

January 18, 1940.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

McKay called me up about five minutes after eleven, said that Herbert Feis had attempted to talk to the Secretary about Brazil and the Secretary said that I should call Feis back right away. I called Feis and he said that they had had a cable from Rio, that Caffery had seen Aranha yesterday, that Aranha told him that he had discussed the debt matter with President Vargas and that they were prepared to make a provisional offer on the dollar bonds which would be fifty per cent of all the dollar payments due under the first year of the Aranha plan, increasing in subsequent years according to the Aranha schedule. Caffery reminded Aranha that their previous discussion had been on the basis of fifty per cent of the payments due in the last year and to that Aranha indicated that this Government might apply for a settlement on that basis. Caffery said in his telegram that Aranha must have an answer today, since he was preparing to leave for Buenos Aires tomorrow morning. Feis said that he had drafted a message for Caffery and that it was necessary for him to call up Caffery on the long distance phone within the next ten minutes. He then read me the message which he proposed to read to Caffery, which was as follows:

"Assuming that the Brazilian Government makes clear that its offer is not a permanent settlement, you may, while avoiding any responsibility for the action of the Brazilian Government, indicate to Aranha that if the Brazilian Government should make an offer of one-half of the payments scheduled for the last (repeat last) year of the Aranha plan, with the indicated progression in subsequent years that this Government would regard it as a step forward."

He asked me if that would have the approval of the Treasury Department. I asked him in turn two things: (1) did he not think either he or we should consult the Bondholders Protective Council; (2) did he think the offer the best that could be gotten. As to the first point he said that if anybody talked to the Council, he thought he should be the one to do it, but he was inclined not to consult them. He indicated that if he did talk to White or

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Trephagen he would tell them that regardless of their attitude they would probably make this suggestion to Caffery. As to the second point he said he was certain that we couldn't get any more than half of the 1937 payment under the Aranha plan and a progression on the Aranha scale. I told him then that I couldn't give him an answer immediately, that I would have to consult other people in the Treasury and that I would try to call him again within five minutes.

I called Harry White's office and he was in the big staff meeting. I went to the staff meeting and called him out. Harry was decidedly against our taking any snap action, did not see the occasion for any rush and agreed with me that the bondholders council ought to be consulted. The staff meeting then breaking up, at about 11:30, I went in to see the Secretary and told him what had occurred. He later called in White, Cochran and Cotton. We were all agreed that there was no occasion for such rush action and that we would not give an opinion at this moment on the message that Feis proposed to send.

White explained that the Aranha plan would call for about thirty-two to thirty-four millions in the first year and forty-five millions in the last year. Of this total amount the share of the American bondholders was estimated to be about one-third and fifty per cent of that would mean about six millions on the first year basis and perhaps seven and one-half millions on the last year basis. I said that I thought our reply to Feis was plain that we would say that we thought the Bondholders Council ought to be consulted and that we couldn't give a definite answer until the meeting which had been arranged for 2:30 this afternoon. The Secretary said he wanted a more clear cut answer than that, that I should say to Feis simply that we could give him no answer, yes or no, and could make no comment on his proposed dispatch until after the afternoon meeting.

Harry White raised the point that he thought we ought to protect ourselves against the charge that we were failing to cooperate and after some discussion the Secretary said that he would call Secretary Hull and tell him exactly what had occurred. I asked if I should await his call to Hull before calling Feis and he said no, go ahead and call Feis. On my return to the office I put in a call for Feis and succeeded in getting him within a few minutes. I told him what had been agreed upon, that is, that we would make no comment on his proposed dispatch before our meeting, scheduled for 2:30 this afternoon. He replied "All right, but I want to let you know that I am going to send the message anyway." I said "You are telling me simply for my information that you are going to send the message anyway, is that right?" He said "Yes, that's right." I reported this to the Secretary by telephone and he told me that he had talked with Hull and that Hull knew nothing about the matter.

WJH

- 3 -

Herbert Feis came to my office shortly after 2:30, accompanied by Emilio Collado. Harry White, Merle Cochran and Joe Cotton were present. I asked Feis what he thought the next step in the Brazilian matter in view of the dispatch he had sent today. He said he thought the only thing to do now was to wait until we see what the Brazilian government did as a result of the message. I said that so far as I could see there was nothing immediate for the Treasury to do. Feis volunteered that he had no criticism to make of our refusal to give an immediate answer on the subject of the proposed message. He thought he would have done the same himself. I referred to a phrase in one of the cables to Caffery, instructing him to proceed "informally and independently" to make certain representations to the Brazilian government. I asked specifically if that meant that the negotiations were to proceed independent of the Treasury. Feis didn't recall the phrase, but Collado did and said that in his opinion it simply meant that Caffery was to proceed in his negotiations independently of any of the other countries interested. Feis agreed that that seemed to be the proper explanation. I then said that it seemed to me, in view of all that had occurred, it would be best for the Treasury to stay out of the negotiations and permit the State Department to go ahead. Feis said if the Treasury wished to make that decision that it would be all right with them, that they had a "clear conscience and a steady eye," but that he thought the committee of three might wish to make a decision on that point later. I told him that in any case we would wish to be informed of what went on and he agreed that he would keep us informed. I also said that we would be willing to give any expert advice or judgment that they wanted at any time.

Feis then asked if there was anything we wanted to bring up about Colombia. I told him I knew of nothing and Mr. Cotton contributed an explanation of the situation as he understood it. Cotton asked if there was anything new on the question of United States Steel going into Brazil and Cochran referred to a story in the Herald Tribune of this morning, in the Wall Street comment column. Feis said that United States Steel was not going into Brazil and would not even accept a management contract. This agreed in substance with the Herald Tribune story. Feis asked if that was all we wanted to talk about and I said that it was. As they left I repeated to Feis that for the present we would do nothing whatever on the Brazilian debt matter but would look to them to keep us informed.

WES

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January 18, 1940

11:30 a. m.

Present:

Mr. Gaston
Mr. Cochran
Mr. White
Mr. Cotton

(Note: Mr. Gaston is dictating a memorandum on what occurred before Miss Chauncey started to take notes.)

Mr. Gaston: He (Feis) did not think we ought to consult the Bondholders Council and I said he or we should consult Traphagen and White and he said if anybody consulted Traphagen or White it should be he, Feis, but he would be willing, if we asked him, to consult them, but he indicated he would send the message whether they approved it or not.

Dr. White: Let me give you a few facts. The sums involved -- the first year, the Aranha plan, they paid a total of \$32,000,000 -- between \$32,000,000 and \$34,000,000. It stepped up finally to around \$45,000,000. That included all their payments. They owed us about one-third. Can't tell exactly, because some bonds they had different proportions, so if they paid the first year of the plan the whole amount, it would probably mean we would get \$12,000,000. If they are offering 50%, it's \$6,000,000. The negotiations we heard about indirectly last year they had offered to pay \$13,000,000. That was our information. Therefore, I believe that it would be very unwise on our part to make any statement to them without consulting the Bondholders, because what we are doing by that, if you step up the offer, that will be 50% of \$15,000,000 -- something like \$7,500,000. Now for us to say it's satisfactory -- and it may be satisfactory -- but for us to say so as a Government without giving the Bondholders an opportunity to comment, I think that would be most unwise.

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Mr. Cochran: I agree with that, and especially that Brazil is one country that we went into and Clark improved on the dollar treatment. Now where we have had this agreement, where we are working together, and still have our first case pending, have not settled it, then to have another plan accepted without consulting with the Bondholders

Mr. Gaston: I think our answer is plain "We will not give approval at all." If they want to talk to the Bondholders and the Bondholders agree that this is the best they can get, it may or may not be, but if the Bondholders Council agree it's the best, we have no objection to their putting it up.

HM, Jr.: Herbert, I want a much cleaner cut statement than that. I want you to tell Feis that, pending the meeting scheduled for this afternoon, the Treasury will not make any comment, yes or no. I have called this meeting for this afternoon. I want to go into this whole thing. It's far too important and here in the Treasury we don't go off half-cooked.

Dr. White: I don't quite see the need for making telephone reply.

HM, Jr.: I think they are beginning to find we are on to this double dealing and now will try to rush me off my feet. But I want a clean-cut statement that I will take no part in this thing. They can take any responsibility they want but pending this meeting this afternoon, all bets off!

Mr. Gaston: You want to sit in on this meeting this afternoon?

HM, Jr.: No. I am going to ask you and Cochran and Joe Cotton and Harry White to handle it. I want you (Gaston) to dictate what happened between you and Feis, because this is very important.

Dr. White: Is there a possibility that Feis will say that we had this opportunity to make a settlement

HM, Jr.: Oh! Harry!

Dr. White: That Mr. Morgenthau was left in charge

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and he stalled.

HM, Jr: I am not in charge!

Harry! On the one hand you don't want me to say Feis is a s.o.b. and that I am waiting.....

Dr. White: That's what they are going to say!

HM, Jr: Mr. Feis is so near to being discharged by the President of the United States, he had better be very careful!

Dr. White: What time is your meeting?

Mr. Gaston: 2:30.

HM, Jr: Mr. Feis had better be very careful. The first thing you know he will be under charges by the President from me. It's outrageous -- the whole performance!

Dr. White: I don't want the responsibility to happen from here.

HM, Jr: It's going to happen here. I am going to sound off on the whole business. There are thousands and thousands of dollars involved for our people and this man for some reason we don't know is trying to pull this thing.

Do you want me to call up Hull and

Dr. White: I would like you to tell Mr. Hull that some word has come to you and it's not clear to you and you have got to settle the issue and does he know about it. See what he has to say on it.

HM, Jr: I am going to call up Hull and tell him we are not going to do anything until 2:30 this afternoon.

Have you (Cotton) got this time table? Because Jesse Jones is lunching with me.

Mr. Cotton: No. I have not got it yet.

HM, Jr: Will you have it by one o'clock? Because I want to tell Jones just how I feel and want to tell him

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I am on the point of saying I am not going to have anything more to do with this and I want to know how he feels.

Dr. White: What are you going to ask Hull?

HM Jr: Ask him? I am going to tell Hull that I am not going to do anything with the Brazilian debt until Feis comes over this afternoon and I am not going to be rushed.

Mr. Gaston: Shall I call Feis or wait until you talk to Hull?

HM, Jr: No. You call Feis.

(At this point the group left the room. Immediately after they left, Secretary Hull answered the phone in response to HM, Jr's call.)

HM, Jr: Cordell, a little while ago Herbert Feis called me up and I turned him over to Gaston. It has to do with some proposal to Brazil in regard to their debt. At 2:30 this afternoon we have asked Feis to come over here and sit down with our fellows and bring us up to date on what negotiations have been taking place between the State Department and Brazil during the last couple of months and until we have that information I can't, on a second's notice, give an answer to Mr. Feis or to Mr. Caffrey on such an important matter and I just wanted to let you know that I think it is wise, from the Treasury standpoint, to postpone anything until we sit down this afternoon and talk the whole thing over. But I can't give a curbstone opinion on as important a thing like that this morning.

This meeting for this afternoon was scheduled yesterday. Since then he had some message from Caffrey.

Well, they want to make us an offer and I don't know whether it's a good offer or not and our fellows want time to consider it.

We just can't be rushed, because we might make a mistake.

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Thank you. I want you to know, because after looking into it you thought I should change my position, I would appreciate your letting me know.

(Hm 'Jr's comment at the finish of the conversation was, "He knew nothing about it.")

oOo-oOo

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 13

DATE: January 18, 1940

Reference is made to your no. 27, dated January 17.

While avoiding any responsibility for the action of the Government of Brazil, you may indicate to Aranha (assuming it is made clear by the Brazilian Government that its offer does not constitute a permanent settlement) that the United States Government would regard it as a step forward if the Brazilian Government should make an offer of 50 percent of the payments which are scheduled for the last (I emphasize last) year under the Aranha plan with the indicated increases in subsequent years.

HULL

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 29

DATE: January 18, 1940, 5 p.m.

Reference is made to my conversation with the Adviser on International Economic Affairs.

Aranha tells me that he will try to get the President and the Cabinet to accept as the basis for the resumption of payments 50 percent of the dollar payments which are scheduled for the last year under the Aranha plan. However, he doubts that they will agree to "last year" but he thinks they would agree to 50 percent of the payments which are scheduled for the first year the Aranha plan would be in effect, in other words, the year April 1, 1934 to March 31, 1935.

Aranha said that since some of the loan contracts specify that payments may be made in either dollars or pounds, there will now be a relative increase in their annual dollar payments as pounds are cheap and dollars are expensive.

CAFFERY

EA:EB

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1-18-40

CHRONOLOGY OF EVENTS IN AMERICAN
NEGOTIATIONS CONCERNING BRAZILIAN DEBT.

In August, 1939, at the invitation of the Brazilian Government, representatives of the United States, British and French bondholders went to Rio de Janeiro to negotiate a debt settlement. When the war broke out the American representative, Mr. Dana Munro, returned home. However, the French and British representatives — both of whom live in Buenos Aires — remained in Brazil (except for brief jaunts to Buenos Aires) where they were subsequently joined by a representative of the Portuguese bondholders and a second French representative who represented a different group of bondholders than did the first. During the ensuing months discussions between representatives of the European bondholders and Brazilian authorities continued. Following is a summary of steps apparently taken by the American Government during this time:

- (1) In a report dated November 7, the American Ambassador reports that he had agreed at this time of the outbreak of the war that the moment was not then propitious for continuing debt conversations, but states that on that day he had expressed to the Minister of Foreign Affairs his hope that the Brazilian Government would not postpone indefinitely giving serious consideration to our resumption of conversations.
- (2) On November 30 the British Government sent an Aide Memoire to the State Department stating that the Council of Foreign Bondholders in London understands that the American Bondholders Protective Council share their view that the general principle of the Aranha Plan should be preserved in any settlement and asks the United States to use their influence with the Brazilian Government in favor of the adoption of such arrangement.

3. On December 12 the State Department called the American Embassy in Brazil, advising the American Ambassador to present to Aranha, in an informal manner, the following points:
- a. that it is the belief of the State Department that an early settlement of the American part of the Brazilian debt is still desirable;
 - b. that a settlement with the European bondholders would have deplorable effects in the United States unless Brazil worked out a settlement with dollar bondholders simultaneously;
 - c. that the State Department feels that in any plan negotiated the comparable position of the dollar issues, including state and municipal issues, should be recognized as they were in the original Aranha plan.

In a cable of December 15 the American Ambassador informed the State Department that he had expressed the sentiments to the Brazilian Minister of Foreign Affairs. In this same cable the Ambassador expresses doubt that we could negotiate a settlement ahead of the British and French, implying that a settlement must be reached simultaneously by all bondholders.

4. In a cable of December 28 the American Ambassador, after stating in summary that the representatives of the Brazilian bondholders were on the verge of reaching an agreement with the Brazilian government, under which all monies paid would be allotted to the federal debt alone, reports that "when matters had reached this point ~~we~~ took action last week to prevent a settlement of the federal debt alone or any other agreement with the Europeans prior to negotiating with us." He goes on to say that the Minister of Finance had, for some time been desirous (and was then insistently desirous) that we take part in the negotiations, but complained that his hands had been tied by the Department's instructions, and that if we were not going to negotiate for sometime, he would like to make this clear to the Brazilian government because the whole business was getting into a muddle. He further reports that Aranha recommended that we allow them to reach a settlement first with European bondholders in order then to be able to give a better treatment to American bondholders, but the Ambassador advised against this.

(5) On December 29 Mr. Piusent, Financial Counsellor of the British Embassy, talked with Mr. Walsley and Mr. Livesey of the State Department. In this conversation representatives of the State Department informed Mr. Piusent that this Government would not support any proposals for settlement of the Federal debt alone. They also pointed out to Mr. Piusent that the American Government does not wish to discourage the evident disposition of the Brazilian Government at the present time to make some kind of a debt settlement, stating that this Government was going to interest itself actively in the matter. Mr. Piusent asked if he might be told of developments when they occurred but representatives of the State Department said that they could not undertake to do so.

(h) On December 29 the State Department cabled the Embassy in Brazil informing them that the French and British representatives were being orally informed by the Department that the Government of the United States will support actively at Rio de Janeiro the American Bondholders' interests, that no partial settlement which favors European bondholders at the expense of American bondholders would be tolerated and that some provision for all dollar bonds must be included in any agreement that is made. In this same cable the State Department authorized the American Ambassador at his discretion "to take part informally and independently in debt discussions with the appropriate Brazilian authorities" for the purpose of "ascertaining what terms the Government of Brazil is prepared to offer". The State Department said that should the Government of Brazil be prepared to enter into discussions, the Department would immediately consider the question of whether the Council could take a useful part in those discussions and whether the Council should send a representative to Rio de Janeiro. The State Department also pointed out that any settlement must make provision for all dollar bonds in a schedule similar to the plan of Aranha, and stated that the amounts currently being discussed are small for a permanent settlement, concluding that if a plan based on small payments were placed on a temporary basis it would be more likely to secure acceptance.

(7) On December 30 Mr. Feis had met with Mr. Francis White, President of the Foreign Bondholders Protective Council, at New York. This conversation is described in a memorandum dated January 2, 1940.

(8) In a report dated January 8, the Brazilian Ambassador enclosed copies of a letter and memorandum he sent to the Brazilian Minister of Foreign Affairs. The memorandum was a statement of his interpretation of the policy of the Brazilian Government with respect to debt negotiations and he asks the Minister to tell him whether his interpretation is correct.

(9) In a telegram of January 13, 1940, the American Ambassador reports that the Brazilian Minister of Foreign Affairs agreed that his interpretation of Brazil's policy was correct and that the Brazilian Minister of Foreign Affairs suggested to the Ambassador that he "inform the United States Government, confidentially and informally, that the Brazilian Government is contemplating resuming payments on all dollar bonds under the Aranha plan on the basis of 50 percent of all payments on dollar bonds which were due in 1937 . . ." The Minister of Foreign Affairs further stated "I have not been authorized by the President to give you this information but I feel confident that I can get his agreement as well as that of the Cabinet".

Prepared by Mr. Cotton and Mr. Schmidt



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

Confidential

[Handwritten signature]

1-18-40

MEMORANDUM FOR

Secretary Morgenthau

In response to your question as to what one per cent of the income tax collections will amount to, you are informed that for the fiscal year ended June 30, 1939, one per cent of the total income tax collections equalled \$21,513,746. One per cent for the fiscal year 1938 was \$25,862,440, and for the fiscal year 1937, was \$21,486,638.

As between income tax collections of individuals and corporations, one per cent of the individual income tax collections for the fiscal year ended June 30, 1939, was \$10,288,338; for the fiscal year 1938, \$12,863,119; and for the fiscal year 1937, \$10,917,407. One per cent of the corporation collections for the fiscal year 1939, was \$11,225,408; for the fiscal year 1938, \$12,999,321; and for the fiscal year 1937, \$10,569,231.

The foregoing figures include both current and back tax collections for the fiscal years shown.

John T. Sullivan

Assistant to the Commissioner

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1/18/40

Memo for Mrs Klotz:-

In accordance with
the Secretary's request
I called Capt Collins and
told him that the Secretary
wanted him to look
into the matter of
MENASCO engines.

D.E.M.

Called at 12:12

54



Congratulations, North American, on the New Menasco Powered NA-35 Trainer

MENASCO

INVERTED IN-LINE AIR COOLED ENGINES

Prepared by: H. C. Murphy
S. G. Tickton
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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

1-18-40

DATE

TO Secretary Morgenthau

FROM Mr. Haas *W.A.*Subject: Aviation and Transportation Corporation
Aviation Corporation
Aviation Manufacturing Corporation
Lycoming Manufacturing Company

1. The Aviation and Transportation Corporation (formerly the Cord Corporation) and the Aviation Corporation are holding companies. The former corporation owns about 30 percent of the stock of the latter. Stocks of both companies are listed, the former on the New York Curb Exchange and the latter on the New York Stock Exchange.

Mr. Victor Emanuel, a partner in the New York brokerage firm of Emanuel & Co., is president of both corporations. Mr. Emanuel, together with certain associates, purchased control of the Aviation and Transportation Corporation (at that time the Cord Corporation) from Mr. E. L. Cord for \$2.6 millions in August 1937.

2. The Aviation Manufacturing Corporation is the manufacturing subsidiary of the Aviation Corporation. It has three divisions -- the Vultee and Stinson Divisions, which manufacture airplanes, and the Lycoming Division, which manufactures airplane motors.

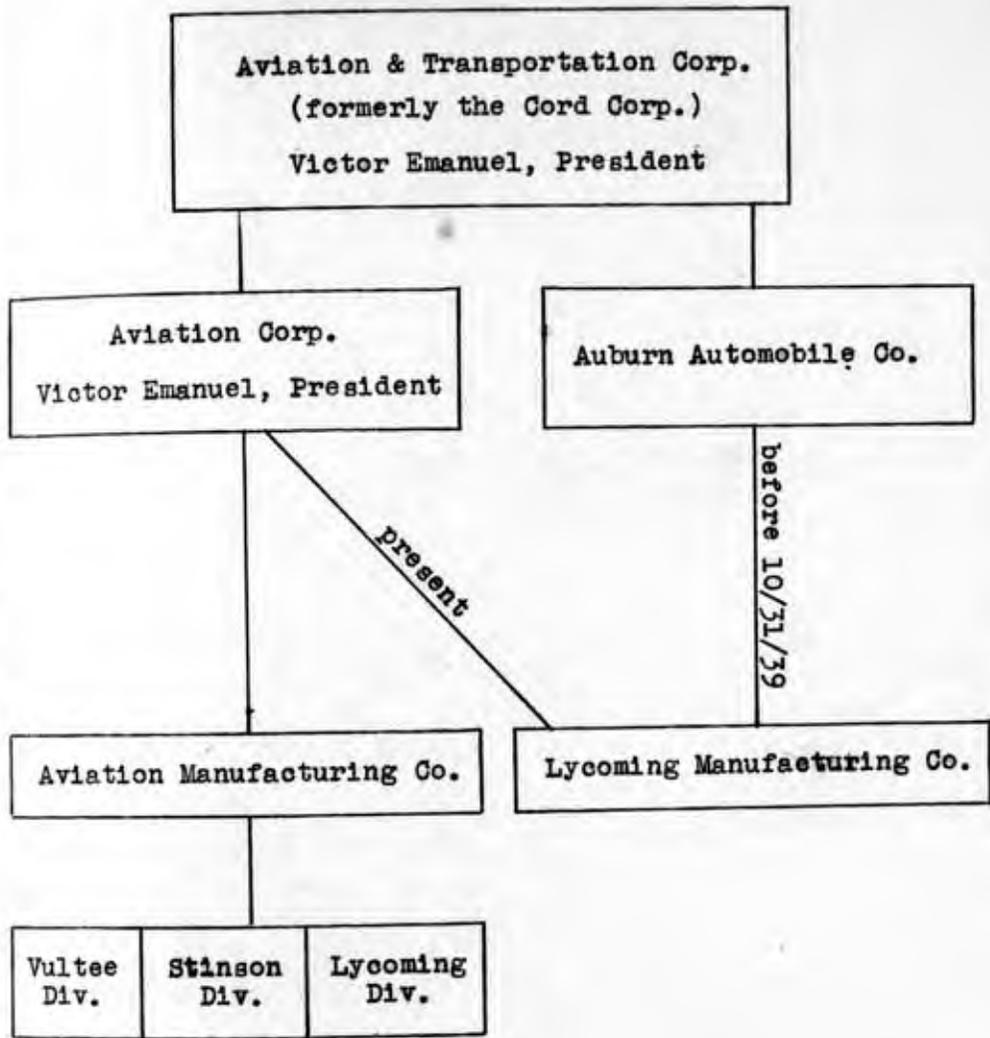
3. The business of the Aviation Manufacturing Corporation is booming. On December 7, 1939, it reported unfilled orders of more than \$11 millions, compared with \$7.5 millions on November 10, 1939, and \$1.6 millions on May 31, 1939. Backlog in October was reported to consist of orders for military planes received from the Army Air Corps. Vultee was building basic trainers while Stinson was building a new type of observation plane. Engines from the Lycoming Division would be used in the Stinson planes.

4. The Lycoming Manufacturing Company was formerly a subsidiary of the Auburn Automobile Company and entered bankruptcy in December 1937 at the same time as that company. Up until

Secretary Morgenthau - 2

1934 it had manufactured airplane motors, but in that year sold its aviation business to the Aviation Manufacturing Corporation. Since that time it has been manufacturing marine and industrial engines, furnaces, heaters, and boilers. On October 31, 1939, the Aviation Corporation purchased all of the assets of the Lycoming Manufacturing Company.

5. The inter-relationship of the various companies and the lines of control and semi-control are shown on the attached chart. The appendix includes brief financial data with respect to the Aviation and Transportation Corporation and the Aviation Corporation, and a list of the executive officers and directors of each of these corporations and of the Lycoming Manufacturing Company and a list of the partners of Emanuel & Company.



Aviation & Transportation Corp.
 (Formerly known as the Cord Corp.;
 present title adopted Feb. 12, 1938)

420 Lexington Ave., New York City

Capitalization:

Capital stock outstanding, all of one class, 2,246,700 shares. Listed on New York Curb Exchange. Current price (January 17) 3-5/8; 1939-40 range 1-5/8 to 4-1/4.

No bonded debt.

Owns 825,372 shares (29.7 percent of outstanding amount) of the capital stock of the Aviation Corp.

