made a great nation. Actually he made this government a government of the people. His greatest fight was with Clay and Calhoun, primarily Calhoun. In 1832, the Legislature of Calhoun's native state, South Carolina, passed the nullification resolutions. On November 19, 1832, the session of the resolution was adopted by South Carolina. The Legislature issued the law envisaged in the ordinance. President Jackson's assertion: "Our federal Union: it must be preserved. If preserved it was — at least for thirty years. Andrew Jackson, the seventh President, a great benefactor and a great American. I salute him!

Today, just more than a round 100 years after Old Hickory passed off the national stage, in a world beset with struggle and uncertainty, with civilization as we know it put to the utmost test, with assurance that democracy can ride the storm, his example and his counsel seem should bring encouragement and hope to all of us.

I have confessed my inexperience in politics. By this confession, I do not mean to imply that I do not recognize the vital forces of political power and political control in American democracy. Yet only in this country, but throughout the world, business, commerce and trade stand with acute necessity the character and traits of our political mode. The interwoven relationship between government and business as declared as necessity for the public good that there exist the most intimate understanding and equitable balance between the political action and the business policy of the American people.
There is one historic national fact concerning which all political parties agree. That is the fixed custom of the American voter to hold the party in power responsible for economic and social stability. For more than one hundred years, since the Jacksonian era, national elections have revolved around the issue of which political party is most likely to promote and maintain national prosperity and national economic well-being. This issue is always dramatized in political slogans. Mark Hanna in 1885 contested with Bryan's crusading of the American people "On a Cross of Gold" by a direct shot at the stomach of the American voter with his appeal of the "Full Dinner Plate." The tariff is always selected in consideration of its ultimate effect on the American worker. And I remember that in 1908, the Republican slogan was "Keep Gold with Golding!"; the Democratic cry, "Keep Gold with Golding!". In 1932, there was always the underlying issue of "Chickens or Pots", and "Pots and Chickens." The Republicans had said "A Chicken in Every Pot" — the Democrats claimed that it was fruit of Republican rule the chickens that arrived were only beneficiaries since each chicken now had a minimum of two pots!

In 1936, President Roosevelt, as a result of his careful search to ask the average American to tell him in his formal will who to choose, he concluded this single question: "Are you not in better condition today than you were on March 4, 1933?" The answer was unanimous and overwhelming. While these issues may be particularistic in detail of the 1936 campaign, they serve to illustrate how both major political parties have consistently tried to win the American voter, to win the national prosperity as the vote stick for economic, the ownership of politics required to manage the affairs of business of this nation.

Beyond the immediate political plausibilities that come from national prosperity, now and I know that the success, happiness, and progress of our people in large measure rest upon the high standards of living gradually prevailing in the United States, we will that these standards should not fall in periods of depression, but that the new form of prosperity, the "New Deal" form of prosperity, should be sustained on. The period from 1920 to 1929 was a period of economic depression for our nation. It was a period of depression in everything, and the resultant instability was in most things. We thought that the new form of prosperity was to come. We were correct.

The period from 1929 to 1939 was a period of prolonged depression. We found ourselves in a new kind of depression. We found that the breaks were, in my judgment, a greater economic and social revolution since the depression of 1893.

"These breaks, these breaks in business, which form the broad avenues of these recent years. I could distinguish it from our prosperity, this is one America and it is if I think of poverty which we encountered on all."
United States and to Franklin Roosevelt — full measure of devotion for the right that has been made for the right of the little man to live, and for the right that has been made for the right of the little nation to live.

Throughout those recent years — both before I came to Washington and during my service in the government — I have felt that the biggest issue in this country, the issue taking precedence over reform and over politics, was economic recovery. I have never made a public statement, held a private conference or discussed public policy without having in mind the question, 'Does it contribute to recovery?' Today I am more firmly convinced than ever that this is the correct approach to the solution of the majority of our domestic problems to which the Administration and the Congress have given their thought and effort.

By this I do not mean to indicate that reform and recovery are necessarily antagonistic. Any fair and intelligent appraisal of the achievements of the Administration must admit that certain important pieces of legislation could be classified by one person as reform measures and by another person as recovery measures. It is simply a matter of where you put the emphasis. For example, the important banking legislation enacted during the Administration, making secure the funds of depositors, you might consider as a reform. I believe I would classify it as a recovery measure.