Executive Officers:

Chrm. of Board & Pres. -- Victor Emanuel, 105 W. Adams St.,
 Chicago
 Vice-Chrm. of Board -- L. B. Manning, 105 W. Adams St., Chicago
 Vice-Pres., Gen. Counsel & Sec. -- R. S. Pruitt, 105 W. Adams
 St., Chicago
 Vice-Pres. -- L. I. Hartmeyer, 420 Lexington Ave., New York City
 Vice-Pres. -- R. H. Faulkner, 105 W. Adams St., Chicago
 Treas. -- L. K. Grant, 420 Lexington Ave., New York City

Directors:

R. S. Pruitt, 105 West Adams St., Chicago
 L. B. Manning, 105 West Adams St., Chicago
 C. Coburn Darling, 333 Hospital Trust Bldg., Providence, R.I.
 Henry Lockhart, Jr., 38 Wall St., New York City
 Victor Emanuel, 420 Lexington Ave., New York City
 Tom M. Girdler, 1510 Republic Bldg., Cleveland
 Gerald E. Donovan, 48 Wall St., New York City

Aviation Corp.

420 Lexington Ave., New York City

Capitalization:

Capital stock outstanding, all of one class, 2,777,750 shares. Listed on the New York Stock Exchange. Current price (January 17) 6-3/8; 1939-40 range 3-1/8 to 9-5/8. No bonded debt.

825,372 shares (29.7 percent of capital stock owned by the Aviation and Transportation Corporation).

Executive Officers:

Pres. -- Victor Emanuel, 420 Lexington Ave., New York City
Vice-Pres. -- W. H. Beal, 420 Lexington Ave., New York City
Vice-Pres. -- A. I. Lodwick, 420 Lexington Ave., New York City
Vice-Pres. -- Harold Kondolf, 420 Lexington Ave., New York City
Sec. -- R. S. Pruitt, 105 W. Adams Street, New York City
Treas. -- L. K. Grant, 420 Lexington Ave., New York City

Directors:

Victor Emanuel, 420 Lexington Ave., New York City
L. B. Manning, 105 W. Adams St., Chicago
W. H. Beal, 420 Lexington Ave., New York City
A. J. Lodwick, 420 Lexington Ave., New York City
Gerald Donovan, Schroder, Rockefeller & Co., 48 Wall Street,
New York City
Carlton M. Higbie, 2412 Buhl Bldg., Detroit
C. Coburn Darling, 330 Hospital Trust Bldg., Providence

Lycoming Manufacturing Co.

(Formerly subsidiary of the Auburn Motor Company.
Sold on Oct. 31, 1939 to the Aviation Manufacturing Co.,
a subsidiary of the Aviation Corp.)

Williamsport, Pa.

Executive Officers:

Chrm. of Board -- John K. MacGowan, Aviation & Transportation
Corp., New York City
Pres. -- E. D. Herrick, Williamsport, Pa.
Vice-Pres. -- C. N. Tull, Williamsport, Pa.
Treas. & Asst. Sec. -- H. D. Stuempfle, Williamsport, Pa.
Purch. Agt. -- W. J. Starr, 652 Oliver, Williamsport, Pa.

Directors:

John K. MacGowan, Aviation & Transportation Corp., New York City
C. N. Tull, Williamsport, Pa.
Seth T. McCormick, Jr., Williamsport, Pa.
R. H. Faulkner, Aviation & Transportation Corp., New York City
E. D. Herrick, Williamsport, Pa.
H. D. Stuempfle, Williamsport, Pa.

Emanuel & Co.

50 Pine St., New York City

Partners:

Frederick M. Heimerdinger

Francis A. Gallery

Rudolph H. Deetjen

James L. Weiskopf

Marc W. Haas

Joseph M. Birne, Jr.

Victor Emanuel

Note: This company is listed by the SEC as a registered broker and dealer.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

A friend of mine telephoned me from New York at 2:25 today to let me know that at their meeting yesterday afternoon, the Finance Committee of the U.S. Steel Corporation decided against investing \$35,000,000 in a steel plant in Brazil. The Committee is willing to have their Corporation build the plant (at the expense of the Brazilians) and help with management and advice during the first two or three years, and even take pay for their services in shares in the Brazilian Company. It is the understanding of my friend that the Brazilians will now endeavor to get the money through the Export-Import Bank. He remarked about the interviews that President Vargas has been giving out on the subject of the prospects for the plant and wanted us to have the correct story in confidence. He remarked that his Committee was somewhat sympathetic with the desire of Brazil to achieve more self-sufficiency, particularly since they had in the past obtained such an important part of their steel from Germany, and he thought the proposition might be economically sound if it were not for political considerations. He remarked that the Brazilians had let it be known that the first production of the proposed steel plant would be armament. The Committee feared such political eventualities as confiscation, excessive taxation, etc. He was not sure whether the idea of American participation would collapse, or whether the Brazilians might succeed in interesting some concern other than the U.S. Steel Corporation. My friend mentioned that Dr. Feis had been telephoning Mr. Thomas Lamont the last day or two to inquire as to the status of the negotiations, so he presumed that the State Department was informed. He gave the foregoing for our confidential information with the request that his name should not be mentioned.

At 2:30 I attended a meeting in Assistant Secretary Gaston's office where, during the course of our discussion of Brazil, Mr. Cotton raised the question as to the U.S. Steel Corporation project, and was informed by Dr. Feis, to whom his inquiry had been addressed, that the decision had been adverse.

After the meeting had adjourned, I gave to Mr. Gaston alone the foregoing information orally.



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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market moved at about the same tempo as yesterday with a slightly increased volume of reported sterling transactions. Reversing the downward movement of the past two days, the rate for sterling today advanced from an opening quotation of 3.95-1/2 to a high of 3.97-1/8 in the mid-afternoon. Late in the day, the rate became heavy upon the liquidation of some small selling orders, and the final quotation was 3.96-1/4.

Sales of spot sterling by the four reporting banks totaled £401,000, from the following sources:

By commercial concerns.....	£ 169,000
By foreign banks (South America, Europe and Far East).....	£ 232,000
Total.....	£ 401,000

Purchases of spot sterling amounted to £346,000, as indicated below:

By commercial concerns.....	£ 291,000
By foreign banks (Europe).....	£ 55,000
Total.....	£ 346,000

The following reporting banks sold cotton bills totaling £59,000 to the British Control at the official rate of 4.02-1/2:

£ 34,000 by the National City Bank
21,000 by the Chase National Bank
4,000 by the Guaranty Trust Co.
£ 59,000 Total

During today's morning session, the guilder recovered part of the ground lost in the last few days. After opening in New York at .5318, the rate advanced by noon-time to .5325, mainly reflecting an improvement in the Amsterdam market. In the afternoon, the quotation in New York remained steady and closed at .5325.

The other important currencies closed as follows:

French francs	.0224-5/8
Swiss francs	.2242-1/2
Belgas	.1684
Canadian dollars	11-15/16% discount

CONFIDENTIAL

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- 2 -

We sold \$2,500,000 in gold to the Bank of the Republic of Uruguay to be added to its earmarked account.

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

\$425,000 from the National Bank of Belgium
350,000 from the Central Bank of Chile
\$775,000 Total

The Federal Reserve Bank of New York received cables from the B.I.S. and the National Bank of Belgium requesting it to apply for a license to transfer approximately 16,000 ounces of gold (about \$560,000) from B.I.S. Account #2 to the account of the National Bank of Belgium 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 reported to us the following shipments of gold: \$2,089,000 from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York to be earmarked for account of the Netherlands Bank.

14,000 from South Africa, shipped by the South African Reserve Bank, upon instructions from the South African agency of Barclays Bank D.C.&O., to the Federal Reserve Bank of New York for sale to the U. S. Assay Office.

\$2,103,000 Total

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

\$3,822,000 from Sweden, shipped by the Bank of Sweden to the Federal Reserve Bank of New York to be earmarked for account of the Bank of Sweden.

3,204,000 from Sweden, shipped by the Bank of Sweden to the Federal Reserve Bank of New York to be earmarked for account of the National Bank of Denmark.

290,000 from Hong Kong, shipped by the Banque Belge Pour L'Etranger, Hong Kong, to the Bank of America N.T. & S.A., San Francisco.

270,000 from Hong Kong, shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N.A., San Francisco.

170,000 from Hong Kong, shipped by the National City Bank, Hong Kong, to the American Trust Company, San Francisco.

73,000 from Hong Kong, shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco.

\$7,829,000 Total

The shipments coming from Hong Kong will be sold to the U. S. Mint at San Francisco.

The London spot and forward prices for silver were both fixed at 22-1/4d, off 3/8d. The U. S. equivalents were 39.57¢ and 39.32¢.

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Handy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢ respectively.

We made four purchases of silver totaling 250,000 ounces under the Silver Purchase Act. All of this silver was new production from foreign countries and was purchased for forward delivery.

In talking with Mr. Knoke by telephone this afternoon, he told me that he had today received an airmail letter from Mr. Bolton reporting that the Bank of England would in the near future ship, in small lots, 150,000 pounds (sterling) of gold from Vancouver to San Francisco for sale.



January 18, 1940.
11:40 a.m.

Herbert
Gaston:

I thought you might like to know of my conversation with Feis.

H.V.Jr:

Yes.

G:

I told him that I had discussed it with you and that in advance of our meeting scheduled for this afternoon, we would make no comment, take no part and say nothing one way or the other after this message. He said all right. That's all right. He said, "But just for your information only, we're shooting this message out".

H.V.Jr:

Well I spoke to Mr. Hull.

G:

Yes.

H.V.Jr:

And Hull knew nothing about this.

G:

Yes, yes.

H.V.Jr:

See?

G:

Yes.

H.V.Jr:

He knew nothing.

G:

Yes. Well Harry was here and I made it very clear to Feis that we would have nothing to do with this message or any message until our meeting this afternoon, and he said just for our information and I repeated that "for our information."

H.V.Jr:

Well does that message, in any way, imply that the Treasury approves?

G:

No indeed, it just simply says that you may indicate to Ahranha that if the Brazilian Government should make an offer and so on, that this Government would - this Government would regard it as a step forward.

H.V.Jr:

Well that's all the more reason that - if they shoot that message it's all the more reason we should let the State Department handle all debt negotiations from now on and I get out of it.

G:

I think they have handled this one.

H.M.Jr: What?

G: I think they have handled this one. There's nothing much to talk about so far as this one is concerned.

H.M.Jr: Well I haven't seen the timetable yet.

G: No.

H.M.Jr: Of all the stuff.

G: Yes.

H.M.Jr: O.K.

G: All right.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm

NO.: 30

DATE: January 18, 1940, noon.

STRICTLY CONFIDENTIAL

It is probable that in the near future some action will be taken to adjust legal cover for note circulation, which is rapidly increasing. This action will be taken under the enabling act passed on December 27, 1939 by the Riksdag which gives to the Riksbank complete emergency control over note issue and banking activities until March 31, 1940. This might be brought about by a revalorization of the metallic reserve to the world market, representing an increase over the present total booked value of about 77 percent, which, at pre-devaluation levels, would amount to 623 million Swedish crowns; this would meet the present position adequately. Note circulation under the present established ratio may be twice as large as the amount of the metallic reserve plus an additional 350 million notes; however, the Riksbank has the authority to take any action which it considers desirable and it only half-heartedly supports the theory of a fixed ratio between cover and note circulation.

STERLING

EA:EB

HSM

PLAIN

London

Dated January 18, 1940

Rec'd 2:32 p. m.

Secretary of State,
Washington.

175, January 18.

FOR TREASURY FROM BITTERWORTHE.

A Czecho-slovak financial claims and refugee bill has been introduced into the House of Commons providing for the balance of the £6,000,000 loan which was made to the Czechoslovak Government by the British Government at the beginning of last year to be used to satisfy British financial claims in Czechoslovakia; the sum available for this purpose is nearly £3,500,000. The bill provides in general terms that the Treasury may make an order specifying the claims to be met, only stipulating that they must be obligations incurred by the Czechoslovak Government or corporations or individuals in Czechoslovakia before March 15, 1939; but a White Paper has simultaneously been laid which describes the scheme which will later be embodied in the order.

This scheme provides for the payment out of the fund to be established under the bill of interest on

bonds

bonds of the Czechoslovak 8% sterling loan of 1922, the city of Prague 7 $\frac{1}{2}$ % loan of 1922 and the Skoda works 6% first mortgage debentures which were in the beneficial ownership of a person resident or carrying on business in the United Kingdom on May 8, 1939. It provides for the payment to the trustees of the Austrian Government guaranteed loan of 1934 of the amounts due under the Czechoslovak guarantee in respect of interest; and it provides for the payment of certain cash claims, in particular bank balances, which have been from March 14, 1939, to the date of the claim continuously in the ownership of a person who was resident in the United Kingdom on September 3, 1939, and is so at the date of the claim, provided that all such claims are registered with the Bank of England before January 1, 1940.

The bill also provides for the disposal of the unexpended balance of the £4,000,000 gift which was made to the Czechoslovak Government by the British Government for the settlement of refugees, and which is now in two accounts in the name of the National Bank of Czechoslovakia; out of this amount, the sums which were temporarily advanced to the trustees of the Czechoslovak refugee trust last July by the British Government will be repaid to the exchequer, and the balance will be paid into a fund which will be used to provide the trustees from time to time with the money needed to carry out the purposes of the trust - that is, the maintenance and settlement of refugees from Czechoslovakia.

RR

JOHNSON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Geneva, Switzerland

DATE: January 18, 1940, 3 p.m.

No.: 5

FOR MORGENTHAU FROM TYLER.

I met at Trieste with Governor Baranyai of the National Bank of Hungary, and just returned to Geneva.

I was informed by Baranyai that the Germans, after having secured revision in their favor of the clearing exchange rates with Rumania and Yugoslavia, have now called on the Hungarian Government to apply to the Reichsmark the 12 percent additional exchange premium over and above the 50 percent premium in force since 1935 which since September 1939 Hungary has been applying to free currencies. This point is being pressed by Clodius, who is the head of the German delegation of 22 members which is in Budapest.

The necessity of Hungary cultivating trade with free exchange markets was explained by the Prime Minister of Hungary and by the Bank Governor, and Clodius was asked to present their arguments in Berlin. This was done by Clodius, but he came back with the original demand, and added the hint that Germany could hold back coke deliveries, on which industry in Hungary is dependent, if Hungary did not comply with the demand. The argument put up by the Germans is that the discriminations involved in the non-application

of

- 2 -

of the 12 percent premium to the Reichsmark is intolerable for German prestige, particularly since revision of the rates with Rumania and Yugoslavia.

The suggestion was then made to the Prime Minister by Baranyai that the following plan should be acceptable to the Germans if the question involved were that of prestige:

(1) The 12 percent premium on free currencies would be discontinued by Hungary, thus restoring the pre-war position.

(2) It would have to be recognized that Hungary must hold its position on free markets, and in practice is obliged to keep the exchange relationship between the pengo and the free currencies as it was under application of the 12 percent premium.

(3) In the future, all free exchange transactions would be divided into two parts, (omission) to this end; one part of this (representing $3/4$ of each transaction) would go to the National Bank at the old premium of 50 percent, and the other part (representing $1/4$ of each transaction) would go to the cash office for foreign credits - which is a dependency of the National Bank - at roughly 110 percent premium. In the end, the result would be precisely the same as though they had kept the 12 percent premium.

Baranyai said that he told the Prime Minister he put forward this formula only with reluctance, as of possible use to the person who would succeed him, since he would

prefer

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The remark was made by Baranyai that the delegation of 22 must have come to Budapest to eat - because Clodius alone had anything to do (omission) all this.

It is the belief of Hungarians that the willingness on the part of Germany to accept a purely fictitious concession for the purpose of prestige is further evidence of divided counsels and disorder in Germany. Among the grain dealers in Budapest stories are current that efforts are being made by Germany to conceal the failure of the U.S.S.R. to deliver any of the million tons of fodder grain - contracted for last September - by scooping stocks in Austria, the grain is then shipped to Slovakia and thence via Poland back to Germany as coming from Russia (omission) Slovak (omission); the Soviet hammer and sickle is used to stamp for export to Germany on the goods, in an effort to persuade Germans that the goods is being delivered by Russia. In Hungary there is a growing impression that it will not be possible for Germany to last through the year 1940; this makes Hungary all the more apprehensive lest Germany try to drive through to the Black Sea in the hope that a definitive hold on Danubi and Balkans can be secured, and then peace with the western powers would be made by Germany.

TITTMANN.

EA:LWW

- 3 -

prefer to resign as Bank Governor rather than stoop to such cynical methods. He said that if the original German demand were granted, he would in no case remain governor. The Prime Minister, refusing Minister Funk's invitation to confer with him in Germany, urged Baranyai to stay. He said that in view of the coke situation, German pressure on Hungary could not be countered by a flat refusal; however, he said this pressure would probably be relieved in a few months when (omission) expects Germany either to be engaged on the Western Front in a hopeless major offensive, or if she does not attack, to be facing a critical internal situation. Finally Baranyai agreed to remain for duration, provided his cynical proposal was accepted by Germany, and provided he would be free to explain to the central banks of countries having free exchange and to the press the real nature of the proposal and the duress under which it was made by Hungary. Thereupon the proposal was made to Clodius, who referred it to Berlin at the time Baranyai and I were at Trieste. Word has now come to me from Baranyai that Germany is in agreement with the proposal. Another proviso put in by Baranyai was that Germany should cease increasing the prices of dyestuffs and chemicals which industry in Hungary needs, where increases since the war had been up to 60 percent. Apparently Germany accepted this condition also.

The



DEPARTMENT OF STATE
WASHINGTON

January 19, 1940.

My dear Mr. Secretary:

I enclose for your confidential information one copy of paraphrase of telegram No. 5 of January 18 from the American Consulate General, Geneva, transmitting a report from Mr. Royall Tyler.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

No. 5 of January 18
from Geneva.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

TO THE SECRETARY
TELETYPE UNIT
JAN 19 1940
RECEIVED

GROUP MEETING

January 18, 1940.
9:30 a.m.

Present: Mr. Bell
Mr. Gaston
Mr. Graves
Mr. Thompson
Mr. Sullivan
Mr. Haas
Mr. Harris
Mr. Cochran
Mr. Schwarz
Mr. Cotton
Mr. Foley
Mr. White
Mrs Klotz

H.M.Jr: I will tell you (Thompson) what I would like to do. Couldn't I sometime this afternoon sit down with you and these two gentlemen?

Thompson: Yes.

H.M.Jr: Anything else?

Thompson: That is all.

H.M.Jr: Whose job is it to see that all the appropriations - see what contact with the Chief Clerk up there --

Thompson: That is my job.

H.M.Jr: How are we coming?

Thompson: Well, they haven't reported the Treasury bill.

H.M.Jr: But before they do - all these murmurs in the paper.

Thompson: I can't get anything definite. They won't tell me definitely.

Bell: I don't think they would tell anybody.

Thompson: Evidently some leaks are coming out through the same source that your testimony came out.

H.M.Jr: When are you going to do some TVA financing?

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Bell: Well, I wouldn't be in a hurry about it. They have still got 11 million to call on. We are not quite ready with the type. Is there any particular kind you would like to do?

H.M.Jr: Yes, I would like to do the --

Bell: I think we can get ready in two or three days. It ought to be very simple. It can't be more than 60 or 61 million.

H.M.Jr: Why not let's go to it and get it out of the way. You are going, aren't you, the first week of February?

Bell: No, I think we will postpone it until the first of April.

H.M.Jr: Why don't you take off a full week the second week-end before I go away?

Bell: All right.

H.M.Jr: Why don't you - why don't you get out of here on the 26th of January and come back in on the 5th.

Bell: All right.

H.M.Jr: Leave on the 26th of January and be back here on the 5th.

Bell: I would like to plan this other program.

H.M.Jr: Is that long enough? Or, you could be back on the 6th.

Bell: That is all right. That is plenty of time. I am in pretty good shape now.

H.M.Jr: I think I would do that.

Bell: If I got my voice back.

H.M.Jr: Why don't you do that, Dan?

Bell: All right.

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H.M.Jr: Anything else?

Bell: This conversation between you and Senator Wagner, I know a little about it. Guy Emerson represents some of the banks in New York and he came in to see me yesterday and told me the story. They seem to think there is a need for this legislation because --

H.M.Jr: This is the bank directors.

Bell: They can't get directors they need and they would like to go over three or four more years and let the people gradually work out their problems. I will know more about it later on.

H.M.Jr: Can I forget about it?

Bell: Yes. Is there anything I could do with Wagner?

H.M.Jr: He would like - he is seeing the President today and he would like to have our ideas on it, Wagner would. He would like us to advise him.

Bell: All right. At this point I can see no great objection to the legislation.

H.M.Jr: I will leave it with you. If you will call up Wagner, then I can forget about it.

Bell: I will discuss it with Foley.

H.M.Jr: Anything else?

Bell: That is all I have.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Basil?

Harris: Did you notice that England had put in a ban on importation of all American tobacco? That is quite a blow to some of our southern states.

H.M.Jr: No, I did not.

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- Harris: I guess that is the way they are going to meet the shipping situation. They are just banning certain commodities that they don't consider sufficiently important.
- H.M.Jr: I didn't realize that.
- Harris: The paper said they were buying Turkish and Bulgarian.
- Haas: Isn't that due to a political situation?
- Harris: It might be and it might not, you can't tell. They can only use so much tobacco.
- H.M.Jr: I think we are going to move that plane for you any day now.
- Harris: The charges didn't run up as much as I thought they were. They are running about \$150 a month or some such figure as that.
- H.M.Jr: I see. A hundred fifty a month?
- Harris: Yes.
- H.M.Jr: George, what about the price of bread?
- Haas: I will have that for you today.
- H.M.Jr: Get it to me, will you?
- Haas: Yes. I couldn't get it earlier.
- H.M.Jr: You couldn't have it by 12:00 o'clock, could you?
- Haas: I probably can.
- H.M.Jr: You see, the President emphasized this conference yesterday with the Army and Navy was on prices, so I could say something about prices, whether it is the price of bread or the price of airplanes --
- Haas: I think I can have it. They promised it to me.

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I thought you might want to look at this (handing report to Secretary). I have 20 cities, now.

H.M.Jr: Bell is going to handle food stamps.

Bell: Cotton stamps, I have got.

Haas: That is all.

H.M.Jr: Joe, you saw today quite a lot of stuff about the U. S. Steel going into Brazil?

Cotton: I haven't read it yet.

H.M.Jr: The Tribune, Wall Street comments.

Herbert, you and Cotton and White and Merle Cochran are going to receive Mr. Herbert Feis?

Gaston: Yes, at 2:30. I didn't know whether you wanted to talk about the whole problem before we have this meeting or not.

H.M.Jr: Well, I can tell everybody just what I want. When Mr. Welles left, he said he wanted me to take up this matter of Brazil and that Mr. Feis would represent him. Before I sit down with Mr. Feis, I want to make sure that the same thing isn't going to happen that happened the last time with Brazil, that they cut my throat. I spent three weeks of very, very hard work with Dr. Aranha and I just don't want the same thing to happen again. I just like to know where Feis stands on all this. I would rather do business with Berle.

Gaston: Yes.

H.M.Jr: I would rather do business with Berle or with the head of the South American section, Duggan. I agree that everybody here - that Feis should have a chance.

Gaston: Yes. Well, there are two or three points that I will have to get straight with these other boys. One is, who is to control the negotiations, and the other is - I assume that we want to

- 6 -

carry the bondholders' council along with us on the thing.

H.M.Jr: The thought is to do it the same way we have been doing with Colombia, I mean with Welles and Jones and myself, and working with Mr. Trap-hagen.

Gaston: The third point, as I see it, is that nobody shall do anything without an agreement of everybody as to what is being done.

H.M.Jr: No side bets.

Gaston: Yes.

White: Herbert Feis mentioned over the phone - he said that you were now in charge of the Brazilian matter.

H.M.Jr: Who is Herbert Feis to say that?

White: I take it that he was merely repeating what was told to him, I don't know.

H.M.Jr: No one has told me that. I have no communication from the President of the United States or the Secretary of State. Mr. Welles said he hoped I would take it up, and that is all. I want to know where I stand, whether there is a deal made that is specifically leaving the Treasury out.

Gaston: The only word I got from Feis yesterday was that we were ready to go ahead and it was urgent to go ahead.

White: I think it is very well to have that cleared up because it is going to be a tough job and a long headache.

Gaston: Those three or four points that we want to clear up today will make it quite definite.

H.M.Jr: I will not work with Caffery. If he is going to handle the thing, I won't work with him.

Gaston: That involves sending somebody else down there.

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- H.M.Jr: No, it involves sending somebody up here to talk to me.
- White: The situation is a little bit complicated by the fact that there is a division of opinion in the Brazilian Government, which makes it --
- H.M.Jr: Harry, how can you do it when people from the State Department send personal letters to their pets in the Government of Brazil while we are carrying on negotiations? Mr. Welles was - talking in the family, he had Jaramillo out to dinner Saturday night and he tells him one thing and the Ambassador says another thing and all these private things are going on. I don't know whether he talked things over in the State Department and one finger on the same hand knows what the other finger is doing.
- Gaston: That is exactly what perplexed me, is how we were to handle all these various elements at this end and work through Caffery at the other end.
- H.M.Jr: I won't work through Caffery. All you people have got to do is to look at the record of Cuba when they tried to take sides in the Government down there, and what happened.
- Cotton: That was Welles, not Caffery.
- H.M.Jr: It was, but Caffery was Minister to Colombia when this debt thing was done. Francis White was Assistant Secretary in Charge and Caffery was Minister to Colombia. Well, I had my experience with Mr. Caffery on the last Brazilian thing.
- White: I gather that Mr. Caffery is much in sympathy with your views. Whether it represents a change on his part or whether it represents something outwardly - I think that the way he feels now, you possibly - if somebody were in charge here you would find that he would be more apt to carry out your ideas than one would gather from your remarks.

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- H.M.Jr: My own hunch is this; I am talking out loud Herbert. My thought is this: I think this thing of letting Mr. Berle be responsible for negotiations for the Bank of North and South America has worked out very well, hasn't it, Harry?
- White: Very well.
- H.M.Jr: My suggestion is that we suggest Mr. Hull and Mr. Berle be responsible for negotiations from now on and we would give them all the technical assistance possible. We will do it that way with Brazil.
- White: While Mr. Welles is gone, only?
- H.M.Jr: Either Mr. Berle or Mr. Welles should be responsible. We will give them whatever technical assistance is necessary, but the negotiations should take place over there and leave me out.
- Cotton: You mean you want to change the system that has been prevailing on Colombia?
- H.M.Jr: Yes.
- Cotton: My only other thought on it is that the negotiation is almost bound to go through Caffery, because the Brazilians won't send anybody up here when they can talk to the French and British down there.
- H.M.Jr: That is all the more reason to let the thing head up in the State Department and we can give them whatever assistance we can. I can't work with them. After all, I ought to have learned something in the last six years.
- White: I am strongly in favor of that in the case of Brazil.
- Gaston: If we were nominally in control, we wouldn't be in control. We know from past experience.
- White: If there is something develops that you disapprove of, I think your disapproval can be effective,

- 9 -

whereas you don't have the same headaches and responsibilities in working with the three.

- H.M.Jr: Here there are 21 people up here and you are carrying on this important negotiation for a new bank of North and South America. I am bothered about it. Berle is tickled to death. He can't say enough nice things about the Treasury. I never meet him but what he has something nice to say about the Treasury personnel.
- Cotton: You have got a pretty good relation with the Council. That is the only thing I hate to lose.
- Gaston: Yes, that would be a question of whether the Council would work through us or through them.
- H.M.Jr: How far did I get?
- Schwarz: Nothing.
- Cotton: Mr. Jones has called a meeting today. I imagine he wants to go into the Scandinavian thing. He has been talking about it in the newspapers. I just wondered if you had anything new on it.
- H.M.Jr: The only thing that I said to Mr. Jones was when he was here, that I thought that he ought to, inasmuch as he had a Board of Directors for the Export-Import Bank, he ought to put these things up to them, and his answer was, "How can I when there is always a leak, when I have got fellows like Herbert Feis to work with?" He said, "I have got to go ahead. I cleared it with you and the President," and I said, "That is right," but he said, "I can't do any business, because I see it in the paper the next day."
- (To Mrs. Klotz) Let Mr. Cotton, before he goes to that meeting, read my conversation with Mr. Hull on Finland. Gaston ought to see that, too, and Cochran and White, the people that are handling this.

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- Cotton: Really, the only reason that I bring it up is that it is a very serious question whether the Bank should take on any other commitment on account of its financial position.
- H.M.Jr: Mrs. Klotz will send that in to you, Gaston, and they can read it in your office. What time is the meeting?
- Gaston: 11:00 o'clock. No, it is 12:00 o'clock.
- H.M.Jr: You can see it before then. Anything else?
- Schwarz: Nothing.
- H.M.Jr: Harry?
- White: I have here that comment on Lord Beaverbrook's article on gold that you asked for and then here is a resume of the various negotiations about Brazil. It is pretty brief and I suggest that if you get a chance you glance over it so that if you could talk with Hull on Brazil you will have a pretty good idea of what the various parts of the Government want to do and are trying to do.
- H.M.Jr: O. K.
- White: Mr. Foley and I could see you for one minute, could we?
- H.M.Jr: What do you think, Merle, of letting them conduct all these negotiations?
- Cochran: I would share Jone's idea a little bit. I don't like to see this arrangement with the bondholders' council dropped, because I think you are being helpful there. On the other hand, I am as unhappy as you are over some of these negotiations and the correspondence which is summarized there which shows the negotiations have already been going on through Caffery on this Brazilian arrangement. He has been definitely instructed by the department that he is to carry that on.
- H.M.Jr: Then I was right.

- 11 -

- Gaston: They told him to hold off and then he sent a long memorandum pleading for a chance to get in, telling how urgent it was, then they gave him definite instructions to get in. That was along in - around the first of October.
- H.M.Jr: Is that the memorandum?
- White: No, that gives a picture of what the President wants, what Caffery wants, and so on.
- H.M.Jr: How about this time table?
- White: We are going to take that up this afternoon. This is for a general background and familiarity. It will show also the difficulties.
- I would like to say another word why I think your approach is the right one in this case, if I may.
- H.M.Jr: Please.
- White: The debt negotiation is going to be much more difficult than the Colombian. There are many more cross currents and I think they will be placed in the position where they will have to let you know, because if it involves any money or any quibbles, you simply will be as much in on it so far as the steps that are being taken are concerned as you would be if you were participating and the responsibility will not be yours to share with others, and I think you will find in effect that you will have just as much power that way as the other way and I think you will be saved an awful lot of meetings and friction, and so on, and yet the net result, I think, will be the same.
- H.M.Jr: That would come under my motto for this year.
- Cochran: There is just one point on this, Mr. Secretary, if I may --
- H.M.Jr: Don't you all know my motto for 1940?

- 12 -

Sullivan: I don't.

H.M.Jr: It doesn't apply to you, you are too new. We will wear you down a little bit before you come under this. The motto is, "Be comfortable."

Where were we?

Cochran: I was about to say something. While things may move smoothly on this Bank while we are preparing the technical side here, I still feel you may get a reaction or not be so easy when the matter comes before Congress.

Cotton: I do, too.

H.M.Jr: That is all right.

White: I take it what the Secretary was referring to was the absence of friction, disturbing friction, as they draw it up rather than successful execution of the final steps.

Cochran: I would think it over a little bit before I made a final decision on that. I would wait and see how we do this afternoon. If I can see you just a minute sometime tomorrow --

Sullivan: Have you heard any more from the British and French joint commission?

H.M.Jr: Not a thing on what you are interested in.

Sullivan: They are chiseling, not going ahead as they were and not getting anywhere at all.

H.M.Jr: Ask McKay to make an appointment for you. I will talk to you about it. Ask McKay to fix you up an appointment.

Sullivan: Yes, sir.

H.M.Jr: Register with McKay if you want to see me. Today is the 18th. You (Mrs. Klotz) remind us.

On the Schenck case?

- 13 -

Foley: I told you I had a conversation yesterday with John Byrns. I think the material was sent over to the Department of Justice last night and Sam Clark told me when I was talking to him on Monday that he thought he would be able to send the case to John Cahill by the end of this week.

H.M.Jr: The end of this week?

Foley: Yes.

H.M.Jr: Mrs. Klotz, if you will take that again, it will be Monday. I always want a deadline on this - here, this is you, the two of you together.

On the Indianapolis situation, and on this Kentucky Company, I have got this memorandum from Helvering. Have you seen it?

Sullivan: Yes, sir.

H.M.Jr: I would like to know when I can expect that you will take Mr. Elder before the judge.

Foley: Well, we agreed that we would go ahead and see what we can develop on the Kentucky rock asphalt.

H.M.Jr: When?

Foley: We thought that would take ten days.

H.M.Jr: Too long.

Foley: We sent another man out there last night.

H.M.Jr: That is an awful long time.

Foley: No, Mr. Secretary, I think if it is going to be done carefully, it has to take that long.

Sullivan: I don't think that is a long time.

H.M.Jr: You don't?

Sullivan: No, sir. That is one job that wants to be done right.

- 14 -

H.M.Jr: All right, the 27th of January. We will bring that up again.

Gaston: I pointed out it was only nine days.

H.M.Jr: The 27th?

Gaston: Isn't today the 18th?

H.M.Jr: Yes, but the thing is dated the 17th. All right?

Foley: Yes.

H.M.Jr: Herbert?

Gaston: I haven't anything more.

H.M.Jr: Herbert, ask some more about that so-called thing that they sent over to me about these four submarines in the Caribbean, will you? I got a memorandum from the Coast Guard.

Gaston: Yes.

H.M.Jr: Couldn't we send sort of a round-robin to our Customs collectors down in the Caribbean, or something like that?

Gaston: I suppose where they have been seen is out among the islands. The only collector would be that Puerto Rican man. He reported a sub at one time several months ago. There isn't any doubt that there have been French and British subs in the Caribbean for some time, some months, and nobody has shown that there is a German sub down there, so far.

H.M.Jr: Check it, will you?

Gaston: Yes.

Harris: They automatically report those in, Mr. Secretary.

H.M.Jr: They do?

Harris: That is what Mr. Gaston said. Most of those reports come by passing ships, unless they come in close to land.

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H.M.Jr: Who wanted to see me? Harry?

White: Yes.

H.M.Jr: You and Foley?

White: Yes.

H.M.Jr: O. K.

292
January 18, 1940.
11:53 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

O: Go ahead sir.

H.M.Jr: Hello.
Gordon
Rentschler: Hello.

H.M.Jr: Good morning.

R: Hello, Henry?

H.M.Jr: Yes.

R: I reached my brother Fred last night. The reason for the delay I found was that he had to take his wife to the hospital over at Palm Beach.

H.M.Jr: Right.

R: And he will not know until Friday morning just what they have to do.

H.M.Jr: I see.

R: He doesn't think it's an operation.

H.M.Jr: Yes.

R: It looks like it's a question of some kind of an infection which they hope to get over.

H.M.Jr: Yes.

R: Now Fred is going to call me, if the doctors say that it's O.K, he'll come right up and meet you Sunday afternoon.

H.M.Jr: Good.

R: If they say that he has to stay longer he'll let me know and I'll ring you back tomorrow as soon as I get the word from him.

H.M.Jr: Right.

R: Sorry. It's one of the times out of a dozen, it just couldn't be done instantly.

- 2 -

H.M.Jr: I understand.

R: But I told him I knew you'd thoroughly understand.

H.M.Jr: Surely. Well thank you so much.

R: Now in the meantime if I can be of any help Henry, don't hesitate.

H.M.Jr: No.

R: Because I can get your point of view and talk with Fred, but it would be very much better I think, if you and Fred talk directly with each other.

H.M.Jr: I think so.

R: So as soon as the doctor gives him the word that he knows.

H.M.Jr: Yes.

R: And Fred's hope last night was, that this was a local infection that had nothing to do with an operation.

H.M.Jr: Yes.

R: Although her blood count was in trouble and her blood pressure low, so that he wasn't sure.

H.M.Jr: Right.

R: But I'll let you know as soon as he calls me tomorrow morning.

H.M.Jr: Thank you so much.

R: All right Henry.

H.M.Jr: Goodbye.

January 18, 1940.
2:26 p.m.

H.M.Jr: Hello.

Operator: Mr. Gaston. Go ahead.

H.M.Jr: Herbert?

Herbert
Gaston: Yes.

H.M.Jr: That summary that Cotton prepared for me, what I call the timetable on the Brazilian loan.

G: Yes.

H.M.Jr: I gave my copy to Jesse Jones in confidence.

G: Yes.

H.M.Jr: And would you ask Cotton to make a new one for me, and send it up to the house?

G: Yes. I've been trying to get a hold of a copy for myself, but I haven't been able to.

H.M.Jr: He only had one and I got it at one-fifteen.

G: Yes.

H.M.Jr: I don't need it 'til tonight, but I was just making a record, that I -

G: Yes sir.

H.M.Jr: Did give it to Jones.

G: All right, I'll ask him to do that.

H.M.Jr: Bell said something to me funny, he said, "You know, I'm just fed up on this Feis" and he said, "I'm going to have Berle put on as Director of the Export-Import Bank instead of Feis".

G: Huh-huh.

H.M.Jr: He said it's taken me a long time, but I've got no use for him.

G: Huh-huh.

H.M.Jr: O.K. Herbert.

G: Fine.

January 18, 1940.
4:00 p.m.

H.M.Jr: Hello.

Operator: Mr. Cohen.

H.M.Jr: Hello.

Ben
Cohen: Hello.

H.M.Jr: How are you?

C: Well I escaped unsinged.

H.M.Jr: How do you feel after being Eccleized for two hours?

C: Well it was a rather long drawn out affair.

H.M.Jr: I hear you were swell.

C: Well I don't know because that is , it's hard to tell you know whether you make progress or not.

H.M.Jr: No they said you were swell and everybody is mystified and wants - is the White House in on this and all the rest of it.

C: Well I won't say anything. I just -ah - ah, assume I have a right to be there.

H.M.Jr: Well seriously I want you to stick by us now.

C: Well I - I'll do everything I -

H.M.Jr: I hope you get a chance to tell the President.

C: Well I will, and I'll be happy to do anything I can in view of the fact that it seemed to be left pretty well. Well I don't know whether I'll talk to Marriner unless he phones me.

H.M.Jr: Well -

C: Because they seemed to be willing to play ball. It was a little hard to tell. You probably know from the account whether they are really going to do it or not.

H.M.Jr: Well I understand that Marriner's attitude was quite different today. I mean -

- 2 -

C: But I think there may be a real possibility of change there mainly because I think they realize and possibly some realization out on the coast that they've got to do something. If we can only maneuver the Board into a position of supporting us instead of giving comfort to the other fellow, half our battle will be won.

H.M.Jr: I told the boys there's only one suggestion that I have to make, that this idea of United Fund I'm a hundred per cent for it. They raised a question well the Federal Reserve may get some of the credit, I said, "They can have all the credit as far as I'm concerned only if we can get the thing straightened out".

C: Yes.

H.M.Jr: The only condition -

C: I don't think in view of the fight you've had to put up there ought to be any question of credit. It would be a great achievement if you'd get them to claim the credit.

H.M.Jr: That's true too. But there's only the one thing, and my own crowd agree with me, and I wondered whether you did or not, is we can't afford to change the date of February 14th.

C: Oh no, indeed, that is one of the best, at least at this stage.

H.M.Jr: Yes.

C: One of the best forces they have to use. I mean that I think it was fairly understood that the Reserve in order to get, to help get action, was to say we've got to do something before action is done on this other thing.

H.M.Jr: Well -

C: That is it may not be absolutely done before the hearing begins but I mean the hearing could be avoided if they agree to a plan satisfactory before that but if not one has to proceed with the hearing.

H.M.Jr: Yes, but I mean that's a deadline and we can't afford, as far as Giannini is concerned to be caught bluffing.

C: Oh no, I agree.

H.M.Jr: Right.

C: I agree.

H.M.Jr: Well, and the other thing -

C: Otherwise he'll drag the thing out hoping that something will happen in November.

H.M.Jr: That's it. Well I've had them looked up. There was something a couple of years ago where I asked the Federal Reserve whether they wouldn't, as I remember it, cancel the license or permit for the holding company, see?

C: Yes.

H.M.Jr: And my memory is they turned me down. In '37. Well the boys are looking up to see just happened at that time, because we've tried that once before, and it's just as well to know what happened.

C: Yes I know.

H.M.Jr: I can't remember, but something happened and as I - I think then that Trans-America sold enough stock of Bank of America so they said they didn't come under the holding act. That's the way I remember it.

C: Well it would be good to know just what they did do.

H.M.Jr: They're looking it up. But you stick with us until we -

C: All right, I'll do everything, anything I can.

H.M.Jr: Ben?

C: Yes.

H.M.Jr: On the question of, this whole question of holding company, the question of bigness, the question of bad management and - the whole question of, what I think I call the faith of the New Deal is at stake.

C: Oh there's no doubt. If you let a big bank like this get away with it how can you do anything with the smaller fellows on the bridge.

H.M.Jr: Well, the unfortunate thing is the fact that the

- 4 -

fellow has been so big, he has got away with it.

C: There's no doubt about it.

H.M.Jr: I mean that's the unfortunate thing, and I'd just like to, in the next twelve months, set that up as a good bank. And the last thing I've been getting quite a lot of mail since I made my statement about guar - looking after depositors' interest.

C: Yes.

H.M.Jr: And all the letters with one exception, they come from people in California and they all congratulate me at last someone has the nerve to set them right. In other words, to my amazement what I'm doing is popular in California.

C: Well that is better news almost than one would anticipate.

H.M.Jr: And if you want to see those letters and glance through them, I'd be delighted to have you, it's popular with the people in California.

C: Well that's good.

H.M.Jr: And I think that that's important.

C:

H.M.Jr: Well, but it's nice to know -

C: But it's nice to know that at least goodly numbers know what's being done.

H.M.Jr: That's right. Well I'm every so much obliged, and stick with us until we -

C: All right, and I'm available any time you want me.

H.M.Jr: I mean your shadow seems to frighten a lot of people.

C: (laughs) Well I hope they don't find me out.

H.M.Jr: Well I do too. (laughs) Find us both out.

C: All right Henry. Thanks so much.

H.M.Jr: Goodbye.

C: Goodbye.

HSM

GRAY

London

Dated January 18, 1940

Rec'd 9:25 a.m.

Secretary of State,
Washington.

165, January 18, 2 p. m.

I had a word this morning with Phillips who was obviously very pleased that the effect of the loan conversion announcement reported in my 163 of January 18, 1 p. m., had been to strengthen decidedly all British Government securities. War loan for example which closed last night at 96 immediately moved up a point and a half. Incidentally the price of war loan was 92-3/4 on December 21st.

In this general connection Phillips again emphasized that the spending departments were as yet unable to live up to their disbursement expectations (my 2695, December 21, 7 p. m.) while revenue was flowing in strongly. The three months preceding the close of the British fiscal year at the end of March is always the heaviest income tax paying period. Phillips took satisfaction over the fact that "the Jeremiahs were even wrong about the motor license tax returns" which despite the rate increase effective January 1st, the gas rationing and the blackout were in

the

has -2- No. 165, January 18, 2 p. m., from London

the circumstances holding up well. Phillips concluded by saying that contrary to the market's expectations the immediate need for a loan has continued to recede month by month.

In connection with the message which Pincent sent to the British Treasury last week, Phillips explained that discussions were taking place with the French to work out some coordinating scheme for liquidating British and French holdings of American securities but that it would take a few days before anything definite could be evolved. In this general connection he said that he did not quite understand from the message whether it was our Treasury's expectation that the British would likewise approach the Canadians. When Graham Towers was here no discussion had taken place on this subject and he assumed that the Canadians had no intention of undertaking any liquidation under present circumstances and he felt it would be rather cumbersome sending cables from here to Canada about such a complicated matter which could so easily be handled on the other side of the Atlantic.

JOHNSON

CSE

EDA

PLAIN

LONDON

Dated January 18, 1940

Received 8:20 a.m.

Secretary of State

Washington

163, January 18, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The first big loan operation since the war, a £350 million conversion issue, was announced by the Chancellor last night. The new issue is a 2% 3-5 year offered at par to holders of the 4 1/2% conversion loan 1940-44 which is being called for redemption on July 1st, next. Cash subscriptions are not invited and holders of the 4 1/2% issue will be deemed to have consented to conversion unless by February 8, next, they have given notice that they wish to be repaid in cash. In both of these respects the technique is unusual but it follows the method adopted for the war loan conversion in 1932. Explaining the operation and appealing for the maximum conversion response Simon stated:.

"I trust that all holders realizing the appreciable savings in interest charges which will result from the conversion and the pressing need at the present time, not only for such savings but for reducing the amount to be reborrowed in order to provide for repayment, will give

the

EDA - 2 - #163, January 18, 1 p.m. from London

the conversion offer their favorable consideration."
The conversion issue has had a good press, most of the newspapers emphasizing the saving in interest payments, but the financial news finds that "there can be no more convincing affirmation of the Government's cheap money policy than the conversion offered."

JOHNSON

MCL

TO THE DIRECTOR
TECHNICAL ASSISTANT
OS 105 20 10

END 101 18 11 11 00

RECEIVED
101 101 18 11 11 00

HSM

PLAIN

London

Dated January 18, 1940

Rec'd 2:08 p. m.

Secretary of State,
Washington.

174, January 18.

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.

On his own initiative Mr. Frain of the Anglo-Metal Company, the English agents of the Climax Molybdenum Company called on me this afternoon. He had previously seen the Ministry of Economic Warfare. He stated that he had been instructed by his principals in the United States to obtain a minimum commitment from the British and French Governments to purchase during the current year 10,000,000 lbs. of molybdenum and that they were anxious to have this commitment for presentation to the stockholders at a forthcoming meeting. He stated that whereas the British purchases from his company in 1939 totalled 3,500,000 lbs. of molybdenum and the French 1,000,000 lbs. of molybdenum it was estimated that under present circumstances the British consumption would increase to 5,000,000 and that some time ago the French had informed his company that they expected to use a similar amount

(but

hsm -2- No. 174, January 18, from London

(but he felt it was doubtful whether the French were not overestimating their projected purchases when the question then at issue was merely one of the company producing sufficient to be able to meet possible French requirements). Nevertheless he considered that in all the circumstances the request of the Climax Company was a moderate one and that if the governments gave the proper lead to the smelting industries even more molybdenum could well be consumed.

Mr. Prain went on to state that in a telephone conversation early this week Dr. Lowenstein, the Vice President of Molybdenum Company in charge of sales, had stated that if it would facilitate his negotiations with the British authorities Mr. Prain could inform the Ministry of Economic Warfare that the company offered to accept payment in sterling against a contract of a minimum commitment of 10,000,000 lbs. molybdenum, that the ensuing sterling would not be held by the company but would be turned over by the company to the American Government which would give the company dollars and hold the sterling blocked in "some sort of stabilization fund". I gather that Mr. Prain passed on this information to the Ministry of Economic Warfare. Dr. Lowenstein also informed Mr. Prain according to the latter that he should apply to me for any further detailed information. I told him

quite

hsm -3- No. 174, January 18, from London

quite frankly that I knew nothing about any such arrangement but that I would report the matter to Washington and get in touch with him as soon as a reply was received.

Mr. Prain stated that he had also raised the question with the Climax Company of the rate of exchange to be used in the calculations and had been informed in effect that that was a matter which would lie between the British and American Governments.

JOHNSON

RR



DEPARTMENT OF STATE
WASHINGTON

[Handwritten signature]

January 18, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of telegram No. 174 of January 18 from London.

January 18, 1940

My dear Mr. President:

I am sending you a clipping from the New York Times of January 9, 1936, announcing the appointment of William R. White as Superintendent of Banks for the State of New York.

Yours sincerely,

The President,
The White House.

January 18, 1940

308

My dear Mr. President:

I am sending you a clipping from the New York Times of January 9, 1936, announcing the appointment of William R. White as Superintendent of Banks for the State of New York.

Yours sincerely,

The President,
The White House.

January 18, 1940

309

My dear Mr. President:

I am sending you a clipping from the New York Times of January 9, 1936, announcing the appointment of William R. White as Superintendent of Banks for the State of New York.

Yours sincerely,

The President,
The White House.



Times Wide World Photo.

STATE BANKING HEAD.
William R. White.

W. R. WHITE NAMED STATE BANK HEAD

Former Deputy and Counsel of
Department to Succeed the
Late G. W. Egbert.

NEW SUPERINTENDENT IS 32

Elevation Is Part of Governor's
Program of Promotion in
Recognition of Merit.

Special to THE NEW YORK TIMES.

ALBANY, Jan. 8.—William R. White of New York City was named today State Superintendent of Banks by Governor Lehman, who transmitted the nomination to the Senate.

Mr. White, who has been serving as deputy superintendent of banks and counsel to the department, fills the place left vacant by the death of the late George W. Egbert.

The new superintendent was born in Coudersport, Pa., on June 24, 1903, and is one of the youngest banking superintendents in the history of the State. He was graduated from Bucknell in 1926 and from the Columbia Law School in 1929.

Made Associate Counsel.

For a year and a half after receiving his law degree he was associated with Chadbourne, Stanchfield & Levy in New York City and in August, 1930, he was named associate counsel of the State Banking Department.

In 1934 he became deputy superintendent and counsel. He has served as secretary of the banking board since its organization in 1932. His work as counsel and deputy superintendent gave him a thorough knowledge of the details of the department work and his elevation represents another step in Governor Lehman's program of making promotions on merit whenever feasible.

No Change in Policy.

Mr. White said yesterday at his office here in the State Office Building, 80 Center Street, that he contemplated no change in the policies of the department. He declined to amplify this statement, saying the subject of bank policy was a delicate one at the present time.

"Naturally," he added, "I shall administer the department to the best of my judgment and ability."

The new Superintendent of Banks is almost six feet tall, heavily built, blond and with a frank, engaging manner and a ready laugh. He lives at 405 East Fifty-fourth Street with his wife, the former Elizabeth C. Spear, and a daughter, Deborah Ann, 8 months old.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 18, 1940.

TO Secretary Morgenthau
 FROM Mr. Haas *HA*

Subject: Retail bread prices

In response to your inquiry regarding retail bread prices, the Bureau of Labor Statistics' weekly report of retail bread prices for 13 selected cities is given below. The data show the average price of bread per pound on each Tuesday. The only changes reported on January 16, as compared with January 9, were increases for Boston, Buffalo, and New York, and a decrease in Savannah.

	Actual average prices of bread at retail, Jan. 16 (cents per pound)	Change between Jan. 9 and Jan. 16 in actual average price of bread at retail (cents per pound)
Boston	8.3	+0.8
Buffalo	8.1	+0.4
New York	9.4	+0.6
Pittsburgh	7.9	0
Chicago	6.6	0
Cleveland	8.0	0
Detroit	7.6	0
St. Louis	7.5	0
Savannah	8.8	-0.1
Washington, D. C.	8.9	0
Houston	7.2	0
Denver	7.0	0
Los Angeles	6.7	0

Secretary Morgenthau - 2

The following cities showed changes in the actual average price of bread at retail in the weeks indicated. Of the 13 selected, no other cities reported changes.