The creation of national recovery is a task of many aspects. 'We are not going to achieve complete economic recovery by any known or unknown political "Hot Tricks." In my humble opinion, we are going to knuckle down, eventually and achieve it the hard way — the slow way — or we aren't going to achieve it at all. It is plain to us that the root of our problem is unemployment. We have several million people in this country today waiting to work, and finding nothing to do. Their idleness is not only subtracting from the productivity of the nation, but is causing a heavy drain on the resources of those at work in the form of great expenditures for relief and public works programs. The cost of our unemployed to the recovery of the country is conservatively estimated at more than 920 billion dollars.

We must find a solution to this problem, both publicly and privately. What we are to recall today, almost as much as we need anything, is that both Government and Business and Institutions set up by the people for the smoother functioning of their own operations. When we reemphasize the authority of the two establishments springs from the same source, we are able to take directly or indirectly our case of argument on the problem of national recovery, to determine how we can still go back to work to make the cost of our resources — human and natural.

Just as it is axiomatic that the material welfare of the people has a direct effect upon political action, so is it equally true that the electorate is always more locally conscious of its governmental structure in times of economic depression than in periods of relative prosperity. If nothing else, this at least has given us a revival of the kind of public interest and discussion that gives life to democracy. Less important perhaps in the voter of activity essential to the solution of our problems, but a trend which I believe is every bit as important, has been the recent manifestation by leaders of business of the realization that
they, too, are stewards for the public just as are leaders in politics.

From my own dealings with representatives of American business during my stay in Washington, I am firmly convinced that we are entering a new decade of economic, social, and political history with the advantage of an alert, conscientious industrial management. With the worker and the public generally continuing to pay close attention to the processes of Government and the processes of Business, I know that we are in a position to solve the problem of unoccupied men. These millions must either be fed and clothed or put back to work. They cannot be ignored. You would have a hard job selling us the kind of system which could not provide a living for those wanting to work and unable to find work.

The primary solution of this problem must lie in the increase of industrial production — the creation of additional national wealth. This can result only from the maintenance of conditions under which private enterprise may realize reasonable profits. Profits earned by business, or the prospects of profits to be earned, form the basis for attracting additional credit resources and investment by the public.

During the tax hearings before the Ways and Means Committee last spring I stated: "There are at bottom only two ways of producing wealth. One way is to co-opt labor and capital and put them to work under Government compulsion. This way is unthinkable in America. The other way is to provide the incentive of wages, interest, dividends, and profits. This is the way to which we are committed, the only way we can think of taking profiles. It is imperative that we direct every effort towards encouraging investment in enterprises which will provide employment.

Now the question arises: what can the Federal government do which will encourage investment in enterprises? There are very few government can help; I will mention but a few.

First, we can do everything possible to restore confidence in the business men. I would like to quote a few words from the New York speech of Henry Hopkins. He said: "Among new business men there exists a widespread lack of confidence. I am prepared to accept that premise, but would I underestimate its importance. Lack of business confidence is a hard, stubborn fact, and any hopes real or deterrent to restored business health as may we have to deal with."

There is, I believe, general acceptance of the fact that we need to restore confidence. Another way is to help is through a more honest approach to our tax problems. This, I believe, the Treasury has conscientiously tried to do. Last August, we invited suggestions and recommendations from more than 500 representative leaders and groups in business, industry, labor, agriculture, and education. We asked for suggestions as to areas of greater action which these groups believed would be constructive and fair and would improve the tax structure. The response was most encouraging. A complete digest of this taxpayers opinion has been compiled in the Treasury and has been submitted by Secretary Morgan to the Ways and Means Committee for its consideration when tax revision is again taken up. A other way we can help is by making an honest effort at getting our federal outgo and income at least in adjoining counties — nothing would so revive business confidence as that.
I have said that it was the fate of Jackson to live on the frontier. If I understand the matter, he was as definitely on the frontier when he lived in Shawnee and was President of the United States as he was when he practiced law in Franklin, or fought the Indians in southern Alabama. The frontier to him was not mere new country. To him it was a state of mind.

The view is so widely accepted that our country is suffering from a changed economy; not only that our natural resources have disappeared, but also that our assets in the frontier are so large that there is no longer the power in the national currency for such investment as enterprise. It would be well for America, indeed, if we could accept this restricted philosophy. It reflects upon the tenure not in wealth of our people. It is in conflict with the inherent design and desires of the American people for a higher standard of living. It is repugnant by the achievements of the past and the prospects of the future.

Will it be a small or a great age when I live to see California to enter politics? The only substantial western problem now is that one for which we have seized, and that is the discovery and development of gold, silver, copper, and iron. This is the story of the great west, and it exemplifies the restless spirit of the world.