January 9	No change	
January 3	No change	
December 27	No change	
December 19	Washington, D. C.	+0.1 cents per lb.
December 12	Savannah	+0.1 cents per lb.
December 5	No change	
November 28	No change	
November 21	Denver	+0.5 cents per lb.
November 14	Savannah	-0.2 cents per lb.
	Denver	-0.5 cents per lb.
November 8	No change	
October 31	Chicago	+0.1 cents per lb.
October 24	Detroit	+0.2 cents per lb.
	Los Angeles	+0.4 cents per lb.
October 17	Denver	+0.3 cents per lb.
October 10	No change	
October 3	No change	
September 26	Pittsburgh	+0.3 cents per lb.
	Cleveland	+0.3 cents per lb.
	Detroit	+0.2 cents per lb.
	Savannah	+0.3 cents per lb.
September 19	New York	-0.3 cents per lb.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 18, 1940

TO Secretary Morgenthau
 FROM Mr. Haas *JA*
 Subject: Wheat export sales and other market data from the Federal Surplus Commodities Corporation.

Jan. 8: Export business in Canadian wheat was estimated at about 200,000 bushels.

The United States' visible supply of wheat decreased 1,354,000 bushels to 117,275,000 bushels compared with 111,378,000 bushels a year ago. The visible supply of corn increased 838,000 bushels, to 44,476,000 bushels against 48,079,000 bushels a year ago.

Jan. 9: The only actual export business reported was around 200,000 bushels of Manitoba wheat to the Continent.

The final Australian wheat estimate of 186,544,000 bushels, compared with a final crop last year of 154,000,000 bushels.

The Argentine government is reported to have made Finland a loan of 1,850,000 bushels of wheat, the grain to be paid for when possible.

Jan. 10: The British Cereal Board bought, according to reports, 20,000,000 bushels of Canadian wheat today, which is one of the largest single day's purchases on record. The last large transaction made by England was on November 28, 1939 when about 10,000,000 bushels were taken.

Jan. 11: It was reported that the Cereal Control Board of Britain had closed a contract to take 60,600,000 bushels of Australian wheat. This is in addition to the 20,000,000 bushels bought yesterday from Canada and an undetermined amount from Argentina. Evidently Great Britain has covered her requirements for some time. Export business in Manitoba wheat yesterday is estimated at about 1,500,000 bushels to the Continent, including Holland and Norway. It was also reported that export interests had purchased 1,200,000 bushels of Manitoba wheat at Vancouver.

Secretary Morgenthau - 2

Jan. 12: Private estimates on the world wheat carryover indicated the possibility of 1,400,000,000 bushels next July 1, which would be about 200,000,000 bushels larger than last July, and would be a new high record carryover.

Sales of Manitoba wheat today are estimated at 300,000 bushels.

Jan. 13: Export business is slow following a rather active week in export wheat.

Export sales of Canadian wheat to the Continent today are estimated at from 300,000 to 400,000 bushels.

Canadian and Australian wheat supplies are held almost entirely by the governments and only a small part hedged by sales of futures; therefore sales of large amounts of grain can be made without affecting the open-market price. England normally imports more than 200,000,000 bushels of wheat a year but may exceed that figure under present war conditions in order to build up a reserve especially in flour.

The visible supply of wheat in Australia is now put at 118,000,000 bushels, an increase of 23,000,000 bushels over a week ago, which compares with 96,000,000 a year ago this time. With an exportable surplus of 146,000,000 bushels after deducting the sale to England of 61,000,000 bushels, the unsold surplus in Australia is about 85,000,000 bushels.

January 19, 1940
4:58 p.m.

Robert
Wagner:

Henry?

HMJr:

Yes, Bob.

W:

This is Bob.

HMJr:

How do you.....

W:

Henry, I -- I'm in a little embarrassment. You know I -- I got a lovely invitation from you and Mrs. Morgenthau to dine on the 25th?

HMJr:

Yes.

W:

I just discovered that the State Federation of Labor are giving a dinner in honor of their new President who took Rene's place on that night and I had accepted that invitation.

HMJr:

Oh, for heavens sakes.

W:

I forgot all -- forgot all about the damn thing, and I was just confronted with it. Now what will I do?

HMJr:

Well, I -- I suppose you'll have to take whatever the first invitation was.

W:

Yeah. Well, it was -- I did -- well, I -- I forgot all about it. You know they always have these big Labor dinners and if you don't go -- I don't know how the hell to explain it to them now because I've accepted it.

HMJr:

Well, I think you'd better go. We'll miss you terribly but we'll.....

W:

Yeah, well I -- I'll tell you, I missed the last one at your house and I just -- I just was afraid I might not get another chance.

HMJr:

You'll get three more.

W:

Well, then all right. Well, shall I -- will you explain.....

HMJr:

I'll -- I'll tell Elinor.

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W: Will you tell her?

HMJr: I'll tell her tonight.

W: Oh - don't forget it now, will you so that.....

HMJr: I've just written it down.

W: Well all right, fine, Henry.

HMJr: I'm sorry but I understand and I'll explain it to her.

W: Oh fine - well, you know how those damn things are, they.....

HMJr: I know.

W: It isn't being there, but if you're way it's the time they talk about you.

HMJr: Righto.

W: Say, Henry.....

HMJr: Yes.

W:we were with the President yesterday.

HMJr: Oh, yes.

W: And of course as I expected -- as a matter of fact, I sent in word ahead of time that I had no -- he just said he couldn't change his attitude.

HMJr: Yes.

W: You know, on the Directors.

HMJr: Oh, yes.

W: You know the -- the inter-locking directorate.

HMJr: I see.

W: So that you don't have to bother about it any more.

HMJr: O. K.

- 3 -

- W: You remember I spoke to you about it the other day.
- HMJr: I know.
- W: And he also brought up that matter that you want to see Steagall and myself -- Glass and myself about.
- HMJr: Oh, he did bring it up?
- W: He brought it up there -- right there with the two of us.
- HMJr: That's interesting.
- W: Yeah.
- HMJr: What -- what did he say?
- W: Well, I told him then that -- that you had already arranged to see Glass, Steagall and myself on it, and he said he was very glad of it because he said you fellows ought to understand that situation.
- HMJr: I see.
- W: Well, I said, "Henry has already" -- or "The Secretary", as I put it, "The Secretary has already summoned us and we're going to -- he's going to -- as soon as Steagall comes back he's going to take it up with us."
- HMJr: Well didn't that please the President?
- W: Oh, very much, yes! Very much! But he -- he opened it, you know, or I wouldn't have said anything.
- HMJr: Isn't that interesting.
- W: Yeah.
- HMJr: Well, he has it very much on his mind.
- W: Yes, and I think that he thought maybe Carter was a little sympathetic to the -- the fellow out there.
- HMJr: Yeah.

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W: But he seemed -- Carter seemed to know a little about it.

HMJr: He did?

W: He did -- he seemed to know something about it but not -- oh, not that he was with this fellow at all.

HMJr: Well.....

W: So whenever he -- that fellow comes back we'll sit down.

HMJr: Good.

W: All right. Well, you won't forget now. I don't want to get in bad with Mrs. Morgenthau.

HMJr: No, no, no. I'll tell her right away.

W: Thank you very much, Henry.

HMJr: Thank you for calling.

W: You understand?

HMJr: I understand.

W: Goodbye.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was extremely dull today, with a greatly reduced turnover. After opening at 3.96-3/4, sterling moved off on some small selling to 3.96 in the mid-afternoon. The closing quotation was 3.96-1/4.

Sales of spot sterling by the four reporting banks totaled £263,000, from the following sources:

By commercial concerns.....	£ 100,000
By foreign banks (Europe and South America)...	£ 163,000
Total.....	£ 263,000

Purchases of spot sterling amounted to £175,000, as indicated below:

By commercial concerns.....	£ 138,000
By foreign banks (Europe).....	£ 37,000
Total.....	£ 175,000

The following reporting banks sold cotton bills totaling £132,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 70,000 by the Guaranty Trust Company
55,000 by the Chase National Bank
7,000 by the National City Bank
<u>£132,000 Total</u>

On selling of guilders in Amsterdam, the New York market rate declined to .5318 by noontime, and eased further in the afternoon to close at .5315.

The other important currencies closed as follows:

French francs	.0224-3/8
Swiss francs	.2242-1/2
Belgas	.1682
Canadian dollars	11-15/16% discount

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

\$15,000,000 from the Bank of France
1,125,000 from the Bank of Mexico
1,030,000 from the National Bank of Belgium
<u>\$17,155,000 Total</u>

The Federal Reserve Bank reported to us that the Netherlands Bank was shipping \$3,225,000 in gold from the Netherlands. This shipment is consigned to the Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.

The London spot and forward prices for silver were both fixed at 22d, off 1/4d. The U. S. equivalents were 39.27¢ and 39.07¢.

Handy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢ respectively.

We made eight purchases of silver totaling 603,000 ounces under the Silver Purchase Act. Of this amount, 278,000 ounces represented two sales of trading silver which a New York bank and an American refining company purchased some time ago in New York. Both of these sales to us were for delivery on January 22. The remaining 325,000 ounces was new production silver from foreign countries and was purchased for forward delivery.

We also purchased 200,000 ounces of silver from Canada. Thus far in January, we have bought 700,000 ounces from that country under our regular monthly agreement to purchase up to 1,200,000 ounces.



CONFIDENTIAL

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BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

1/19/40

From DIRECTOR

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

For

Sent to you at the request of
Mr. Noble, Under Secretary of Commerce.

James W. Young

James W. Young
Director

*White and Haas
read this. Wm W*

RETURNS on our newly initiated monthly survey of the value of sales, new and unfilled orders, and inventories, indicate a widespread and genuine willingness to cooperate. To date more than 600 corporations have furnished data on their own and subsidiary operations; these represent more than one-fifth of total sales and inventories of manufacturing concerns.

Lack of a fully representative sample (we could not expect 100-percent results the first month) makes caution desirable, but we get the following general picture after as careful an analysis as is possible at this time.

SALES (that is, shipments or billings) declined about 5 percent from October to November but were one-fourth larger in November than a year ago. There were declines in 14 out of 20 major industry groups, virtually no change in 2 groups, and increases in the remaining 4. Three of the increases presumably reflect seasonal factors. Compared with a year ago there was general improvement with above-average increases in the durable goods industries.

EXAMPLES:

Nondurables:

	Percentage Change November From	
	<u>October 1939</u>	<u>November 1938</u>
Foodstuffs	-16.0	+ 1.1
Textiles	- 6.4	+29.0
Paper	- 6.4	+26.1
Petroleum, coal, etc.	+ 4.7	+ 9.1

Durables

Iron and steel	- 1.0	+59.3
Nonferrous metals	- 9.2	+57.4
Electrical machinery	+ 6.2	+37.2
Other machinery	- 0.3	+37.3
Autos and equipment	+20.6	+35.4

SIGNIFICANCE: As there was one less working day in November than in October the 5 percent decline in total sales is of no great significance. For the heavy industries there was actually an increase on a daily average basis as might have been expected from the known rise in production.

NEW ORDERS of companies reporting these data decreased 11 percent from October to November—about twice the relative decline in sales—with a falling off shown by most industries. Compared with a year ago, new orders were about 75 percent larger. Incoming business in November exceeded sales by about one-fifth but, excluding the aircraft companies which are, of course, in an exceptional position, new

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orders and sales were approximately equal. In October, orders were about one-third above sales and one-fifth higher excluding aircraft. Orders for durable goods were generally ahead of sales while the reverse prevailed for nondurable goods.

EXAMPLES: New Orders above sales in -

Aircraft
Machinery
Automobiles
Steel

New Orders below sales in -

Foods
Textiles
Paper
Chemicals
Rubber

SIGNIFICANCE: New business in November was in excess of sales only because of large orders for aircraft. In view of the high rate of sales this is a good showing, particularly when compared with the situation a year ago. However, it is important that the trend was downward as early as November, despite the delayed placement of much of the durable goods business.

SINCE NEW ORDERS in November, except aircraft, were approximately equal to sales there was no reduction in unfilled orders for manufacturing industries where this item is significant. The rise of 7 percent for our sample group is accounted for by increase in aircraft backlogs. The November rate of shipments cut into backlogs in about half the industry groups—largely nondurable lines. In steel there was no change, while in machinery there was a further increase in unfilled orders.

EXAMPLES:

Nondurables:

	Percentage Change November 1939 From	
	<u>October 1939</u>	<u>November 1938</u>
Food	- 7.0	+ 7.1
Textiles	- 9.9	+44.6
Chemicals	-11.2	+64.3
Paper	-14.9	+70.4

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Durables

	Percentage Change November 1939 From	
	<u>October 1939</u>	<u>November 1938</u>
Iron and steel	+ 0.5	+186.1
Electrical machinery	+ 7.6	+ 72.2
Other machinery	+ 2.4	+ 92.0
Autos and parts	- 1.6	+ 68.0
Other transportation (mostly aircraft)	+30.5	+216.7

The ratio of unfilled orders to sales differs widely among industries—important thing is trend of figures for each industry; generally these figures much higher now than a year ago.

EXAMPLES:

Ratio of Unfilled Orders to Sales

<u>Nondurables</u>	<u>Ratio of Unfilled Orders to Sales</u>		
	<u>Nov. 1939</u>	<u>Oct. 1939</u>	<u>Nov. 1938</u>
Textiles	210	233	196
Paper	81	93	60
Chemicals	50	68	34
Food	102	107	84
 <u>Durables</u>			
Iron and steel	376	391	235
Electrical machinery	358	358	287
Other machinery	235	230	168
Autos and parts	128	164	112
Other transportation (mostly aircraft)	1965	1400	1116

SIGNIFICANCE: Backlogs were being reduced in nondurable goods industries in November and probably in durables by the end of the month. At the November rate of shipments and new orders, the backlog of nondurables appeared large enough to maintain activity at a high rate for one and one-half to two months—that is, until about the end of January. For the durables a calculation can not be made so readily but it is evident that the volume of unfilled orders at the end of November was sufficient to assure high operation for a period in excess of two months—that is, beyond the end of January.

INVENTORIES in November for all concerns reporting this item (567) were valued at 3.1 percent more than in October, 4.3 percent above June, and 1.5 percent above a year ago. Practically all groups showed increases in November over October.

SAMPLES:

	Change in November from	
	<u>October 1932</u>	<u>November 1938</u>
Rubber	+5.2	+ 3.8
Chemicals	+3.0	- 3.8
Petroleum and gas	-0.2	-10.3
Iron and steel	+4.9	+10.8
Nonferrous metals	-4.1	- 8.0
Transportation equipment	+3.2	+11.7
Machinery	+4.1	- 1.2

SIGNIFICANCE: Considering that inventories of manufacturers were declining from November to June (2.7 percent for our date) and probably through August, it is evident that the rise in October and November was of substantial magnitude. The small rise shown by those figures over a year ago reflects not only the decline during the first three quarters of the year but also the over-weighting in our sample of certain industries—particularly petroleum. Properly weighted, the increase over a year ago would probably be in the neighborhood of 3 percent. The point of this is that the rate of inventory increase in October and November was not small and if this rate of accumulation was continued to (say) February the situation would be vulnerable to any adverse developments.

SUMMARY: Business on the books at the end of November was sufficient—barring large cancellations—to assure a high rate of manufacturing operations during the early part of 1940. The key to prospects at this time is the rate of incoming business. Current reports indicate that new orders have continued to decline since the end of November. Unless new buying develops on a larger scale than at present, the reduction of backlog by the end of February will make a decline in operations necessary. It is this that lends significance to the increase in inventories which by then will have increased to a point where liquidation would be a distinct possibility.

FOREIGN TRADE NOTES

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Regraded Unclassified

Germany: The German-Norwegian trade for October shows an increase of approximately 71 percent. The chief increases in the German exports to Norway were in chemicals, pharmaceutical products, dyes, silk, woolen and rayon goods, linoleum, steel, and motors and electrical apparatus. Norway sent to Germany increased shipments of preserved fish, sulphur, iron ore, molybdenites, pyrites, ferroalloy iron, ferrochromes, and zinc.

The compulsory admixture of 3 percent of potato flour with rye flour has been abolished, owing to the favorable bread grain situation.

Italy: All the more important industries in Northern Italy are busy, some of them working overtime, largely on orders for Great Britain, France, and Belgium, as well as for the Italian government. These industries include the woolen and cotton mills, large automotive rolling stock and machine plants, as well as airplane factories, shoe factories, etc. It is claimed that raw materials are now being admitted in sufficient amounts to keep plants busy, contrary to the situation that existed in the preceding months.

On several occasions since the present war began, Italian officials have advanced the idea that the United States and Italy, the leading neutral countries, should collaborate more intensively in a commercial way. At a recent conference of the Commercial Attache with the Director-General of Commerce, it was stated that the present was a most favorable moment for the negotiation of a trade agreement between the United States and Italy.

Japan: The recent restrictions on the sale of rice has emphasized the economic repercussions of the Chinese war as it affects the daily life of the Japanese population. While the actual supply of rice in the country is probably adequate, the hoarding of the commodity in the rural districts has depleted the supply in the urban centers so that families are now unable to buy their usual requirements at the beginning of each month and are restricted to about 10 days' to 2 weeks' supply. The rice supply for next year is just barely sufficient to meet the demand, with the importation of a considerable quantity of foreign rice, but if there should be any unfavorable development such as another drought or bad weather, the result would be calamitous for Japan.

The new taxes announced in December, providing for an annual increase of over 500 million yen, will directly increase the tax burden on all classes of the Japanese people.

Belgium: A number of American concerns have been using Antwerp as a distributing point for Norway, Sweden, the Netherlands, Switzerland, and other countries, and are somewhat concerned over the Belgian restrictions on export licenses.

Chile: By a Decree of January 5, 1940, the State Railways were authorized to make a contract for the purchase of 21 American locomotives at a total cost of \$1,760,000.

Bureau of Foreign and Domestic Commerce,
January 18, 1940.

WEEKLY WHOLESALE PRICE INDICES

1926 = 100

Group	Aug. 26 1939	Sept. 16 1939	Dec. 30 1939	Jan. 6 1940	Jan. 13 1940	Percentage in- crease Jan.13, '1940 from Aug. '26, 1939
All commodities	74.8	79.3	79.4	79.5	79.5	6.3
Farm products	61.1	69.7	68.5	69.6	69.5	13.7
Foods	66.7	75.5	71.9	71.8	71.8	7.6
All commodities other than farm products and foods .	80.4	82.4	84.4	84.2	84.3	4.9
Hides and leather products.	92.6	98.3	104.1	104.0	104.1	12.4
Textile products.	67.4	71.4	78.6	78.3	78.1	15.9
Fuel and lighting materials	73.2	74.1	73.4	73.3	73.3	0.1
Metals and metal products .	93.5	94.9	96.1	96.0	96.0	2.7
Building materials.	89.7	90.7	93.1	92.9	93.2	3.9
Chemicals and drugs	74.2	77.1	78.1	78.0	77.8	4.9
House furnishing goods. . .	87.0	87.1	90.1	90.1	90.1	3.6
Miscellaneous	73.1	76.1	77.7	77.5	77.7	6.3
Raw materials	66.2	73.0	73.6	74.1	74.2	12.1
Semimanufactured articles . .	74.4	82.0	83.5	81.9	81.9	10.1
Finished products	79.3	82.3	82.0	82.1	82.1	3.5

Source: Bureau of Labor Statistics, U. S. Department of Labor.

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	Aug.	Sept.	Jan.	Jan.	Jan.
		31 1939	14 1939	3 1940	10 1940	17 1940
Mercury, electrolytic, New York . . .	\$ per lb.	10 4/8'	12	12 4/8'	12 4/8'	12 3/8
Mercury, prompt shipment, New York . .	do	5.05	5.50	5.50	5.50	5.50
Mercury, New York	do	5.14	6.64	6.14	6.14	6.14
Mercury, straits, New York	do	49 4/8' 1/2	72	48 4/8'	47 7/8'	47
Mercury, plantation, New York	do	16 7/8'	22 4/8'	19 2/8'	19 6/8'	19 3/8
Mercury, light native cows, Chicago . .	do	11	15	15 4/8'	15	14
Mercury, 13-15 denier, 78% seriplane, New York	\$ per lb.	2.70	3.05	4.25	4.05	3.55
Mercury, middling, av. 10 markets . . .	\$ per lb.	8.55	9.02	10.87	10.82	10.74
Mercury, cloth, 60x64, 38 1/2 inches, N.Y.	\$ per yd.	4 5/8'	5 3/8'	5 4/8'	5 3/8'	5 3/8
Mercury, tops (Mar. futures, New York)	\$ per lb.	2/81.6	2/115.0	105.0	104.9	104.3
Mercury, raw, 96° duty free, New York	do	2.92	3.75	2.82	2.80	2.90
Mercury, Acera, New York	do	4.47	6.35	5.90	5.70	5.55
Mercury, Santos, No. 4, New York . . .	do	7 3/8'	7 6/8'	7 4/8'	7 4/8'	7 5/8
Mercury, cash, Chicago	do	5.75	7.75	6.07	5.87	6.07
Mercury, cottonseed oil (Mar. futures, N.Y.)	do	2/ 5.75	2/ 7.38	7.14	6.98	7.06
Mercury, fat (May futures, Chicago) . . .	\$ per bu.	3/68 3/8' 3/	86 7/8'	1.06 1/8'	1.02	1.01
Mercury, good and choice, 220-240 pounds, Chicago	\$ per cwt.	6.78	8.02	5.75	5.35	5.55
Mercury, beef, medium, 750-1,100 pounds, Chicago	do	8.38	8.75	8.75	8.50	8.75

Nominal.

Prices for August 31 and September 14 are for December futures, New York.
Prices for August 31 and September 14 are for December futures, Chicago.

Prices: All commodities, with the exception of wool tops, cottonseed oil, hogs, and
steers, are taken from the Journal of Commerce; wool tops and cottonseed oil are taken
from the Wall Street Journal; and hogs and steers are from the Bureau of Agricultural
Economics, U. S. Department of Agriculture.

COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

Date	Pig Iron ^{1/}	Steel Scrap ^{2/}	Finished Steel ^{3/}
	(Dollars per gross ton)		(Cents per pound)
1939:			
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.50	2.236
November 28	22.61	18.58	2.261
December 18	22.61	17.83	2.261
1940:			
January 2	22.61	17.67	2.261
January 9	22.61	17.67	2.261
January 16	22.61	17.67	2.261

^{1/} Based on average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

^{2/} Based on No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

^{3/} Based on steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Source: The Iron Age.

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Product	Unit	August 31 1939	September 14 1939	January 3 1940	January 10 1940	January 17 1940
Motor gasoline - 65 octane	¢ per gal.	4 6/8-5	6 2/8-6 7/8	5 6/8-6	5 4/8-6	5 4/8-6
Light fuel oil, No. 2.	do	3 3/8-3 6/8	4 -4 1/8	4 -4 1/8	4 -4 1/8	4 -4 1/8
Diesel oil - ships' bunkers.	¢ per bbl.	1.45	1.45	1.70	1.70	1.70
Bunker oil, grade "C", cargoes.	do	.78 - .80	.85 - 1.00	.95 - 1.00	.95 - 1.00	.95 - 1.00

Source: Platt's Oilgram.

RECEIVED

JAN 21 1940

 Division of Economic and Statistics
 Office of the General
 Counsel, Department of
 Justice, Washington

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Y. M. H. A.
Address.

1/31/40.

GREENBAUM, WOLFF & ERNST
285 MADISON AVENUE
NEW YORK

TELEPHONE CALEDONIA 6-1882

January 19, 1940

Hon. Henry Morgenthau, Jr.
2211-30th Street, N. W.
Washington, D. C.

Dear Henry:

Between appointments I have been able to dictate the enclosed, which I have not read. It has been extracted from some old documents which Max Oppenheimer dug up for me. I do not know if it is what you want to work on. There are two priceless items which I left out, which I refuse to give to you because I am using them in my speech, but I thought it only fair to tell you of this. Please phone to me and let me know if you want me to do anything else in regard to this.

I telephoned to this guy Levin who is running the show and asked him what kind of a spiel they wanted you to give. He said that it was up to you, that the program would be as follows: He will preside; Frank Weil will make the presentation to Judge Lehman; and then I will do the presenting to you. You and Judge Lehman will of course have whatever time you want for speaking; the others are told to be short and snappy. He said that he thought it would be appropriate for you to say something about your association with the Alliance and then tell them how the country is run, what the world is coming to, and what the administration is doing about it, -- adding that it would be the same kind of a speech as the President of the United States would make. I told him this sounded wonderful to me and I would pass it on to you.

The really important item that Levin gave me was that black ties are O.K.

Sincerely,

Eddie

ESG:DLS
ENCL.

Before 1910 the Educational Alliance conducted a boys' camp at Cold Spring. In February 1910 Mrs. Sigmund Neustadt generously offered the sum of \$30,000 to the Educational Alliance and the Y.M.H.A. to be used by them for a joint vacation camp in memory of her husband Sigmund Neustadt. This gift was accepted by both institutions, but they entertained doubt as to how the experiment of a joint camp would work out. They entered into a temporary agreement for the summer of 1910 because they thought that it was "desirable to have at least one year's experience in the actual conduct of a joint camp."

Over the Decoration Day week-end in 1910 23 boys of the Y.M.H.A. went to the camp. That was the first time that boys from the Y had been there.

During the summers of 1910, 1911, 1912 and 1913 the camp was operated by a joint committee. It did not prove to be a happy experiment. Two camps were conducted on Surprise Lake,

one by each of the organizations, and the enterprise was run under the hyphenated name "Educational Alliance-Y.M.H.A. Camp."

There was much dissatisfaction from both parties and in the winter of 1914/a ^(?) joint camp committee consisting of representatives of both organizations "unanimously agreed that the two camps must sooner or later be separated but that a joint camp be conducting during the coming summer." Felix M. Warburg, who was then the President of the Y.M.H.A., was not satisfied with this and suggested the formation of a committee to be called "The Fresh Air Committee of the Jewish Educational Institutions of New York," which would take over the management of the camp. Nor was Justice Samuel Greenbaum, who was then President of the Educational Alliance, satisfied, and a meeting was held at his chambers, which was attended by Mr. Warburg. At this meeting it was decided:

FIRST. A joint Camp Committee shall be appointed consisting of seven members made up as follows: Two to be selected from each of the societies and three to be selected from other sources, and to be acceptable to the other four.

SECOND. This committee shall have absolute control of the management of the joint camp which is to be run as one institution.

In March 1914 this plan was adopted by both organizations as an experiment and resolutions were passed providing for the running of the joint camp on the basis set forth for the coming summer, "it being understood that neither of the two institutions should be bound by the plan for one year."

A joint committee of seven was appointed. The representatives of the Y.M.H.A. were I. Edwin Goldwasser and Theodore B. Richter. The Educational Alliance representatives were Bernard M. L. Ernst and Sidney Blumenthal. The three selected from other sources were Herbert H. Lehman, Edward S. Greenbaum and Henry Morgenthau, Jr.

This committee of seven devoted themselves to the task of running the camp. After carefully studying the situation, one of their first acts was to remove the hyphen in the title and to

give it the name "Surprise Lake Camp." That was during the summer of 1914, twenty-six years ago.

Although the joint committee was given authority to run the camp merely for the summer of 1914, that part of the resolution was soon forgotten. No question came up the following year or the year after that. Indeed removing the hyphen made the camp an integrated whole and gave it the life and vitality which has made it live.

Acting upon a suggestion of the committee of seven, the Y.M.H.A. board authorized the camps to become incorporated and it was incorporated in 1916 and in that year joined Federation as one of its constituent agencies. In January 1917 it opened the winter camp for boys who are undernourished and anaemic. The camp grew and in 1920 the building which was the generous gift of Mr. and Mrs. Henry J. Bernheim was opened. Henry Morgenthau, Jr. was on

the committee which arranged this opening. In 1921 he became chairman of the House and Grounds Committee and in 1923 was chairman of the committee which was authorized to make arrangements with the City for the allotment of funds for the winter camp. He remained on the board until December 1927.



TREASURY DEPARTMENT
WASHINGTON

339

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

January 19, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In reference to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Goss Printing Press Company, Chicago, Illinois:

A conference, fully covered in a memorandum of the interview, was held on Monday, January 15, 1940. There will be no further opportunity for action in this case until the application for closing agreement is received from the contractor.


Commissioner.

IT:PWCA
CAA

January 19, 1940.

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Goss Printing Press Company, Chicago, Illinois:

A conference, fully covered in a memorandum of the interview, was held on Monday, January 15, 1940. There will be no further opportunity for action in this case until the application for closing agreement is received from the contractor.

(Signed) Guy T. Heising

Commissioner.

CAA/NEA

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 19, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

On yesterday afternoon Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me that he had a message with respect to the subject treated in paragraph 4 of the notes which he left with the Secretary on January 9, which he desired to communicate to the Treasury through me. It was arranged that he should call this morning at 10:30.

When Mr. Pinsent arrived he handed me an unsigned "Copy of message received by Mr. Pinsent", which reads as follows:

"We have always contemplated that when conditions permitted it might be desirable for us to reinforce the existing system of exchange control by measures designed to secure that certain exports from the United Kingdom and the Empire countries whose currency is based on sterling should be sold for certain foreign currencies and these currencies surrendered to His Majesty's Treasury. We now feel it possible to make some move in this direction and have it in mind to start with a limited list of commodities probably rubber, tin, whisky, furs and jute. Exports of these commodities from United Kingdom or Empire sources to a list of countries, including the United States, would only be permitted against an undertaking that payment would be made in one of a list of currencies, including United States dollars, and the proceeds sold to the United Kingdom control or another Empire control.

We will advise you of our more detailed plans later, but should like you to tell Mr. Morgenthau what is in our mind."

I thanked Mr. Pinsent for giving us this information. He said that he had received nothing further from his Government with respect to the several points which are under consideration, particularly securities and gold. He was afraid that the French delay in calling for a census of securities would make it impossible for any concerted action in the near future by the United Kingdom, France and Canada in disposing of dollar securities on the American market. He added, however, that the new airplane purchase program which the British and French are studying with us will necessarily involve a big increase in expenditures here in 1940 and may alter present calculations, as well as add to the necessity for extensive liquidation of securities.

I read to Mr. Pinsent the final paragraph of cablegram 165, dated January 18, from London, which referred to the liquidation of Canadian securities. Pinsent said that he had already written Osborne a personal

-2-

and unofficial letter requesting information on Canadian plans in this respect and promised to let us have such information as he receives in turn. I told him that we were not asking him to do anything, but that I had mentioned this for his information.

A handwritten signature in dark ink, appearing to be "H. M. A.", is centered on the page.

STRICTLY CONFIDENTIAL

7-19-40

343

Copy of message received by Mr. Pinsent

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We will advise you of our more detailed plans later, but should like you to tell Mr. Morgenthau what is in our mind.

(Handed by Mr. Pinsent to Mr. Cochran, 10:30 A.M. Jan. 19, 1940)

344



DEPARTMENT OF STATE
WASHINGTON

January 19, 1940.

My dear Mr. Secretary:

Mr. Royall Tyler has asked us to transmit to you a copy of notes made by him containing observations on Hungary and Italy.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

Notes.

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE
SECRETARY OF STATE
JAN 20 1940
RECEIVED

STRICTLY CONFIDENTIAL

345

Hungarian Government has the situation well in hand, Nazi factions are losing ground and government is ready to outlaw them if they get off the reservation. Hatred of Germany increased by Nazi and Soviet collusion and Soviet attack on Finland. Regent in fine shape despite his seventy-two years. Stories about impending appointment of Teleki as Vice-Regent apparently baseless, although if anything happened to Regent now Teleki would probably succeed him, Minister of Interior Kerestes Fischer becoming premier. Latter a good man. General belief in Hungary is that German leaders can't make up their minds what to do, their calculations being thrown out by British-French determination to fight, which Ribbentrop promised Hitler they never would do. Three Hungarians out of four expect and want German defeat. They now seem to exaggerate German difficulties, though before the war they overestimated Germany's might. Pathetic individual appeals from Germans for food gifts, however small, are pouring in past censorship by thousands, supported by harrowing stories. Such gifts at one time reached six tons daily until Hungarian authorities limited amounts any individual could send. Present daily average still round three tons. Hungarian authorities planning food rationing and two meatless days weekly, though unnecessary, so that visiting Germans may not think Hungary land of inexhaustible plenty. Germany now makes entry for Hungarian nationals exceedingly difficult. Hungarians believe this is because Germany does not want Hungarians to witness conditions, especially in Austria where young Prussian S.S. men swagger around while older native Austrians are sent to the front, this causing resentment which might blaze out despite ferocious repression. Responsible Hungarians are apprehensive lest Germany decide to end odious comparisons by walking in.

At times Germany has appeared to encourage Hungary to seize Transylvania but Csaky told me December 13 that Germany was promising Rumania deliveries of Polish war material and even guarantee of Rumania's present frontier against Hungary and that German promises of Czech war material to Hungary were never kept.

Mussolini assures Hungary he will intervene if she is attacked from whatever quarter. Hungary properly grateful but not altogether reassured. Hungarian Government knows about Italian plans for founding a Danubian monarchy under an Italian prince, perhaps Aosta, grouping several countries in a personal union. Gratitude for

part

past Italian help and hope of more to come counsel extreme tact but it is inconceivable that Hungarian opinion would ever accept an Italian King and there are suspicions that Germany may be behind the plan, meaning to use it for a new peace offensive including sham reestablishment of Czech, Austrian, and Polish independence or at any rate to forestall Habsburg restoration. Ciano's speech of December 16, soft pedalling talk of a Danubian Balkan bloc under Italy's aegis, sounds as if above plan were dropped or put on ice for the present.

Hungarians friendly to Germany talk mysteriously of forthcoming reversal of European lineup, Germany resuming enmity towards Soviets and driving through Ukraine to Black Sea. This may be devised to counteract disastrous effect on Hungarians of German-Soviet association or perhaps further evidence of German irresolution. Others think Soviet will reoccupy Bessarabia and that Rumania will then break up, enabling Hungary to regain Transylvania. Present Premier may be trusted not to try any adventurous course. Though he cannot say so publicly, I believe he devoutly prays that nothing will happen.

In Italy confusion seems inextricable. True it is that Mussolini, after making Italians' flesh creep with war talk, is now blessed for keeping out of war and telling Italians their duty is to profiteer. But the standard of living is still worsening except for a privileged few, prices are rising in spite of rigorous treatment of boosters, the state is scandalously in arrears with its bills even for small sums, unemployment increasing, German Soviet deal is odious, no one sees a way out. Government appears not to rely exclusively on profiteering to right situation and the word goes around that spring will bring Italy's turn to tear off something big. A few months back this was to be at Britain's or France's expense, then it was to be South East Europe hegemony erecting a barrier against Soviets. Now after Ciano's "peace" speech there is again talk of making the Allies pay through the nose for Italy's forbearance. It is reported all military leave and suspensions of call to colors are cancelled beginning March and arrangements made for having school and other roomy buildings empty by then.

The

The Italian press, after displaying a certain objectivity in October and November, has swung round again giving prominence to German news and delaying Allied news or putting it where it escapes notice. German Gestapo agents and others, planted before the war started, in public departments and industrial works are still there. Gapping the tall German stories carried by the Italian papers rumors are circulated about the real Hitler invincible weapon, a torpedo which can be propelled and directed from shore according to information wirelessly from observation planes. Thus the torpedo is steered straight to British fleet wherever it may be. The requisite material is manufactured in underground works near Leipzig all set for spring when Britain will be destroyed, etc., etc. Italy is now manufacturing war material for France and trading or rather talking trade with Britain, but British business-men say they can get nothing done without bribery right up to the top, their assertions tallying with accounts heard for years past from Italian business sources.

Non-official Italian opinion hates Germans and would like to see them beaten, without, however, desiring Allied victory. What the official view may be is a mystery: perhaps it is simply determination to sit on the fence till the outcome is certain, this fitting in with Ciano's efforts to establish a reputation for moderating Mussolini's bellicosity. The changing of the guard that ousted Farinacci Alfieri, etc., apparently had no international color but was a sop to opinion that had come dangerously to hate the party, at the same time putting in key positions new men personally devoted to Ciano who is now reputed stronger than ever, though cordially detested. Farinacci and Alfieri, though Nazi enthusiasts, were not sacrificed as such.

Ciano's deferent, if shifty, attitude toward Germany perhaps obeys more tangible reasons than ideological sympathies or even belief in German invincibility. Much of this is felt by opinion which is torn between relief at not having had to fight on Germany's side, fear of being dragged in as a result of some desperate gamble by leaders who see no sane way out of the mess, fear that Germany if balked of other prey will come down on Trieste, and a thickening apprehension that Italy will finally have to pay for the folly of those who make her risk fighting out of her class. As time passes without

German

- 4 -

German threats to destroy Britain materializing, signs show that some even among the leaders would like to change their bets, but Ciano seems committed to Germany and as Ciano's internal position waxes stronger the vicious circle seems complete, Fascism fearing that if the king pin goes they will all go with him. Whether it would be possible to drag Italy into war on Germany's side now or indeed to make Italians fight anyone for anything seems doubtful. But although Italy may double-cross Germany on the Danube she cannot be expected under present leadership to collaborate sincerely with the Allies unless and until Germany is patently beaten. No serious indication seen that the Royal House is gaining control.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

NOV 12 10 15 50

RECEIVED
TECHNICAL ASSISTANT



CK

PLAIN

London

Dated January 19, 1940

Rec'd 8:00 a.m.

Secretary of State

Washington

170, January 19, 1 p.m.

FOR TREASURY FROM BUTTERWORTH

Today's Financial News contains the following story which if possible the British Treasury intends to avoid denying in the belief that it is merely an attempt to get at the Treasury's real intentions. The Treasury added that the story was both unfounded and untrue. "The Financial News understands that in recent weeks the authorities have begun purchases of foreign securities, details of the holdings of which were registered in the early weeks of the war and for which requisition powers have been granted under the defence regulations. The operations relate only to certain American and Canadian securities and the purchases have been arranged by private approach to large holders, the names of which are of course already registered with the authorities. Several investment trusts, it is believed, have been concerned in these transactions. The purchases have naturally been made on an entirely voluntary basis.

The

hsm-2- No. 178, January 19, 1 p. m., from London

The eventual realisation of these securities, it is understood, will be in the hands of a Canadian concern and it is suggested that sales in the New York market have already begun. Meanwhile Colonel J. J. Llewellyn's remarks at the Ministry of Supply press conference last week, and various indications in the market, suggest that a more comprehensive and public purchase scheme is now under consideration."

JOHNSON

DDM

TO THE DIRECTOR
OF THE
GENERAL INVESTMENT
CORPORATION
WASHINGTON, D. C.
JAN 20 1941

HSM

PLAIN

London

Dated January 19, 1940

Rec'd 1:15 p. m.

Secretary of State,
Washington.

185, January 19.

FOR TREASURY FROM BUTTERWORTH.

The House of Commons passed yesterday and the House of Lords will pass Tuesday the authorizing bill to enable the Chancellor of the Exchequer to deem that holders of the called loan referred to in my 163, January 18, 1 p.m., can be considered to have consented to conversion unless by February 8 they give notice to the contrary. In the short debate which occurred on this non-controversial matter the following statement by Robert Boothby with reference to the terms of the loan is the only interesting observation made:

"This is a very momentous occasion, because in fact what the Chancellor has done has been to lay down for the first time the rates of interest which he thinks ought to prevail in the opening phase of the war. The interesting thing is that his view has been accepted, not only on all sides of this House, but also by the City of London,

thereby

hsm -2- No. 185, January 19, from London

thereby confirming a view which I have long held, namely, that, given the existing control over the exchange and over the export of capital, the Chancellor of the Exchequer, within limits, is practically able to state what rate of interest he proposes to lay down for this country. There is no doubt whatever that the rate of interest laid down by him yesterday in this connection has been accepted by the financial community as a whole."

JOHNSON

HPD

TO THE SECRETARY OF THE
TREASURY
WASHINGTON, D. C.
JAN 20 1934

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Budapest, Hungary

DATE: January 19, 1940, 8 p.m.

NO.: 16

A source connected with the National Bank of Hungary has given me the following confidential information:

Revaluation of the pengo in relation to the German mark was demanded by Herr Clodius, head of the German delegation, during the commercial negotiations between Hungary and Germany concluded this week in Budapest. In August, Clodius said, the pengo had been inflated in relation to the free foreign exchanges, and he demanded for the mark a similar alteration. This demand was turned down by the President of the National Bank, Baranyai, who pointed out that the same economic conditions which would govern a change in monetary ratios do not exist in this situation as they did in the Rumanian. Nickl, the head of the Hungarian delegation, then was given a memorandum by Clodius. In the memorandum Clodius admitted the validity of some of the economic arguments advanced by Baranyai, but said that the question was one of prestige so far as the German Government was concerned, and the change was insisted upon.

Then a meeting of the Cabinet was held; the Foreign Minister had just returned from Venice, and he attended the meeting. On the economic point of view, the Cabinet
agreed

- 2 -

agreed with President Baranyai. However, Teleki and Osaky pointed out that Hungary could not afford to turn down every German proposition, stating that they had already said no to the Germans on two occasions - first when they refused transit to German troops during the war with Poland, and second with regard to shipping Hungarian petroleum to Germany. Unpleasant disputes with the Germans would inevitably come, the Prime Minister said, but that it was not propitious to have one now, that he preferred to wait until the Spring when Germany might not be in a position to bring such heavy pressure on Hungary as she would be more occupied in other places.

Baranyai then handed in his resignation as National Bank President, but his friends persuaded him subsequently to withdraw this. Then he suggested that the pengo ratios be appreciated with relation to the pound, French franc and free foreign exchanges to rates which existed in August; thus Germany would be denied the advantages of a pengo depreciation in relation to the mark, but her prestige would be saved. The Hungarian Government adopted this suggestion, and the German delegation also accepted it.

According to the French Minister, oil from Hungary has again been demanded by Germany; Chiczy confirmed this somewhat by telling me that any demands for oil from Hungary would

- 3 -

would be turned down. I learn from further reliable sources that some 1000 barges containing oil destined for Germany are frozen in the Danube; ice has now completely blocked passage on this River.

It is requested that the foregoing be kept confidential for the present.

TRIVERS.

EA:LWW

TO THE DIRECTOR
SECURITY AGENCIES

240 241 55 10 11 20

RECEIVED
CENTRAL INTELLIGENCE
DIVISION



DEPARTMENT OF STATE
WASHINGTON

A handwritten signature in dark ink, appearing to be 'S. H. H.', written in a stylized, cursive script.

January 22, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his confidential information a paraphrase of telegram No. 16 of January 19 from the American Legation, Budapest.

TO THE SECRETARY OF STATE
RECEIVED
JAN 23 1940

JAN 23 1940



TREASURY DEPARTMENT
WASHINGTON

357

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

January 19, 1940.

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
REB

Memorandum for Secretary of the Treasury:

Pursuant to your request for a statement as to the basis of the application of section 102 of the Internal Revenue Code and corresponding section of the Revenue Act of 1938, and the settlement effected in the case of The Times Herald Printing Company, Dallas, Texas, for the year 1938, the following is submitted for your consideration:

This corporation was organized in 1896 by E. J. Kiest and other persons with an authorized capital stock of \$25,000.00 divided into 250 shares of common stock, par value \$100.00 per share. Apparently only 220 shares have ever been issued. The newly formed corporation then acquired the assets of two Dallas newspapers, the Times and the Herald, which had been merged. The purpose of the corporation was to own and operate a daily newspaper and do job printing. The job printing was discontinued about twenty years ago.

In the past twenty years there have been only three persons owning stock in this corporation; that is, E. J. Kiest, the present sole stockholder, his brother W. F. Kiest who died in 1927, and the widow of W. F. Kiest who inherited his fifty shares of stock. The widow's stock was purchased by the corporation in 1935 for \$367,326.00 and held as treasury stock, leaving only 170 shares outstanding.

There have been no loans to shareholders in recent years. The books show a credit balance in favor of E. J. Kiest ranging from \$2,123.80 in 1933 to a high of \$21,334.40 in 1935 and down to \$9,970.75 at the end of 1938. Salaries paid officers have been reasonable. The aggregate amount of salaries paid three officers in 1938 was \$43,214.78.

In 1929 the corporation erected a new building at a cost of \$278,000.00, and in that same year \$243,332.29 was expended for new machinery and equipment. The only major additions or replacements since then were \$62,951.15 in 1930 and \$22,291.51 in 1934. According to data submitted by taxpayer, its paid circulation has increased from 68,436 on March 31, 1935 to 86,711 on March 31, 1939.

-2-

Memorandum for Secretary of the Treasury.

During the year 1938 the taxpayer corporation had a net book profit of \$226,925.61. Dividends of \$128,000.00 were paid, leaving an undistributed income for 1938 of \$98,925.61.

The examining officer at Dallas, Texas, concluded that the taxpayer corporation's earnings and profits had been accumulated beyond the reasonable needs of the business, evidenced by investments of \$769,635.34 in securities unrelated to its line of business, plus cash on hand at end of 1938 of \$242,845.13 and other liquid accounts of \$111,620.97 or a total of \$1,124,101.44 of quick assets as compared with liabilities of only \$178,577.66 and an accumulated surplus of \$1,673,532.66. Comparative balance sheets for the years 1932 to 1938, inclusive, are attached hereto.

A computation was made showing that failure to distribute all of the corporation's income for the year 1938 resulted in a surtax saving of \$66,813.97. The sole stockholder's personal income has averaged around \$200,000.00 in recent years.

The tax proposed under section 102 was determined as follows:

Net income for the year 1938		\$266,990.78
Less:		
Taxes for 1938	\$37,791.88	
Excess capital loss 117(d)	<u>901.14</u>	<u>36,693.02</u>
Section 102 net income		\$228,297.76
Dividends paid		<u>128,000.00</u>
Undistributed section 102 net income		\$100,297.76
Surtax at 25% of first \$100,000 and 35% balance		\$ 25,104.22

The taxpayer corporation took strenuous exception to the findings of the examining officer, however after five conferences in the office of the revenue agent in charge at Dallas, taxpayer finally submitted an offer in settlement which was considered acceptable in view of all the circumstances in the case.

-3-

Memorandum for Secretary of the Treasury.

It is argued in taxpayer's protest that had Mr. Kiest been attempting to avoid the payment of Federal income taxes he would not have authorized any dividend payments during 1938, thereby placing the entire tax burden on his solely owned corporation, and in so doing would have saved combined income taxes for such year in the amount of \$4,824.52 determined as follows:

Mr. Kiest's personal tax would have been reduced	\$76,527.88
Corporation tax would have been increased	<u>71,703.37</u>
Net saving	\$ 4,824.52

Field conferee held that this argument was without much weight as the increase in earned surplus would be subject to surtax when ultimately distributed.

The following is a statement of the net profit of the corporation for the years 1933 to 1938, inclusive, with percentages of dividend distributions:

Year	Net Profit Before Federal Income Tax	Federal Income Tax Paid	Net After Taxes	Dividends Paid	Undistributed Income	% of Net Profit Distributed
1933	\$ 240,539.00	\$ 35,287.32	\$ 205,251.68	\$128,000.00	\$ 77,251.68	62.4%
1934	274,594.55	38,515.09	236,079.26	178,000.00	58,079.26	75.4%
1935	279,840.09	38,901.94	240,738.15	78,000.00*	162,738.15	32.5%
1936	355,279.14	60,527.42	294,751.72	178,000.00	116,751.72	60.4%
1937	411,244.54	72,199.85	339,004.69	178,000.00	161,044.69	52.8%
1938	<u>264,717.49</u>	<u>37,791.88</u>	<u>226,925.61</u>	<u>128,000.00</u>	<u>98,925.61</u>	<u>56.6%</u>

\$1,826,014.61	\$283,223.50	\$1,542,791.11	\$868,000.00	\$674,791.11	56.3%
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Premium paid on stock retired or purchased from F.W.K.'s widow

362,326.00*	<u>362,326.00</u>
-------------	-------------------

\$1,230,326.00	\$312,465.11	79.7%
----------------	--------------	-------

-4-

Memorandum for Secretary of the Treasury.

Usually the retirement of part of the capital stock is considered as indicating that additional capital is not required. In this instance only \$5,000.00 of capital stock was retired and the balance of the purchase price of the stock was a taxable distribution.

It was orally argued by taxpayer's representatives that one of the main reasons for the accumulation of quick assets was the thought that Mr. Kiest would very likely die within the next year or two and that the satisfaction of his estate tax liability will present a major problem; that is, an amount estimated in excess of \$1,000,000.00 would be required in order to avoid obligations to banks or other lending agencies which might attempt to interfere in its editorial policy. Their attention was called to the fact that in *R. L. Blaffer and Company*, 103 Fed. (2d) 487 (reported at paragraph 5, 393, Prentice Hall Federal Tax Service 1938), affirming 37 B.T.A. 651 (certiorari denied on October 9, 1939, by Supreme Court of the United States) the existence of a purpose to simplify the administration of the estate of a corporation's stockholder was not sufficient to prevent the imposition of a surtax.

Another argument advanced by the taxpayer's representatives was the fact that at the present time the company needs additional machinery and equipment, and that certain of the older units should be replaced. It was argued that approximately \$300,000.00 would be required. Also it was argued that in determining whether there has been an unreasonable accumulation of liquid assets, consideration must be given to the depreciation reserves which amounted to \$491,431.75 as at December 31, 1938. Combining the two would leave free cash of only about \$200,000.00. The needed additions were described as protective expansion. The field conferee conceded that it was sound accounting and not unreasonable for a business to possess sufficient liquid assets to cover depreciation reserve. However, it was not admitted reasonable for a corporation, of the nature here involved, to accumulate a large surplus for the purpose of expansion, the date of which had not been fixed.

Taxpayer's representatives requested time to have disinterested, experienced and reliable newspaper men make a survey as to additional equipment needed, which was granted. Letters of such estimators were presented in a later conference indicating that an expenditure of \$297,300.00 was necessary. Taxpayer's representatives stated the

-5-

Memorandum for Secretary of the Treasury.

sole reason the additional equipment had not been purchased was because there was the thought on the part of all concerned that Mr. Kiest's health is such that he may die at any time and that on his death a large amount of cash will be required to satisfy the Federal estate tax liability. It is not clear as to the procedure that will be followed in making the cash or securities held by the corporation available for the payment of the estate tax liability. It appears to be the belief of taxpayer's representatives that Mr. Kiest has left the major portion of the stock to the employees of the corporation.