So far as I am concerned, we are a nation of General Motors, a lacking, as much as our public affairs. Nor have our industrial conditions yet perfected to such a point that we no longer have to look for them. I call your attention to three facts of the condition: (1) A shortage of skilled labor; (2) our great interest in the soil, but our paucity of gold; (3) the product of our steel mills. Less for wool, more for iron, more for iron, more for iron. The effective growth of the iron and steel industry is the basis of increased demand in both interior and western, by the same token, of other needed articles.

It was 100 years ago that we began the life of our civilization since the Gold Rush; but the smiles of visions, and the Sinking of Ohio, and the slow progress have been slow. In half a century, and the United States, and the great new industries the products of America must be more competitive, if less competitive, to the world, to bring which, to all our resources, we must look to the products of the earth, whether better food, better transportation, better clothing, or through increased production at reasonable prices.

I do not wish to tell you that for so to do in that manner has been. "Material prosperity toward farming. Business and industrial production is for the benefit of those who produce. That is, the benefit of the first is for less cost. It is a sign that the economic environment should be remodeled in the interest of the man who should himself. The sustained period of low returns, we cannot and say that the industrial return is of a different and it is a pity that it is not a pity. It is a pity that the human right to correct business activity is threatened by facts. Is it a pity that we are to put it to the practical cir-
to continue a spirit of tolerance and cooperation between business and government, between industry and labor. One factor that has been dragging but that is now definitely improved is the low level of prices received for farm and other commodities. This buoyancy in farm prices is encouraging. I have confidence to believe that the American people have the will to carry out the cooperation I have just spoken of.

We may be disposed to attribute a considerable part of the improvement in conditions of the war. In some fields it is undoubtedly true that the war has contributed something to recovery. I think we would make a mistake, however, if we lost sight of the fact that we were already in a period of expanding recovery before the first gun was fired. Indeed, we were on the road to economic recovery prior to Poland. Business had begun to show by July a definitely rising trend. In August the Federal Reserve Board index of industrial production had risen to 102, as compared with a low of 92 in April and May. It rose to 110 in September — and I think only partly to the actual and psychological effects of the war. It has climbed to a little more than 120 today. Production in the heavy industries has begun to roll.

To my mind the war carries the greatest threat to our present security in safety. But, if I understand the American mind at all the United States is not going to become involved in what looks like the eventual destruction of the property, the morale, and the lives of the best of many of the European nations. But for us — in the present worldwide conflict of ideologies — we must never forget the day by day importance of our domestic problems. I can think of no sounder guide for American national destiny than that uttered by the eloquent Daniel Webster in Jackson's epoch, and in cooperation of the nation's struggle for freedom before it was even a notion, these watchless words from his Senate Hill oration: "Let our object be our country, our whole country, and nothing but our country. And, by the blessing of God, may that country itself become a vast and splendid monument, not of oppression and terror, but of wisdom, of peace, and of liberty, upon which the world may gape with admiration forever."
January 3, 1940

Secretary Morgenthau

Mr. Foley

In a letter to you, dated December 27, 1939, Mr. Lawrence Currie, Administrative Assistant to the President, made the following request:

"Will you please advise me as to whether you possess authority to sell the Treasury's holdings of shares in Federal Savings and Loan Associations and whether it is your belief that the Home Owners Loan Corporation has authority to purchase such shares from the Treasury?"

It is assumed that Mr. Currie is referring to full paid income shares of Federal Savings and Loan Associations, of which the Treasury Department holds approximately $40,000,000. You are advised that it is my opinion that the Secretary of the Treasury is not authorized to sell the full paid income shares of Federal Savings and Loan Associations held by him (except that the shares may be repurchased by the issuing associations as authorized by law), and that the Home Owners' Loan Corporation is not authorized to purchase such shares from the Secretary of the Treasury.

With respect to the subscription by the Secretary of the Treasury for full paid income shares of Federal Savings and Loan Associations, subsection 5(i) of the Home Owners' Loan Act of 1933, as amended, (U.S.C. title 12, sec. 1456(a)(1)), as it appears in the Code provides as follows:
In addition to the authority to subscribe for preferred shares in Federal savings and loan associations, the Secretary of the Treasury is authorized on behalf of the United States to subscribe for any amount of full paid income shares in such associations, and it shall be the duty of the Secretary of the Treasury to subscribe for such full paid income shares upon the request of the Federal Home Loan Bank Board. Payment on such shares may be called from time to time by the association, subject to the approval of said Board and the Secretary of the Treasury, and such payments shall be made from the funds appropriated pursuant to subsection (g) of this section; but the amount paid in by the Secretary of the Treasury for shares under this subsection and such subsection (g), together shall at no time exceed 75 per centum of the total investment in the shares of such association by the Secretary of the Treasury and other shareholders. Each such association shall issue receipts for such payments by the Secretary of the Treasury in such form as may be approved by said Board and such receipts shall be evidence of the interest of the United States in such full paid income shares to the extent of the amount so paid. No request for the repurchase of the full paid income shares purchased by the Secretary of the Treasury shall be made for a period of five years from the date of such purchase, and thereafter requests by the Secretary of the Treasury for the repurchase of such shares by such associations shall be made at the discretion of the Board; but as such associations shall be requested to repurchase any such shares in any one year in an amount in excess of 10 per centum of the total amount invested in such shares by the Secretary of the Treasury. Such repurchases shall be made in accordance with the rules and regulations prescribed by the Board for such associations.