Five formal conferences were held. At the second conference taxpayer's representatives suggested as a basis for settlement that they would agree to a deficiency under section 102 of \$7,952.11, based on a tax on the difference between the dividend paid and the amount of distribution 70 percent of the section 102 net income would have been or 25 percent of \$31,808.43. This was rejected. However, in view of the hazards incident to a trial of the case, and particularly the good dividend record in this case, the field conferee expressed the opinion that it would appear that if a settlement for a substantial portion of the tax could be made it would be to the Government's interests to do so. There are several decided cases, that can be cited, involving operating corporations, wherein the facts are as favorable to the Government as in the instant case, but which were lost upon the trial thereof.

In view of the above, the field conferee proposed that in the event taxpayer would agree, a recommendation would be made that the case be closed by the assessment of a deficiency of \$12,574.44, determined by recognizing that taxpayer was entitled to withhold from distribution out of current year's earnings the amount of \$50,000.00, deducting that amount from the undistributed section 102 income and taxing the balance at 25 percent.

The taxpayer's representatives contended that on this basis it should be allowed \$60,000.00 on the theory that it had proven that it needed to make expenditures of \$300,000.00 for required additions to plant and that it was not unreasonable to accumulate such amount over a five-year period or one-fifth in 1938, taxing the excess under section 102, or a tax of \$10,074.14.

EXHIBIT "A"

to the Times Herald Printing Company

Assets	12/31/32	12/31/33	12/31/34	12/31/35	12/31/36	12/31/37	12/31/38	Increase (Decrease) from 12/31/32
1. Cash	\$509,047.92	\$ 882,094.10	\$ 724,810.22	\$ 331,152.50	\$ 249,769.47	\$ 226,244.66	\$ 242,345.13	(\$266,202.79)
2. U. S. Treas. Bonds	-	-	-	425,000.00	573,310.09	772,280.34	759,659.84	759,659.84
3. Post Office Deposits	1,123.95	554.87	1,011.37	510.75	488.21	667.54	761.02	(362.92)
4. Notes Receivable - Current	23,164.74	4,562.98	2,031.92	805.49	39.66	809.31	7,150.02	(16,014.72)
5. Accounts Receivable - Current	161,594.30	141,992.81	140,942.09	166,737.14	160,944.46	190,598.85	180,597.68	29,305.34
6. Notes & Accounts Receivable - Past Due	31,332.96	55,305.98	45,620.17	45,915.87	25,086.22	25,361.36	31,162.98	(170.00)
7. Provision for Doubtful Accounts	(15,000.00)	(15,000.00)	(15,000.00)	(15,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	10,000.00
8. Inventory of Supplies	50,174.55	105,246.87	76,075.40	77,839.28	60,412.91	85,607.75	46,888.32	(3,318.75)
9. Accrued Interest - U. S. Bonds	-	-	-	-	4,427.07	6,218.74	4,427.07	4,427.07
10. Advance Payments on Paper in Transit	-	-	-	-	-	20,047.32	-	-
11. Total Current Assets	\$751,438.41	\$ 882,754.58	\$ 979,492.17	\$1,023,759.01	\$1,078,466.14	\$1,325,815.67	\$1,276,735.04	\$827,296.65
12. Building and Loan Ass'n Investment	\$ 9,907.90	11,426.04	12,900.32	14,673.27	16,480.36	18,301.87	20,350.23	10,442.33
13. Land	18,225.13	18,225.13	17,750.13	17,750.13	17,750.13	17,750.13	17,750.13	1,825.00
14. Building	11,927.91	11,927.91	11,927.91	11,927.91	11,927.91	11,927.91	11,927.91	-
15. Reserve for Depreciation	(1,641.60)	(1,960.20)	(1,854.78)	(2,173.36)	(2,401.98)	(2,810.58)	(3,129.19)	(1,487.58)
16. Franchise	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	-
17. Stocks and Bonds	18,141.71	16,141.71	31,813.62	57,883.62	66,989.12	69,249.27	16,141.71	-
18. Employee Accounts	3,315.88	3,505.56	2,130.13	2,359.09	3,574.18	2,762.37	1,761.44	(1,554.54)
19. Freight Claims	759.83	503.68	216.35	328.87	-	802.04	-	(759.93)
20. R.R.L.D. Radio Corporation Note Acct. (Subsidiary)	7,318.59	2,857.81	-	-	-	-	66,845.67	70,624.98
21. Total Other Assets	\$ 75,555.65	\$ 70,828.62	\$ 94,874.16	\$ 112,759.51	\$ 124,219.72	\$ 127,055.01	\$ 161,645.91	\$ 87,690.56
22. Land	\$ 97,624.80	\$ 97,624.80	\$ 97,624.80	\$ 97,624.80	\$ 97,624.80	\$ 97,624.80	\$ 97,624.80	-
23. Building, Plant & Equipment	759,570.74	790,159.14	815,408.78	814,317.96	816,319.66	819,555.65	819,407.14	30,436.40
24. Reserve for Depreciation	(257,623.42)	(306,255.61)	(354,823.12)	(388,204.99)	(422,296.64)	(454,205.01)	(496,302.57)	(230,679.16)
25. Deferred	1,165.00	1,118.36	1,350.79	994.10	2,856.80	168.07	-	(1,165.00)
Total of All Assets	\$1,485,531.16	\$1,536,080.81	\$1,628,927.05	\$1,660,249.21	\$1,697,180.49	\$1,915,312.59	\$1,669,110.32	\$413,579.14
Liabilities and Capital								
Accounts Payable	\$ 28,575.92	24,420.90	23,274.26	35,146.81	48,636.37	45,094.87	80,619.10.	52,046.18
Unpaid Freight	459.40	-	767.48	1,625.01	2,099.05	1,119.96	-	(459.40)
Customers Credit Balances	2,580.88	1,867.98	2,049.02	3,706.57	2,030.57	4,230.07	1,689.48	(591.20)
Officers' Employees' Credit Balances	1,089.62	3,097.81	2,801.68	21,184.40	10,414.93	9,219.45	10,040.12	8,350.50
Carriers' Deposits	10,276.50	6,840.50	8,837.00	6,884.78	8,797.00	9,234.00	12,080.75	1,804.25
Accrued Salaries	351.75	597.95	3,209.47	5,231.42	6,879.38	10,466.80	1,312.96	981.25
Accrued Federal Taxes	58,558.78	37,332.29	41,144.19	42,181.04	70,299.48	76,790.38	45,702.38	7,146.58
Dividends Withheld at Source	-	325.00	-	-	-	-	-	-
Accrued Emergency Discounts	-	10,050.25	3,730.60	18,907.11	10,218.46	12,968.10	25,832.87	26,832.87
Notes Payable	-	-	-	150,000.00	-	-	-	-
Total Current Liabilities	\$ 82,463.63	\$6,741.88	\$0,713.68	\$88,793.01	\$61,376.22	\$68,142.76	\$75,877.66	\$6,114.03
R. L. D. Radio Corporation (Subsidiary)	-	-	39,815.39	70,646.66	105,243.80	168,562.59	-	-
Total All Liabilities	\$ 82,463.63	\$6,741.88	\$39,529.07	\$159,439.67	\$166,619.12	\$233,705.34	\$175,877.66	\$6,114.03
Capital Stock Outstanding	22,000.00	22,000.00	22,000.00	17,000.00	17,000.00	17,000.00	17,000.00	(5,000.00)
Surplus	1,351,067.53	1,425,219.23	1,486,398.49	1,493,810.64	1,413,562.36	1,574,607.25	1,473,532.66	322,465.11
Total Liabilities and Capital	\$1,485,531.16	\$1,536,080.81	\$1,628,927.05	\$1,660,249.21	\$1,697,180.49	\$1,915,312.59	\$1,669,110.32	\$413,579.14

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Memorandum for Secretary of the Treasury:

Pursuant to your request for a statement as to the basis of the application of section 102 of the Internal Revenue Code and corresponding section of the Revenue Act of 1938, and the settlement effected in the case of The Times Herald Printing Company, Dallas, Texas, for the year 1938, the following is submitted for your consideration:

This corporation was organized in 1896 by E. J. Kiest and other persons with an authorized capital stock of \$26,000.00 divided into 250 shares of common stock, par value \$100.00 per share. Apparently only 220 shares have ever been issued. The newly formed corporation then acquired the assets of two Dallas newspapers, the Times and the Herald, which had been merged. The purpose of the corporation was to own and operate a daily newspaper and do job printing. The job printing was discontinued about twenty years ago.

In the past twenty years there have been only three persons owning stock in this corporation; that is, E. J. Kiest, the present sole stockholder, his brother W. F. Kiest who died in 1927, and the widow of W. F. Kiest who inherited his fifty shares of stock. The widow's stock was purchased by the corporation in 1935 for \$567,326.00 and held as treasury stock, leaving only 170 shares outstanding.

There have been no loans to shareholders in recent years. The books show a credit balance in favor of E. J. Kiest ranging from \$2,123.80 in 1933 to a high of \$21,534.40 in 1938 and down to \$9,970.75 at the end of 1938. Salaries paid officers have been reasonable. The aggregate amount of salaries paid three officers in 1938 was \$45,214.78.

In 1929 the corporation erected a new building at a cost of \$278,000.00, and in that same year \$243,332.29 was expended for new machinery and equipment. The only major additions or replacements since then were \$62,961.16 in 1930 and \$22,281.81 in 1934. According to data submitted by taxpayer, its paid circulation has increased from 68,436 on March 31, 1935 to 86,711 on March 31, 1939.

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Memorandum for Secretary of the Treasury.

During the year 1938 the taxpayer corporation had a net book profit of \$226,925.61. Dividends of \$128,000.00 were paid, leaving an undistributed income for 1938 of \$98,925.61.

The examining officer at Dallas, Texas, concluded that the taxpayer corporation's earnings and profits had been accumulated beyond the reasonable needs of the business, evidenced by investments of \$769,636.54 in securities unrelated to its line of business, plus cash on hand at end of 1938 of \$242,846.13 and other liquid accounts of \$111,620.97 or a total of \$1,124,101.44 of quick assets as compared with liabilities of only \$178,577.66 and an accumulated surplus of \$1,673,532.86. Comparative balance sheets for the years 1932 to 1938, inclusive, are attached hereto.

A computation was made showing that failure to distribute all of the corporation's income for the year 1938 resulted in a surtax saving of \$66,813.97. The sole stockholder's personal income has averaged around \$200,000.00 in recent years.

The tax proposed under section 102 was determined as follows:

Net income for the year 1938		\$266,990.78
Less:		
Taxes for 1938	\$37,791.88	
Excess capital loss 117(d)	<u>901.14</u>	<u>38,693.02</u>
Section 102 net income		\$228,297.76
Dividends paid		<u>128,000.00</u>
Undistributed section 102 net income		\$100,297.76
Surtax at 25% of first \$100,000 and 35% balance		\$ 25,104.22

The taxpayer corporation took strenuous exception to the findings of the examining officer, however after five conferences in the office of the revenue agent in charge at Dallas, taxpayer finally submitted an offer in settlement which was considered acceptable in view of all the circumstances in the case.

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Memorandum for Secretary of the Treasury.

It is argued in taxpayer's protest that had Mr. Kiest been attempting to avoid the payment of Federal income taxes he would not have authorized any dividend payments during 1938, thereby placing the entire tax burden on his solely owned corporation, and in so doing would have saved combined income taxes for such year in the amount of \$4,824.52 determined as follows:

Mr. Kiest's personal tax would have been reduced	\$76,527.88
Corporation tax would have been increased	<u>71,703.37</u>
Net saving	\$ 4,824.52

Field conferees held that this argument was without much weight as the increase in earned surplus would be subject to surtax when ultimately distributed.

The following is a statement of the net profit of the corporation for the years 1933 to 1938, inclusive, with percentages of dividend distributions:

Year	Net Profit Before Federal Income Tax	Federal Income Tax Paid	Net After Taxes	Dividends Paid	Undistributed Income	% of Net Profit Distributed
1933	\$ 240,539.00	\$ 35,287.52	\$ 205,251.68	\$128,000.00	\$ 77,251.68	62.4%
1934	274,594.35	38,615.09	236,079.26	178,000.00	58,079.26	75.4%
1935	279,640.09	38,901.94	240,738.15	78,000.00	162,738.15	32.8%
1936	355,279.14	60,527.42	294,751.72	178,000.00	116,751.72	60.4%
1937	411,244.54	72,199.85	339,004.69	178,000.00	161,044.69	52.6%
1938	<u>264,717.49</u>	<u>37,791.88</u>	<u>226,925.61</u>	<u>128,000.00</u>	<u>98,925.61</u>	<u>56.5%</u>
	\$1,826,014.61	\$285,223.50	\$1,542,791.11	\$868,000.00	\$674,791.11	56.3%
Premium paid on stock retired or purchased from P.W.K.'s widow				<u>562,326.00</u>	<u>562,326.00</u>	
				\$1,230,326.00	\$312,465.11	79.7%

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Memorandum for Secretary of the Treasury.

Usually the retirement of part of the capital stock is considered as indicating that additional capital is not required. In this instance only \$5,000.00 of capital stock was retired and the balance of the purchase price of the stock was a taxable distribution.

It was orally argued by taxpayer's representatives that one of the main reasons for the accumulation of quick assets was the thought that Mr. Kiest would very likely die within the next year or two and that the satisfaction of his estate tax liability will present a major problem; that is, an amount estimated in excess of \$1,000,000.00 would be required in order to avoid obligations to banks or other lending agencies which might attempt to interfere in its editorial policy. Their attention was called to the fact that in *R. L. Blaffer and Company*, 103 Fed. (2d) 487 (reported at paragraph 5, 393, Prentice Hall Federal Tax Service 1938), affirming 37 B.T.A. 851 (certiorari denied on October 9, 1939, by Supreme Court of the United States) the existence of a purpose to simplify the administration of the estate of a corporation's stockholder was not sufficient to prevent the imposition of a surtax.

Another argument advanced by the taxpayer's representatives was the fact that at the present time the company needs additional machinery and equipment, and that certain of the older units should be replaced. It was argued that approximately \$300,000.00 would be required. Also it was argued that in determining whether there has been an unreasonable accumulation of liquid assets, consideration must be given to the depreciation reserves which amounted to \$491,451.75 as at December 31, 1938. Combining the two would leave free cash of only about \$200,000.00. The needed additions were described as protective expansion. The field conferee conceded that it was sound accounting and not unreasonable for a business to possess sufficient liquid assets to cover depreciation reserve. However, it was not admitted reasonable for a corporation, of the nature here involved, to accumulate a large surplus for the purpose of expansion, the date of which had not been fixed.

Taxpayer's representatives requested time to have disinterested, experienced and reliable newspaper men make a survey as to additional equipment needed, which was granted. Letters of such estimators were presented in a later conference indicating that an expenditure of \$297,300.00 was necessary. Taxpayer's representatives stated the

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Memorandum for Secretary of the Treasury.

sole reason the additional equipment had not been purchased was because there was the thought on the part of all concerned that Mr. Kiest's health is such that he may die at any time and that on his death a large amount of cash will be required to satisfy the Federal estate tax liability. It is not clear as to the procedure that will be followed in making the cash or securities held by the corporation available for the payment of the estate tax liability. It appears to be the belief of taxpayer's representatives that Mr. Kiest has left the major portion of the stock to the employees of the corporation.

Five formal conferences were held. At the second conference taxpayer's representatives suggested as a basis for settlement that they would agree to a deficiency under section 102 of \$7,952.11, based on a tax on the difference between the dividend paid and the amount of distribution 70 percent of the section 102 net income would have been or 25 percent of \$31,808.43. This was rejected. However, in view of the hazards incident to a trial of the case, and particularly the good dividend record in this case, the field conferee expressed the opinion that it would appear that if a settlement for a substantial portion of the tax could be made it would be to the Government's interests to do so. There are several decided cases, that can be cited, involving operating corporations, wherein the facts are as favorable to the Government as in the instant case, but which were lost upon the trial thereof.

In view of the above, the field conferee proposed that in the event taxpayer would agree, a recommendation would be made that the case be closed by the assessment of a deficiency of \$12,574.44, determined by recognizing that taxpayer was entitled to withhold from distribution out of current year's earnings the amount of \$80,000.00, deducting that amount from the undistributed section 102 income and taxing the balance at 25 percent.

The taxpayer's representatives contended that on this basis it should be allowed \$80,000.00 on the theory that it had proven that it needed to make expenditures of \$300,000.00 for required additions to plant and that it was not unreasonable to accumulate such amount over a five-year period or one-fifth in 1938, taxing the excess under section 102, or a tax of \$10,074.14.

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Memorandum for Secretary of the Treasury.

Their attention was called to the fact that in the three-year period, 1936 to 1938, inclusive, the surplus account had increased from \$1,286,610.64 to \$1,673,632.66 or \$386,722.02 which appears to be in excess of the needs of the business, in that it exceeds the alleged cost of needed additions by \$86,722.02. The representatives argued that as the business grows a greater working capital is needed and that the \$386,000.00 was not an unreasonable accumulation for such purpose, especially in view of the increase in circulation. After considerable additional discussion of the merits of the case, the basis of closing outlined above, resulting in a deficiency under section 102 of \$12,574.44 was agreed to and accepted.

(Signed) Guy T. Helvering
Commissioner.

BEB/INL

24. 701 Times Herald Printing Company

	12/31/32	12/31/33	12/31/34	12/31/35	12/31/36	12/31/37	12/31/38	Increase (Decrease) from 12/31/32
Assets								
1. Cash	\$409,047.82	\$ 899,094.10	\$ 724,810.28	\$ 831,162.80	\$ 249,789.47	\$ 226,244.88	\$ 248,845.18	(\$266,203.78)
2. U. S. Treas. Bonds				425,000.00	673,810.09	772,260.34	709,436.54	769,436.54
3. Post Office Deposits	1,123.98	854.87	1,011.87	810.73	486.81	687.34	781.05	(\$43.93)
4. Notes Receivable - Current	23,144.74	4,562.98	2,031.92	605.49	38.89	809.81	7,130.02	(18,014.78)
5. Accounts Receivable - Current	181,894.80	161,992.81	140,942.08	136,783.14	169,944.48	190,898.88	170,897.88	29,508.58
6. Notes & Accounts Receivable - Past Due	81,888.98	88,302.88	46,630.17	45,913.87	85,086.22	23,361.56	31,163.88	(170.00)
7. Provision for Doubtful Accounts	(18,000.00)	(18,000.00)	(18,000.00)	(18,000.00)	(6,000.00)	(6,000.00)	(6,000.00)	10,000.00
8. Inventory of Supplies	50,174.68	109,246.87	76,078.40	77,839.22	90,412.61	85,207.72	46,886.82	(3,318.75)
9. Accrued Interest - U. S. Bonds	-	-	-	-	4,427.07	6,218.74	4,427.07	4,427.07
10. Advances Payments on Paper in Transit	-	-	-	-	-	20,047.23	-	-
11. Total Current Assets	\$761,439.41	\$ 862,754.56	\$ 976,492.17	\$1,022,759.01	\$1,078,458.14	\$1,322,615.67	\$1,278,736.04	\$227,296.63
12. Building and Loan Ass'n Investment	\$ 9,907.90	11,428.04	12,920.22	14,678.27	16,490.36	18,381.87	20,320.22	10,413.32
13. Land	16,228.15	16,228.15	17,780.15	17,780.15	17,780.15	17,780.15	17,780.15	1,552.00
14. Building	11,927.91	11,927.91	11,927.91	11,927.91	11,927.91	11,927.91	11,927.91	-
15. Reserve for Depreciation	(1,641.80)	(1,960.20)	(1,854.78)	(2,173.58)	(2,491.98)	(2,810.58)	(3,129.18)	(1,487.68)
16. Franchise	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	-
17. Stocks and Bonds	16,141.71	16,141.71	41,613.62	67,898.62	68,989.12	68,249.27	16,141.71	16,141.71
18. Employee Accounts	3,318.28	5,506.58	2,150.12	2,349.09	2,574.18	2,752.37	1,761.44	(1,556.84)
19. Freight Claims	759.92	608.68	216.53	328.67	-	602.04	-	759.92
20. E.R.L.D. Radio Corporation Note Ass't. (Subsidiary)	7,318.69	2,867.61	-	-	-	-	86,945.67	79,627.00
21. Total Other Assets	\$ 73,655.88	\$ 70,628.62	\$ 94,674.18	\$ 112,769.31	\$ 124,219.72	\$ 127,063.01	\$ 181,648.91	\$ 108,000.00
22. Land	\$ 97,624.80	\$ 97,624.80	\$ 97,624.80	\$ 97,624.80	\$ 97,624.80	\$ 97,624.80	\$ 97,624.80	30,426.40
23. Building, Plant & Equipment	780,970.74	790,189.14	813,408.78	814,817.98	816,319.88	819,885.88	819,407.14	(280,679.18)
24. Reserve for Depreciation	(287,623.42)	(306,886.81)	(364,623.12)	(388,204.99)	(422,298.84)	(464,908.01)	(489,302.67)	(191,678.87)
25. Deferred	1,168.00	1,119.38	1,380.79	294.10	2,066.80	168.07	-	(1,168.00)
Total of All Assets	\$1,459,531.16	\$1,636,060.91	\$1,628,927.55	\$1,660,249.21	\$1,697,160.48	\$1,915,312.29	\$1,669,110.32	\$415,678.14
Liabilities and Capital								
Accounts Payable	\$ 25,373.95	24,829.90	25,274.28	35,149.61	45,655.37	45,094.97	80,619.10	55,245.15
Unpaid Freight	456.40	-	787.48	1,628.01	2,099.08	1,119.98	-	(456.40)
Customers Credit Balances	2,880.48	1,867.98	2,049.02	4,705.67	2,080.67	4,250.07	2,069.40	(811.00)
Officers' Employees' Credit Balances	1,689.42	2,097.81	2,601.84	23,124.40	10,414.95	9,219.45	10,040.12	8,350.70
Carriers' Deposits	10,378.80	6,940.80	6,637.00	6,834.72	6,797.00	9,234.00	12,080.75	1,701.95
Accrued Salaries	551.72	597.88	3,309.47	6,231.42	6,379.38	10,488.80	1,312.98	961.26
Accrued Federal Taxes	28,828.70	27,332.29	41,154.18	42,181.84	70,299.40	75,790.38	45,703.26	7,144.56
Dividends Withheld at Source	-	328.00	-	-	-	-	-	-
Accrued Emergency Discounts	-	10,000.23	8,750.80	16,907.11	10,219.46	12,968.10	26,659.67	20,659.67
Taxes Payable	-	-	-	180,000.00	-	-	-	-
Total Current Liabilities	\$ 28,462.33	\$8,761.69	\$9,713.68	\$98,792.01	\$161,274.22	\$162,148.75	\$179,677.89	\$96,114.56
E.R.L.D. Radio Corporation (Subsidiary)	-	-	29,815.38	70,645.66	105,243.80	165,882.69	-	-
Total All Liabilities	\$ 28,462.33	\$8,761.69	\$126,529.06	\$169,437.67	\$266,518.02	\$328,031.44	\$179,677.89	\$96,114.56
Capital Stock Outstanding	22,000.00	22,000.00	22,000.00	17,000.00	17,000.00	17,000.00	17,000.00	(5,000.00)
Surplus	1,361,067.83	1,489,519.22	1,486,398.49	1,520,811.54	1,413,642.36	1,674,607.08	1,479,432.43	220,468.13
Total Liabilities and Capital	\$1,459,531.16	\$1,636,060.91	\$1,628,927.55	\$1,660,249.21	\$1,697,160.48	\$1,915,312.29	\$1,669,110.32	\$415,678.14

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

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

NO.: 94

FOR THE TREASURY DEPARTMENT.

FROM MATTHEWS.

This morning I visited our friend at the Bank of France. As for things in the financial field in general he seems to be quite satisfied. However, as to the financial accord between Great Britain and France, he regrets that the British are not making more serious efforts to control prices. Our friend is inclined to put the blame for this on the lack of firmness of Sir John Simon and his reluctance to make decisions.

Reference telegram No. 49 of January 10 from the Embassy: the above-mentioned friend confirmed Couve de Murville's statements that for the present franc expenditures by the British exceed the sterling needs of the French under the accord. However, our friend believes that later on this will be more than offset because France will have to make heavy purchases of munitions, et cetera, in the United Kingdom and of raw materials in the sterling area. Reference, telegram No. 59 of January 11 from the Embassy: I asked our friend about rumors that some effort would be made to remove existing formalities necessary for franc and sterling exchange purchases by private individuals

in

- 2 -

in France and Great Britain. He replied in confidence that the French Finance Ministry, through Reynaud's close adviser, Istel, had broached the matter in London; Istel himself particularly favors such a move. However, the Bank of England had tipped off the Bank of France, and the latter was voicing its opposition to such procedure. Our friend said that he himself is a strong advocate of unrestricted capital flow in time of peace, but that in wartime he did not favor the removal of such barriers, and he does not believe that French interests would be served by such procedure now. He mentioned that gold mining share quotations in Paris are a "thermometer", and that such quotations are now far above what they are in London. He believed that it would obviously cost France money if free trading on the London market were permitted to French investors, as it would only serve to raise the prices on the London market.

Our friend mentioned the desire of the neutrals almost without exception to receive dollars in payment for their exports. He expressed pleasure at having recently been able to make headway against this in an arrangement with Belgium whereby they will accept for their account gold earmarked here in France instead of the dollar payments for exports which had been demanded heretofore. Difficulty had

also

- 3 -

also been experienced by the British in persuading the Dutch to accept payment in gold instead of dollars for substantial amounts of florins purchased for the Royal Dutch coupon recently due. In this respect, he said with some asperity, the Canadians are "difficult" too. He expressed pleasure that it had been possible for him to change a number of dollar payments to gold, which the foreign exchange office had previously authorized to be made in dollars.

He said with regard to estimates of our Federal Reserve as to French holdings of American securities that he was quite sure the figure of 185 million dollars was too high, or at least that a large proportion of what he called "international capital" was included in this figure, and that the French would not be able to get this in any event.

The operation of the exchange control in France continues to be satisfactory to him, and he said he does not think there exist any important loopholes any more. He did not believe, in fact, that there had been excessive abuse even of the previous loophole permitting unrestricted franc deposits to the account of nonresident foreigners. The free market operations in New York and the black market in Paris - on the latter 54 is now the dollar quotation - likewise did not seem to preoccupy his mind.

Purchases

- 4 -

Purchases by France in the United States, he remarked, are very heavy of course but fortunately they are not so heavy as had been anticipated in the French Commerce Departments original "absurd" estimates. The largest item is of course airplanes; \$258,000,000 was the last figure he had heard for orders placed. He went on to remark that from the point of view of the United States alone it was shortsighted in its policy of cash and carry - he said that in the long run the United States is teaching and forcing Europe to do without it, and after the war this is bound to have a serious adverse effect on American industries and outlets. The United States he said is teaching Europe to produce everything it can for itself, and it would have to continue doing so after the war is over.

A small amount of French capital is still being repatriated, he said.

BARNES.

EA:LWW

JT

GRAY

PARIS

Dated January 19, 1940

Rec'd 5:50 p.m.

Secretary of State,
Washington.

94, January 19, 6 p.m. (SECTION SEVEN)

I lunched today with Dean Jay and Wayne Taylor who has just come to Paris after this work in Finland. Taylor was much impressed with the truly remarkable fight the Finns are putting up and equally impressed with their urgent need for every sort of military assistance on a large scale if they are to hold out when spring comes. I asked if he had any message to send you and he said that he would give me some of his impressions to cable you on Monday.

This morning's AGENCE ECONOMIQUE ET FINANCIERE publishes the following brief despatch from its correspondent in the United States: "Mr. Morgenthau has reiterated his opposition to certain suggestions tending to encourage the Federal Government to utilize a part of its available funds for the purchase of American securities held by foreigners".

After a firm day yesterday the Paris securities market turned irregular today in light trading. Rentes were an exception and most issues advanced around 50 centimes. (END OF MESSAGE)

BARNES

NPL

COPY

376

DEPARTMENT OF STATE
Washington

January 19, 1940.

In reply refer to
EA 832.51/1693



The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch no. 2361 from the American Embassy at Rio de Janeiro, dated January 9, 1940, transmitting a tabulation of amounts paid on Brazilian dollar bonds during 1937, the last year of the Aranha plan.

Enclosure:

From Rio de Janeiro,
no. 2361, January 9,
1940.

copy

377

Rio de Janeiro, January 9, 1940.

No. 2361

Subject: Brazilian Foreign Debt Negotiations.

ORIGINAL AND THREE COPIES BY AIRMAIL --- CONFIRMATION COPY BY STEAMER.

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

With further reference to the Department's telegram No. 249 of December 29, 7 p.m., authorizing me to carry on informal and independent discussions with the Brazilian authorities to ascertain what they may be ready to offer in settlement of Brazil's dollar debt, I have the honor to enclose herewith a copy of a table compiled to show the amounts actually paid during 1937, the last year of the Aranha Plan, on the various dollar bond issues, as well as the nominal amounts outstanding.

I have drawn the attention of the Minister for Foreign Affairs to this data today.

Respectfully yours,

Jefferson Caffery.

Enclosure:
Statement of Brazilian
dollar bond issues.

File No. 851

JC:WA/CBS

Enclosure to despatch No. 2361 of January 9, 1940, from the Embassy, Rio de Janeiro.

DOLLAR BONDS						
National	Issued	Matures	Contractual Interest	Amount Issued	Amount Outstanding	Paid 1937
U.S. Brazil.....	1922	1952	7%	25,000,000	17,503,000	624,858
U.S. Brazil.....	1926	1957	6 1/2%	60,000,000	56,108,000	1,841,746
U.S. Brazil.....	1927	1957	6 1/2%	41,500,000	39,709,000	1,303,448
U.S. Brazil (Funding)	1931	1951	5%	29,884,545	24,099,245	2,411,057
State						
Ceara.....	1922	1947	8%	2,000,000	1,980,000	-----
Maranhao.....	1928	1958	7%	1,750,000	1,682,000	57,456
Minas Geraes	1928	1958	6 1/2%	8,500,000	8,132,000	165,401
Minas Geraes	1929	1959	6 1/2%	8,000,000	7,812,000	159,099
Parana	1928	1958	7%	4,860,000	3,318,000	71,013
Pernambuco	1927	1947	7%	6,000,000	4,868,000	39,979
Rio de Janeiro.....	1929	1959	6 1/2%	6,000,000	5,324,000	46,106
Rio Grande do Sul..	1921	1946	8%	10,000,000	5,900,500	172,885
Rio Grande do Sul..	1926	1966	7%	10,000,000	9,713,000	340,441
Rio Grande do Sul (Consolidated Municipal)....	1927	1967	7%	4,000,000	3,912,500	86,860
Rio Grande do Sul..	1928	1968	6%	23,000,000	17,840,000	336,070
Santa Catharina....	1922	1947	8%	5,000,000	3,396,000	78,588
Sao Paulo	1921	1936	8%	10,000,000	4,568,000	115,771
Sao Paulo	1925	1950	8%	15,000,000	14,719,000	372,878
Sao Paulo	1926	1956	7%	7,500,000	6,914,000	151,305
Sao Paulo	1928	1968	6%	15,000,000	14,698,000	276,808
Sao Paulo	1930	1940	7%	35,000,000	18,012,000	3,518,100
Espirito Santo	1935					608,000
Municipal						
Porto Alegre.....	1921	1961	8%	3,500,000	2,793,500	38,535
Porto Alegre.....	1926	1966	7 1/2%	4,000,000	3,025,000	67,311
Porto Alegre.....	1928	1968	7%	2,250,000	1,601,000	33,491
Rio de Janeiro.....	1921	1946	8%	12,000,000	7,317,000	200,024
Rio de Janeiro.....	1928	1953	6 1/2%	30,000,000	24,826,000	472,868
Rio de Janeiro.....	1928	1933	6%	1,770,000	1,267,000	26,734
Sao Paulo	1919	1943	6%	8,500,000	5,409,000	111,426
Sao Paulo	1922	1952	8%	4,000,000	3,156,500	84,485
Sao Paulo	1927	1957	6 1/2%	5,900,000	5,602,000	61,062
		Issued			Outstanding	Paid 1937
National.....	206,384,545			168,771,745	7,460,291	
State	171,610,000			132,789,000	6,509,900	
Municipal	71,920,000			54,997,000	1,182,796	
	<u>449,914,545</u>			<u>356,557,745</u>	<u>15,152,987</u>	

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 30

DATE: January 19, 1940, 2 p.m.

Reference is made to the Department's telegram no. 13 of January 18, 12:00 M.

Before Aranha left for Buenos Aires early today, he sent me a message to the effect that at the Cabinet meeting held on Thursday it was unanimously voted that the Finance Minister make arrangements for the resumption of foreign debt payments on the basis of 50 percent of the amounts contained in the schedule for the first effective year of the Aranha plan, i.e., April 1, 1934 to March 31, 1935, with larger payments in subsequent years, as set forth in the Aranha plan. On the ground that at the present time the country had insufficient resources, the Cabinet and President Vargas refused approval of the plan to resume initial payments on the basis of the last year of the plan.

Yesterday afternoon Aranha promised me that it would be made clear by the Brazilian Government that its offer did not constitute a permanent settlement.

I also received word from Aranha that I should send someone this afternoon at 2:30 to meet with Souza Costa.

At

At that time it is probable that the Minister will announce to the representatives of all interested bondholders the Government's intentions.

I wish to emphasize that the Brazilian Government has in mind April 1, 1934 to March 31, 1935. (The Department knows that 1934 payments were begun only on the 1st of April.)

Please transmit this information to the Treasury.

CAFFERY

EA:EB

TO THE SECRETARY
TREASURY DEPARTMENT
WASHINGTON, D.C.

APR 10 1935

RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED

381

FROM: American Embassy, Rio de Janeiro

NO.: 32

DATE: January 19, 1940, 5 p.m.

Reference is made to my telegram no. 30, dated January 19, 2 p.m.

My representative was received privately by Souza Costa and was given an explanation of what the latter was planning to do. Costa then received the representatives of the European bondholders and gave to each a statement which said that although the Brazilian Government had hoped that a permanent settlement might be made, it now felt that it must make only a temporary one. The statement ended by saying that since it was not possible to conclude a permanent agreement, he proposed to resume payments on the Brazilian foreign debt in April of this year on the basis of one half of the obligations set forth in the Aranha plan. Costa then said that it is the intention of the Government of Brazil to avail itself of the provisions contained in paragraph no. 6 of Article I of the Aranha plan.

This whole matter is being held in strict confidence by the Finance Minister. He told my representative confidentially that he would be inclined to receive my comments before the 23d of January, on which date he will again receive all the representatives and will receive their comments.

CAFFERY

January 20, 1940.

MEMORANDUM

TO: Secretary Morgenthau
 FROM: Mr. Gaston
 SUBJECT: Brazil.

Herbert Feis called at 9:25 this morning saying he wished to give me the latest from Rio. He has a dispatch, which he will send over. He said that it now looked real; that those fellows were proceeding to make an offer. The offer will be the first year of the Aranka plan, with the progression indicated in the plan and they will announce that it is purely temporary. This, Feis said, wasn't what we had hoped for but might be the best we could get. Thinking of what occurred at our last meeting (the meeting in my office on ~~Wednesday~~ ^{Thursday} afternoon of Feis, Collado, Cochran, White, Cotton and myself) and bearing in mind that responsibility had been assigned to him as far as the State Department is concerned, Feis said he supposed he should send this merely for our information, but he was prepared to proceed in any way we saw fit. If we want to participate, or if we want to refer it to the committee of three, or if we wish to withdraw altogether, it will be all right with him; he will handle it any way we wish. If we wished to participate he would be glad to come over and talk the thing over with us. He asked that I let him know in the course of the morning what way we wish to proceed. He repeated that he would gladly go one way or the other, whatever way we wish. He asked if I didn't consider that fair and I said that I did, that we couldn't ask anything more. I added that I would consult the Secretary when he arrived during the morning and would let him know during the course of the day what we wish to do.

Copies to:
 Mr. Cochran
 Mr. White
 Mr. Cotton

January 20, 1940.

MEMORANDUM

TO: Secretary Morgenthau
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 SUBJECT: Brasil.

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 Mr. White
 Mr. Cotton

HEG/mah

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Copies to:
Mr. Cochran
Mr. White
Mr. Cotton

HED/nah

January 20, 1940.

My dear Cordell:

I am writing to confirm a decision with respect to the Brazilian debt negotiations of which Mr. Gaston advised Mr. Feis by telephone today. This decision is that the Treasury will not participate in the present deliberations and negotiations looking to a settlement of the Brazilian debt matter, but will, however, stand ready and willing to supply any technical assistance in the way of research or computations that the State Department may desire.

I am impelled to reach this decision by the history and present status of the Brazilian negotiations.

You will recall my telephone conversation with you on Thursday, in which I told you that we had been asked to give within a matter of a few minutes our approval or disapproval to a despatch which it was proposed to transmit that day to Ambassador Caffery for communication to the Brazilian government. This despatch was to inform the Brazilian government that an offer in certain terms for a temporary settlement of the Brazilian dollar obligations would be regarded by this government as a "step forward."

It seemed to me clearly impossible, as I informed you then, for us to reach an intelligent decision on so important a matter in the time afforded, particularly in view of the fact that we had been so lately informed of the negotiations in which Ambassador Caffery was engaged. Since the offer under discussion affected the interests of private creditors, I also had in mind our obligation to the Bondholders' Protective Council, the representative of those creditors. I was impressed, too, by the fact that the proposed despatch undertook to state the considered view of this government, which seemed to me to suggest that it ought to have the careful consideration of all of us who have been asked to confer together on these problems.

I therefore suggested that the matter should be given more mature consideration at a meeting on this subject already scheduled for that afternoon, at which Mr. Feis, Mr. Gaston and others were to be present. Mr. Feis was therefore advised that in advance of that meeting the Treasury could give no decision and make no comment on the proposed despatch to Rio. The matter being considered in the State Department to be urgent, the despatch was, however, sent and the Treasury Department so advised.

- 2 -

I am now informed that a reply has been received from Rio which calls for a new decision and that the Treasury is invited to participate in the consideration of what further steps are to be taken.

The negotiations are now quite obviously far advanced and their pattern has been set. Without implying any criticism of what has been done, I do not feel that the Treasury can contribute anything of value by entering into the discussions at this late stage.

Sincerely,

Secretary of the Treasury.

The Honorable Cordell Hull,

Secretary of State.

January 20, 1940.

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Sincerely,

Secretary of the Treasury.

The Honorable Cordell Hull,

Secretary of State.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

DATE: January 20, 1940

NO.: 14

Refer to Embassy's no. 30, January 19, 1940.

Of course, the Government of Brazil is acting on its own responsibility and the Department of State does not wish to be in the position of standing definitely in the way of ^{any} offer that the Brazilian Government may want to put before its dollar-bond holders; however, we deem it desirable that you put before the Minister of Finance our estimation of the offer he considers making, because of the fact that a satisfactory settlement would make a basis for much mutually-beneficial development in the future between the United States and Brazil, and, on the contrary, a settlement that would appear unreasonably harsh to the bondholders would impede such a development. It is believed that you should see the Minister of Finance, for this purpose, personally before the 23rd of January.

Based on the first year of the Aranha Plan, the offer would mean ^{of the coupon rate} 8 3/4% for the holders of Grade VII, securities of big municipalities and some other states of Brazil, 10% for the holders of bonds of Grade VI, securities of the important states of Brazil, and 17 1/2% for the holders of bonds in Grade III, Federal Loans. It is not probable that holders of these securities will be satisfied with such an offer, even though they may realize pretty clearly that

that

that Brazilian economy is face-to-face with many difficulties and obstacles and that the problem of securing exchange for debt service is not easy. A great many of the bondholders might accept such an offer but our best judgment is that it wouldn't create a prospect by which American private capital would feel any assurance for more Brazilian undertakings in the future.

American holdings are most substantial in the 3 grades cited above. Therefore this offer would be open to the criticism that it gives decidedly more favorable treatment to European bondholders than the main classes of American bondholders receive. Let us take this example:- A holder of a Federal bond of Grade III, to which the Brazilian Government's full credit was pledged, would discover that he was receiving less than one-fifth of the contractual interest, while European holders of Grades I and II would be receiving fully one-half of the contractual interest. This distribution of payment would be certain to be in the forefront of the discussion here, the more so, we feel, because of the fact that American purchases of products of Brazil create so large a part of the exchange for all of the payment on the bonds.

We realize it is important that Brazil have the prospect of a substantial reduction of its debt, and one that would be comparatively rapid; however, criticism might well again be invited when the method envisaged in paragraph 6
of

-3-

of Article I is used in connection with bonds which are being serviced at so low a percentage of their coupon rate as Grades III to VIII would be, were the schedules of the first year of the Aranha Plan applied.

Considering all the foregoing--and we desire most earnestly that the disposal of the bond question will be such as will firmly restore the basis of financial operations between the two countries--it is our hope that the Minister of Finance will use the fourth year of the Aranha Plan, instead of the first year, as the basis of his offer. The fourth year of the Aranha Plan yields distinctly improved percentages to holders of Grades III to VIII, thereby also lessening the difference in treatment between the main European interests concerned and the main American interests concerned. You will, of course, avoid any possible attempt by the Minister of Finance to use our observations as a justification for doing nothing on his part, when you handle this presentation.

HULL

EA:FL:MSG

TREASURY DEPARTMENT

394

INTER OFFICE COMMUNICATION

DATE January 20, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA.*

In accordance with your request of yesterday, I am submitting the following:

- (1) Memorandum - Principal Business Interests of Victor Emanuel
- (2) Chart - Principal Business Interests of Victor Emanuel as Derived From Published Sources

CONFIDENTIAL

Principal Business Interests of Victor Emanuel

1. Mr. Emanuel's principal business interests have been in the field of public utilities and the stock exchange. In 1935 he stated, ". . . I would like to point out that my principal activities . . . are in connection with the public utility business and the stock exchange business, although I am a director of Republic Steel Corporation in which, however, I have no substantial financial interest." (in a letter attached to his income tax file in the Bureau of Internal Revenue).

He appears to have gotten his start through association with his father in certain public utilities in Ohio in the Twenties. These utilities were subsequently taken over by the Insull interests. In 1937 Mr. Emanuel also became interested in the Aviation & Transportation Corporation.

2. According to the 1940 edition of Poor's Register of Directors and Executives, Mr. Emanuel holds the following corporate offices:

Aviation & Transportation Corporation, Chairman of Board, President and Director

Aviation Corporation, President and Director

Standard Power & Light Corporation, President and Director

Standard Gas & Electric Co., Chairman of Board and Director

Albert Emanuel Co., Inc., President and Director

Republic Steel Corp., Member Executive Committee and Director

Emanuel & Co., Limited Partner

Several of the above companies are, in turn, connected with a great many other companies through intercorporate interests. The principal companies and their interrelationships are shown in the attached chart. The information shown in the chart has all been taken from published sources, and the chart, therefore, does not show the personal holding corporations which Mr. Emanuel has established.

3. According to reports to the Securities and Exchange Commission concerning the stock ownership of corporation directors and officers, Mr. Emanuel held the following shares as of December 31, 1939:

- 28,608 shares common stock, Aviation & Transportation Corporation
- 18,000 additional shares common stock, Aviation & Transportation Corporation (held indirectly through fully owned or controlled corporations)
- 267 shares capital stock Aviation Corporation
- 900 shares class B common, Standard Power and Light Corporation
- 650 shares class A preferred, Republic Steel Corporation
- 500 shares common, Republic Steel Corporation
- 50 shares common, Philadelphia Company
- 100 shares 5 percent preferred, Philadelphia Company

A special study by the Public Utilities Division of the Securities and Exchange Commission reveals further that as of February 15, 1939 Mr. Emanuel held 4.69 percent of the common shares of Central States Edison, Inc., and that Emanuel & Co. held 3.93 percent of the common stock of the North American Gas and Electric Company.

4. The Standard Power and Light Corporation is one of the largest utility holding companies in the United States. Standard Gas and Electric Company is next-to-the-top holding company in the system. Approximately 53 percent of its common stock is owned by Standard Power and Light. Gross revenues of Standard Gas and Electric Company and subsidiaries amounted to approximately \$92 millions in the twelve months ended September 30, 1939. The attached map of the United States shows the areas served by the operating companies in the Standard Gas and Electric Company system.

5. Mr. Emanuel is chairman of the board of Standard Gas and Electric Company. It was announced last December, however, that Mr. Leo T. Crowley, chairman of the Federal Deposit Insurance

Corporation, had accepted the position of chairman of the board of Standard Gas and Electric Company to be effective in a few months. Mr. Emanuel is then to become chairman of the Finance Committee.

5. On Friday, January 19 the common and preferred stocks and the bonds of the Standard Gas and Electric Company all fell drastically in market price. Press reports today stated that the Securities and Exchange Commission was investigating the dealings in the Company's securities. Securities of the Company have been weak in the last several days on recurrent rumors of unfavorable action by the Securities and Exchange Commission on the application for a restatement of the capital account of the Philadelphia Company, one of the most important units in the Standard Gas and Electric system, supplying the parent concern through dividends on its common stock last year with nearly half of its income. The Philadelphia Company (which has no important operations in Philadelphia) is a holding company whose most important subsidiary is the Duquense Light Company which does all the electric light and power business in Pittsburgh.

7. The Aviation and Transportation Corporation and the Aviation Corporation are holding companies. The former corporation owns about 30 percent of the stock of the latter. Mr. Emanuel is president of both companies and chairman of the board of the former. Subsidiaries of these companies manufacture airplanes and airplane parts. The parent company is affiliated with Checker Cab Manufacturing Corporation which controls the Parmelee Transportation Company and a group of operating taxicab companies. Another affiliate is the New York Shipbuilding Corporation which builds, among other things, ships for the United States Navy.

8. Emanuel & Co., in which Mr. Emanuel is a limited partner, are security brokers and dealers. The underwriting activities of the firm from October 1938 through January 10, 1940 are shown in the attached table. It should be observed that the most recent issue (offered January 10, 1940) was for Vultee Aircraft, Inc., a subsidiary of the Aviation Corporation.

Underwriting Activities of Emanuel & Co.

October 1938 through January 10, 1940

Amount of issue	Issuing Company	Issue	Manager, under- writing syndicate	Portion taken by Emanuel & Co.
(In millions of dollars)				
50	Firestone Tire & Rubber Company	10-year 3-1/2 percent debs. of 1948	Brown, Harriman	\$100,000
23	National Distillers Products Corporation	10-year 3-1/2 per- cent debs. of 1949	(Glore, Forgan (Harriman Ripley	500,000
40	Texas Corp.	20-year 3 percent debs. of 1959	Morgan, Stanley	200,000
2*	Aviation Corp.	common stock	(Schroder, Rocke- feller Co. (Emanuel & Co.	322,142*
31	Union Oil of Calif.	20-year 3 percent debs. of 1959	Dillon, Reed & Co.	250,000
3*	Vultee Aircraft, Inc.	capital stock	(Blyth & Co. (Emanuel & Co.	350,000*

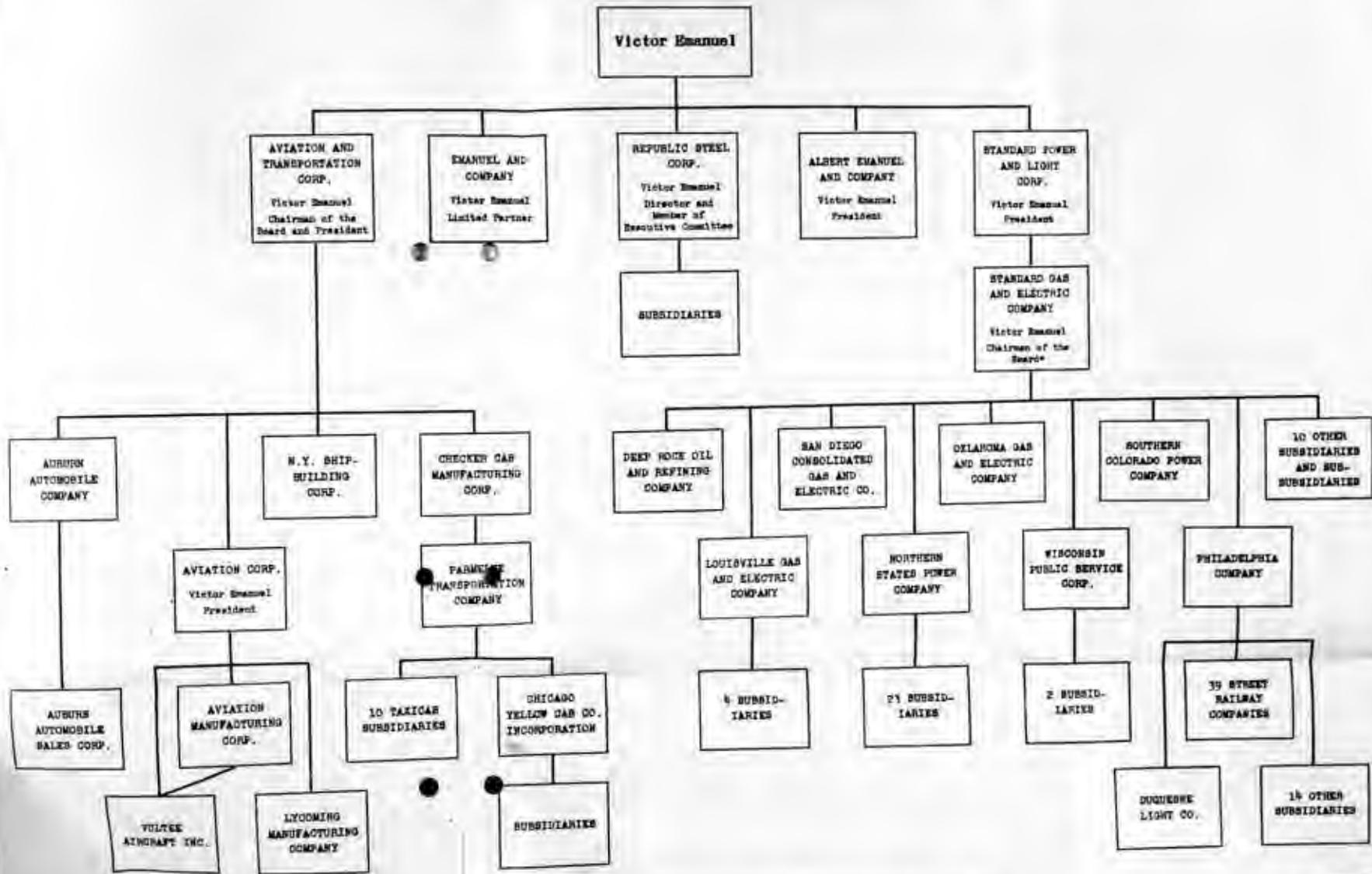
Treasury Department, Division of Research and Statistics

January 20, 1940

* Gross proceeds

100 PRINCIPAL BUSINESS INTERESTS OF VICTOR EMANUEL, AS DERIVED FROM PUBLISHED SOURCES

(Interests do not necessarily represent control)



* To become Chairman of Finance Committee when Leo T. Crowley assumes post of Chairman of the Board.