With respect to the authority of the Home Owners' Loan Corporation to purchase full paid income shares in Federal Savings and Loan Associations, subsection 4(a) of the Home Owners' Loan Act of 1933, as amended, (U.S.C. Sup. IV, title 12, sec. 1467(a)), as it appears in the Code provides in part as follows:

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The Corporation is also authorized to purchase full-
paid-income shares of Federal Savings and Loan Associations
after the funds made available to the Secretary of the
Treasury for the purchase of such shares have been exhausted.
Such purchases of shares shall be on the same terms and con-
ditions as have been hereafter authorized by law for the
purchase of such shares by the Secretary of the Treasury:
Provided, that the total amount of such shares in any one
association held by the Secretary of the Treasury and the
Corporation shall not exceed the total amount of such shares
hereafter authorized to be held by the Secretary of the
Treasury in any one association.** *(Underlining supplied.)*

Subsection 5(j) of the Home Owners’ Loan Act of 1933, as amended,
contains no authority for the Secretary of the Treasury to
sell full paid income shares of Federal Savings and Loan Associations
held by the Treasury Department to any third party. On the other
hand, that section sets forth the procedure which is to be followed by
the Secretary of the Treasury in disposing of such shares, namely,
through repurchase by the respective issuing Federal Savings and Loan
Associations. The section contemplates that the shares will be retained
by the Secretary of the Treasury until they are repurchased by the re-
spective associations. It provides that requests for repurchase of the
shares held by the Secretary of the Treasury shall not be made for a
period of five years from the date of their purchase from the associa-
tions, "and thereafter requests by the Secretary of the Treasury for
the repurchase of such shares by such associations shall be made at
the discretion of the Board. *(Underlining supplied.)*

Although subsection 4(n) of the Home Owners’ Loan Act of 1933,
as amended, supra, authorizes the Home Owners’ Loan Corporation to
purchase full paid income shares of Federal Savings and Loan Associations, that section does not authorize the Corporation to purchase the shares now held by the Secretary of the Treasury. Subsection b(n) provides that the Corporation may purchase full paid income shares only "after the funds made available to the Secretary of the Treasury for the purchase of such shares have been exhausted." The most reasonable interpretation of that provision is that the Corporation was authorized to purchase full paid income shares in order to furnish the respective associations with additional funds, after funds made available to the Secretary of the Treasury by appropriation for the purchase of full paid income shares had been exhausted. It does not appear to have been the intention of Congress in enacting subsection b(n) to authorize the Corporation to purchase full paid income shares held by the Treasury Department, since such a purchase would not make available, without a new appropriation by Congress, additional funds for the use of the associations. If the Secretary of the Treasury sold the full paid income shares held by him to the Home Owners' Loan Corporation, the proceeds of such a sale would be covered into miscellaneous receipts and could not be used for the purchase of additional shares from Federal Savings and Loan Associations. The fund authorized to be appropriated by subsection 5(g) of the Home Owners' Loan Act, as amended, (U.S.C. title 12, sec. 1454(g)), from which the Secretary of the Treasury was authorized to purchase full paid income shares, is not a revolving fund.
[Text not legible]
Since the Nova Omara Loan Corporation must purchase full paid income shares on the "same terms and conditions" as the Secretary of the Treasury, it would seem that the Corporation is authorized to purchase such shares from the issuing associations, and not from the Secretary of the Treasury.

I attach a proposed draft of a reply to Mr. Currie's letter of December 27, 1939.

J.E. F Jr.

File: 503-1 typed 12.29.39
THE WHITE HOUSE
WASHINGTON

December 27, 1939.

My dear Mr. Secretary:

Will you please advise me as to whether you possess authority to sell the Treasury’s holdings of shares in Federal Savings and Loan Associations and whether it is your belief that the Home Owners Loan Corporation has authority to purchase such shares from the Treasury?

Yours sincerely,

Lauchlin Currie
Administrative Assistant to the President.

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