 SUMMARY
 MACHINE TOOLS
 (Purchases through Jan. 20, 1940)

	Approx. Value	Delivery	
		To Date	Balance
British Purchasing Commission	\$ 484,614	0	\$ 484,614
Other British Sources	<u>11,203,000</u>	<u>not specified</u>	
TOTAL BRITISH PURCHASES	\$ 11,687,614	-	-
<hr/>			
French Purchasing Commission	\$ 61,618,559	\$2,030,000	\$59,588,059
Other French Sources	Unknown		
<hr/>			
TOTAL, BRITISH AND FRENCH	\$ 73,306,173	\$2,030,000	\$60,072,673*

*British and French Purchase Commission only

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

402
[Handwritten initials]

DATE January 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market, while not of large proportions, developed an interesting angle today. This morning the Chase Bank received from the Far East and Near East orders to purchase a total of 20,000,000 French francs. The French American Banking Corporation also had an order to purchase French francs, the amount of which we were unable to ascertain. On Saturday, the market usually is very thin and the Chase Bank did not attempt to buy the francs in this market. As an alternative, it sold the francs out of its own position and purchased sterling which, on Monday, it will convert into French francs either in Amsterdam or Paris, whichever market is more favorable. The operations in sterling by the Chase, as a result of the franc orders, had the effect of raising the rate from 3.96-3/8 at the opening to 3.96-3/4. After that bank withdrew from the market, the rate eased off and the closing quotation was 3.96-3/8. The French franc opened at .0224-3/4, touched a high of .0225 and closed at .0224-3/4.

The Federal Reserve Bank informed us that yesterday it had received an order from the National Bank of Rumania to purchase 10,000,000 French francs. As the test number on this cable was incorrect, the Federal cabled to the Rumanian bank last night and, up to the close of business today, had not received a reply. Therefore, this order is still unexecuted.

Sales of spot sterling by the four reporting banks totaled £115,000, from the following sources:

By commercial concerns.....	£ 85,000
By foreign banks (Europe and Far East).....	£ 30,000
	<u>Total..£115,000</u>

Purchases of spot sterling amounted to £118,000, as indicated below:

By commercial concerns.....	£ 98,000
By foreign banks (Europe).....	£ 20,000
	<u>Total..£118,000</u>

The following reporting banks sold cotton bills totaling £87,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 78,000	by the Guaranty Trust Co.
4,000	by the Chase National Bank
4,000	by the Bank of Manhattan
1,000	by the National City Bank
<u>£ 87,000</u>	<u>Total</u>

The other important currencies closed as follows:

Guilders	.5316
Swiss francs	.2242-1/2
Belgas	.1682-1/2
Canadian dollars	11-15/16% discount

There were no gold transactions consummated by us today.

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

- \$ 1,688,000 from Italy, shipped by the Bank of Italy to the Federal Reserve Bank of New York, for account of the B.I.S. The disposition of this shipment is unknown at present.
- 28,000 from England, shipped by Samuel Montagu & Co. to the Chase National Bank, for sale to the U. S. Assay Office.
- \$ 1,716,000 Total

The State Department forwarded to us cables stating that the gold shipments shown below were being made. The disposition of the shipments coming from Sweden is unknown at present.

- \$ 7,370,000 from Sweden, representing two shipments of Finnish gold marks, sent by the Bank of Sweden to the Federal Reserve Bank of New York, for account of the Bank of Finland.
- 1,561,000 from Sweden, shipped by the Bank of Sweden to the Federal Reserve Bank of New York, for account of the Bank of Sweden.
- 1,526,000 from Sweden, shipped by the Bank of Sweden to the Federal Reserve Bank of New York, for account of the Bank of Finland.
- 852,000 from England, shipped by Sharps & Wilkins to the National City Bank of New York, for sale to the U. S. Assay Office.
- 9,000 from England, consisting of gold sovereigns shipped by Mocatta & Goldsmid to the New York agency of the Bank of London and South America, for sale to the U. S. Assay Office.
- \$11,318,000 Total

In the report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on January 17, such deposits totaled \$37,217,000, an increase of about \$1,500,000 since the last report on January 10. Of this amount, \$25,166,000 represented deposits with the Yokohama Specie Bank by their branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was \$73,026,000, a decrease of about \$4,600,000 since January 10.

CONFIDENTIAL

Probably 1-20-40
date Mr Emanuel 404
+ Mr Beal called
on Secy. Weygandhan.

REPORT OF APPRENTICE PROGRAM
AVIATION MANUFACTURING CORPORATION
WILLIAMSPORT, PA.

JULY, 1939

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Report of Apprenticeship Training
Aviation Manufacturing Corporation
Williamsport, Pa., July, 1939

General Statement: The city of Williamsport has a population of about 47,000, with an estimated employment area of about 60,000. The city is a beautiful residential community with a diversity of industries, chiefly metal trades, textiles and woodworking. The population is largely native white and of a relatively settled nature. Craftsmanship reaches a higher level of development than is usual in Pennsylvania cities.

Education for Industry: The public school system provides an extensive program of training young people and adults for the industries of the area. This program, which is unique in Pennsylvania, is prepared to offer industrial training continuously from the age of 14 all of the way through adulthood. This extensive program of industrial education is the beginning of, and an integral part of, the system of apprenticeship in the Aviation Manufacturing Corporation.

Training Begins in the Public Schools: Throughout the public school system, a program of vocational guidance and tryout during grades 7, 8 and 9 is intended to assist the youth to intelligently select his future occupation, and to eliminate misfits. Those youths who elect to follow a skilled trade enter the vocational school at the age of about 15. Those who will later enter the metal trades pursue a course known in general as "machine shop". About 40 youths enter this preliminary training each year, and it is from this group that Aviation Manufacturing Corporation apprentices are ultimately selected. Many other trade activities are included in the

school program. These are outlined at another point in this report.

The preliminary training in the public schools is quite general in nature. About one half of the youth's time is spent in the school shops which are well equipped for general machine training. The remainder of the time is spent in classroom work where special attention is paid to related mathematics, science, English and blueprint reading. This course continues for three years or until the youth has reached the age of about 17.

Instructors: The object in this preliminary training is to (a) give the youth a strong background of mechanical and theoretical training, and (b) to select those youths who show aptitude for the more highly developed mechanical trades such as toolmaking, tool design and aviation manufacturing. The instructors are selected with this objective in view. Each is a master of his craft, and all have established themselves as outstanding workmen. Most of these teachers are former employees of the Aviation Manufacturing Corporation.

Post High School Training: Since most of the youths complete the preliminary training in high school before they are old enough to participate in the regular apprenticeship, or before apprentice positions are available, a "reservoir" class of selected individuals is set up in the school. While awaiting the employment call, the training proceeds without interruption. To enable the youth to secure some immediate casual employment, the training is held during the late afternoon and evenings, when it will not interfere with such work as may be

available.

Selection of Apprentices: The apprentices are usually recommended by the school staff. This staff is composed of teachers, coordinators, psychologists, and other personnel workers whose task it is to see that the needs of the individual and of the employer are met in the selection of the apprentice. Final selection is by the apprenticeship committee, composed of the head of the vocational school, the personnel manager of the Aviatron Manufacturing Corporation and a representative of the employees.

The Apprenticeship Agreement: The apprenticeship agreement, (Exhibit A) is self explanatory. It is based on the recommendations of the Federal Apprenticeship Committee as of several years ago. This agreement is now in process of minor revision to comply with more recent recommendations of the Apprenticeship Committee. The agreement is based on a unique local situation in which the public vocational school plays an important part. For example, the provision for the apprentice returning to the school in the event of a temporary lay-off would be possible only where such a vocational school maintained very close relationship with the industry.

Number of Apprentices: Due to business conditions, and the general local agreement that there should be a job in sight for every new man trained, the number of apprentices is not large. In this one company, and the associated automotive company, a total of twenty-four apprentice contracts have been written since the program began in February 1975.

Of this number, six have completed the apprenticeship, eight are now active, and four are temporarily employed in other industries.

Need for the Future: Those interested in the development of apprenticeship in this company feel that the present program is inadequate to meet the need of expanding business. Present plans call for the following improvements:

a. A revision of the apprenticeship agreement to conform to recent recommendations of the Federal Apprenticeship Committee.

b. The pre-employment training in the public schools is in need of some improvement. One of the greatest needs is for more up to date training equipment. About \$50,000.00 worth of new equipment would be required to place this section of the training on a strictly modern basis.

c. One of the difficulties in the present plan is the large number of boys selecting this program who are not good material. There is a tendency for the better grade students to shun this type of work. The committee believes that the industry needs a fair share of the best material coming through the schools. The several community committees on industrial training are attempting to establish a better form of vocational guidance, and would welcome the services of a full time skilled guidance worker to handle this problem. This would cost about \$3000.00 per year, and could be obtained from the local school budget if the need for the service could be properly developed. Exhibits K and F indicate the type of local publicity prepared for guidance purposes.

It appears now that for the service of this company, there should

be an apprentice group of about 50 youths, either in the plant as actual apprentices, or in the school undergoing training under the advice of the plant personnel until such time as employment conditions warrant full time apprentice employment. If this number of youths were in the apprentice, a full time apprentice supervisor, employed possibly by the school system would be needed. There should be no difficulty in securing this service through State and Federal Vocational Education funds.

Cooperation with Apprenticeship Committee: The local committee is already actively cooperating with the Federal Committee on Apprenticeship, through the State Apprenticeship Commission and the Department of Public Instruction. The local committee is anxious to have its plan conform to the Federal plan, but hopes to retain certain features which have a local interest have been successful in the past.

Special Short Unit Courses: To supplement the shop apprenticeship, the vocational school develops such short term training programs as may be necessary to round out the apprenticeship. It often happens that certain parts of the Schedule A, or other divisions of the trade are not obtainable in the industry at the time the apprentice is passing through his time. In such cases the vocational school attempts to establish special courses which the apprentice may pursue during his leisure time or during lay-off periods. Such activities as heat treating, layout and the operation of certain seldom-used tools are examples.

Retraining of Former Mechanics: One of the recommendations of the

Interdepartmental Committee on Aviation Training for the Federal Government is that careful attention be given to the retraining of metal trades workers for the aviation industry. It so happens that the employers and the vocational school of this community have been engaged in this work for some nine years. This is done through a section of the school known as the Retraining School. About 3000 individuals have been retrained and adjusted to positions through this school which embraces many trades. For the specific needs of the aviation industry, the effort has been in the direction of encouraging unemployed or unsatisfactorily employed former metal workers to enroll for retraining. In many cases a short "brush up" program is sufficient to return the individual to the ranks of the employable, and in most cases to place them on a payroll. In other cases a much longer period of training is needed. Those so retrained do not usually enter the more highly skilled occupations in the industry, but find their level on operator types of jobs. Exhibit G presents a brief picture of this retraining program.

Training for other trades: This report deals almost entirely with the metal working trades in the aviation engine manufacturing industry. The vocational school, and the various employer and service groups also support first class training for the following trades:

- | | |
|---------------------------------|-----------------------------------|
| a. Patternmaking | i. Aircraft mechanic |
| b. Moulding and Coremaking | j. Tool Design |
| c. Electric Welding | k. Electrical Trades |
| d. Acetylene Welding | l. Building Trades |
| e. Aircraft Welding | m. Automotive mechanics |
| f. Drafting and design | 1. Business subjects |
| g. Engine mechanics and testing | 2. Production tooling and Routing |

Training of supervisors, and key personnel: Through the cooperation of the local vocational school and the Department of Public Instruction, it would be possible to operate training programs for the upgrading of supervisory and key personnel. Such a program was conducted during the pre-depression years with considerable success. Some twenty local industrial plants cooperated.

Specific Aviation Training: For the service of that portion of the aviation industry which will, in the future, need men trained in aviation mechanics, the local aviation committee has promoted a special course in the public schools. This course, which operates twelve months in the year for five years, is designed to turn out a relatively small number of high grade general aviation mechanics. The requirements for admission are very high, and the standards of performance are high throughout the entire course. This course is outlined in Exhibit H.

Proposal for Apprenticeship Conference: In recognition of the need for some developmental work in aviation industry apprenticeship in Pennsylvania, it is suggested that a conference of all interested groups be held in the near future.

Objective of the Conference: The conference should be designed to produce the plans for an experimental or developmental apprenticeship set-up which may serve to explore the possibilities in the Commonwealth.

Participating Agencies:

- a. The Aviation Manufacturing Corporation
- b. Representatives of workers in above plant
- c. The School District of the City of Williamsport

- d. The Pennsylvania Department of Public Instruction
- e. Office of Education
- f. Federal Apprenticeship Committee, Department of Labor
- g. Apprenticeship Council, Department Labor and Industry, Pennsylvania
- h. United States Army.
- i. National Youth Administration
- j. Civilian Conservation Corps.

General Nature of the Discussion:

The development of a program which will coordinate the interests of all agencies, with the general objective of releasing state and Federal vocational and other funds to stimulate apprentice training.

Time of Conference: The conference could be held the latter part of August or the first part of September.

Place of Conference: Since this suggestion is concerned with a demonstration of apprenticeship training for the Aviation Manufacturing Corporation, the conference should be held in Williamsport. This location is also indicated by the presence of a first-class Federal aided vocation school which has for many years been intimately coordinated with local industries. The community is quite willing to support new apprenticeship and training programs at public expense.

Suggestions for an Emergency: If an emergency which makes the production of aviation material of serious consequence should develop, the supply of skilled workers in the metal trades would become a matter for grave local concern. The following outline suggests a plan for rapidly preparing

civilians to participate in the industry in an emergency.

1. The local school district should be requested to find other means of taking care of all vocational students under the age of 16, and to eliminate from the program all students whose progress is such as to indicate that they would not develop into satisfactory high-grade workmen in a reasonable period.

2. Under the guidance of a special committee from the aviation industry, the skilled labor training of the youth of the community would be speeded up by:

- a. A preliminary development of skills in the school shops for those under 16, and others who show the proper aptitude. The training of girls for this industry should also be considered.
- b. An expanded system of apprenticeship in the plant for those who successfully completed the preliminary training.
- c. The development of certain closely related technical training outside of working hours.
- d. Expansion of the present retraining program.

3. The entire vocational school, with a total capacity of about 900 persons would be placed on a three shift basis. Instructors' salaries would be paid by the local district under some emergency budget provisions, and later reimbursed from State and Federal funds through existing regulations.

Working materials: Working materials would come to a large extent from the industry in the form of material for fixtures, repairs and other production work which is not too critical as to workmanship or time limits. Certain material could perhaps be supplied by the government.

Equipment: Present equipment could be used for a preliminary period. As soon as possible additional equipment and renewals should be provided from some Commonwealth or Government source.

Time of Training: A preliminary group of apprentices could be ready in about 3 months. Others would be available as the industry could absorb them.

The Greatest Problem: The problem involved in such emergency training is the ability of the industry to absorb apprentices rapidly. The lack of supervision and apprentice equipment which could be spared from the production program is a big factor. This is the basic reason for suggesting a pre-employment type of training which would:

- a. Prepare the prospective apprentice for some type of work in the industry while the industry was in the process of speeding up production.
- b. Guide, adjust and select the youth so that a minimum of turnover would be expected once the apprenticeship was begun.
- c. Prepare certain operator type of individuals for quick absorption in the industry.

Suggestion for planning for the emergency: Certain interested governmental agencies should immediately plan a local emergency program based on local needs and resources so that in the event of an emergency, the program could go into immediate operation. This could be done as a part of the apprenticeship conference suggested elsewhere, or in a separate conference.

WAR DEPARTMENT

Air Corps Procurement Planning Representative
NEW YORK, N. Y.

419

Federal Office Bldg., 90 Church St.
July 18, 1949

Mr. W. K. Cooper,
Gen. Mgr., Lycoming Division of
Aviation Manufacturing Corporation,
Williamsport, Pennsylvania.

Dear Mr. Cooper:

The Office of the Assistant Secretary of War desires to assemble at the earliest possible moment information as to the methods which can be placed in effect to cooperate with the Federal Committee on Apprenticeship, Labor Department. It is requested that you furnish through this office, at the earliest practical time a description of any Federal aid to your company which you deem necessary to enable it to secure a substantial increase in the number of apprentices now being trained; or if no apprentices are in training, the aid required to initiate an adequate system of apprentice training in your plant which will make available the required number of skilled personnel needed to augment your production in an emergency.

For your information, this action was initiated by a letter from the President of the United States to the Secretary of War directing the War Department to collaborate in a general plan of mechanic's training for the aircraft industry. This letter was inspired by a report from an inter-departmental committee on this subject on which the War Department, Navy Department, Labor Department, and Civil Aeronautics Authority had representation.

Certain data are on hand in this office as a result of industrial surveys of your plant. In event there has been a considerable change since these data were obtained, it is requested that you furnish the present status on the following:

- a. Number of apprentices in training.
- b. Number of supervisory, skilled, semi-skilled and unskilled personnel required to meet your production in an emergency.

Very truly yours,

/s/ J. D. Reardan

J. D. REARDAN,
Colonel, Air Corps,
Procurement Planning Representative

APPRENTICE AGREEMENT

School District of the City of Williamsport, Pennsylvania

A. This agreement is between four parties:

1. The APPRENTICE who wishes to learn the trade or art specified.
2. The EMPLOYER who agrees to teach the apprentice the trade or art.
3. The PARENT (or GUARDIAN) of the apprentice, if he is under 21 years of age, who acknowledges that he or she has read and understands the conditions of the apprenticeship.
4. The SCHOOL DISTRICT OF THE CITY OF WILLIAMSPORT, acting with the approval of the Pennsylvania Department of Public Instruction and the Pennsylvania Committee on Apprenticeship Training, will supervise the apprenticeship and provide certain portions of the instruction, and will act as referee in all cases of misunderstanding arising during the apprenticeship among the several parties to the agreement.

B. The purpose of the apprenticeship is to provide young men who have the proper qualifications an opportunity to learn a skilled trade and to receive instruction in the subjects related to that trade.

C. To qualify for the apprenticeship the applicant must:

1. Be at least 18 years of age, but not over 21, except in special cases.
2. Be a graduate of the High School Industrial Course in the trade or art to be learned, or the equivalent of this as decided by the School District.
3. Be recommended by the School District and accepted by the Employer.

D. The Length of Apprenticeship will be:

			Rate of Pay
1. Machinist.....	2 years.....	4160 hours	
2. Toolmaker.....	3 years.....	6240 hours	First year(2080 hrs.).....
3. Patternmaker.....	3 years.....	6240 hours	Second year(2080 hrs.).....
4. Draftsman.....	3 years.....	6240 hours	Third year(2080 hrs.).....
5.

NOTE: At the close of the apprenticeship the employer will employ the apprentice as a journeyman at the journeyman rate for the classification, providing employment conditions at that time warrant such employment.

E. Continued Study: The apprentice will be required to attend the School District Adult School, or the equivalent as accepted by the School District, for a minimum of 72 sessions of two School, or the equivalent as accepted by the School District, for a minimum of 72 sessions of two clock hours each or 144 clock hours during each year of the apprenticeship. The apprentice will select, with the approval of the School District, courses in subjects related to the trade and according to his individual needs.

EXHIBIT C

Note: This form is filled out daily by the apprentice and signed by the foreman. It is also used to record the time spent in the vocational school or in other industries during slack time. According to the agreement, such school time or time in other plants may be counted toward the apprenticeship if it is approved by the proper foreman or superintendent as a substitute for portions of Schedule A.

NO. _____

Certificate of Apprenticeship

This is to certify that _____ has successfully
completed an apprenticeship of _____ hours in the trade of _____
_____ with the _____ in
(Employer)
accordance with the apprentice agreement entered into on _____
(Date)

Executed this _____ day of _____ 193_____

Record of Apprenticeship

Process or Department

Hours

Process or Department

Hours

_____	_____
_____	_____
_____	_____

_____	_____
_____	_____
_____	_____

Superintendent of Williamsport Schools

For the Employer

EXHIBIT D 15

123

424

IF I WERE
TWENTY-ONE

WILLIAM S. KNUDSEN

AS told by Beverly Smith. Published
by the Williamsport Kiwanis Club
in cooperation with the School Districts
of Williamsport and South
Williamsport

©

A REPRINT: AMERICAN MAGAZINE
FOR JUNE 1939

IF I WERE TWENTY - ONE

If I were twenty-one I would be a mechanic. I would try to get work in a machine shop. If that failed I would try for a job in a filling station, or as an apprentice to an electrician or a plumber, or as a clerk behind a counter, or as an errand boy. I would try to get some work to do with my hands.

Nowadays in America most youngsters want a college education. That is all right. I would probably want one, too. But I wouldn't if I knew what I know now, let the college education interfere with my practical education as a mechanic. For that I have some good reasons.

Last summer I talked a good deal with some young college seniors. They all seemed worried about how they would get their start in life. "What shall we do?" they asked. "What shall we head for?" I suggested that they go out and try to get a job working with their hands: filling station, factory, store, ma-

chine shop. They were puzzled. They thought I was joking. Why, they were college men. Manual labor would involve (in some way I don't understand) a loss of standing, of prestige. Furthermore, these youngsters have never had any training in practical, mechanical skills. They wouldn't know how to start. Now, these were good, average, decent, intelligent young Americans. The fact that they feared to go to work with their hands indicates there is something wrong with our system of training.

Of hundreds of thousands of young men graduated from college every year, the larger proportion seem to have one ambition: to sit at a desk with a telephone on it. If the desk has a buzzer, with a secretary to answer the buzzer, why, that's tops. It seems to me there's something wrong with that ideal.

There is nothing "humble" about the position of a mechanic. Even with our unemployment, the top-rank skilled mechanic is still the most sought-after and independent man you can find. The place of America today, the American standard of living, depends more on mechanics than any other one class or factor.

Page two

The genius of America is production; and a large percentage of our productive enterprises are headed by men who have come up from the worker's bench. Why is it, then, that so many of our youngsters today want to start their careers sitting at a desk, with no more manual and practical skill than is necessary to operate a telephone.

They aren't weak; on an average they are stronger and healthier than we were. They aren't lazy; they will run themselves to exhaustion on the athletic field. They aren't soft; they will risk their necks bucking a football scrimmage line. Why, then, their dread of manual labor?

The pioneers were men of little education. So were the immigrants. Consequently there grew up in America a great reverence for book learning. The man who made his living sitting at a desk, wearing a white collar, was looked up to and envied. His life was easy, clean "genteel." He seemed of a higher social class. From this came many good things. It provided the urge for universal education in America. It gave every American mother the ambition that

Page three

her child should have "the highest possible education." It built in America the greatest number of colleges and universities in any country of the world. But maybe we have gone a little too far in our reverence for book learning; maybe in our concentration on that we have forgotten other things which are just as important. That is, the knowledge of how to work with our hands, how to create with practical skill. I am not belittling education. What I am trying to say is that a person educated entirely through books is only half educated. There is a kind of practical knowledge and good sense which can flow into the brain only through the use of the hands.

What to do about it? Well I think all our schools should put more emphasis on training in manual skills, give more opportunity for the youngsters to test the theories they learn in actual practice, let them compete with one another in building useful things. You can tell a boy what a pump is; but if he gets a pipe, and, by means of a cork on a string, draws water up through that pipe, he *understands* what a pump

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is. The Boy Scouts are doing some useful work in teaching manual skills. There should be more of that. The good mechanic must be a thinker. Often he might be a slower thinker than the fellow who is a wizard at passing college examinations, but best of all is the man who combines the learning of books with the learning which comes of doing things with the hands. He is the one who can, as Charles F. Kettering, head of our research laboratories, says, "transfer the science of formula into the science of things." The young man who has that combination need not worry about getting along in the world today, or at any time.

Those who learn about industry from reading seem to think that mass production and the assembly line have done away with the need for skill.

Actually, everything that is made by machinery still has to be made first by hand. And that applies also to all the beautifully precise and powerful tools which make the machinery itself. The process of production in America

Page five

today requires more highly skilled mechanics than ever before.

In the doldrums of the last ten years much of the nation's productive equipment has become old or obsolescent. During that time a lot of our best mechanics have been getting older, too. We still have the greatest corps of good mechanics in the world, but the time is coming when a lot of good youngsters will be needed.

The time is coming, also, when there will have to be an immense program of renovating and modernizing and rebuilding of America's productive machinery. When they get under way you will see a great demand for skilled mechanics, a demand greater than the present supply. That demand will be greatest of all, I should say, in the machine-tool industry.

With that will also come a demand for skilled foremen, for engineers who understand shop work as well as formulas, for production men who can handle workingmen.

The man who has been a mechanic has an advantage in the art of handling men. He has worked with such men himself; he knows their

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their capacities and their limitations. He has been bossed, himself. He knows what makes a good boss and a bad boss. Nowadays, they have a new name for it. They call it "industrial relationship." When I first started we called it handling men, and, believe me, I was handled. I was handled by bosses in the shipyards, in the railroad shops, in the bicycle factory.

Probably because I am a mechanic, and proud of it, I have put a good deal of stress on mechanical training. Of course, I don't mean that everybody should go into mechanical work. We need good men in every business and profession.

What I am hitting at is the false tradition of gentility which prevents many a gifted youngster from following his natural bent. I want to tear down the idea that one honest job is more honorable than another. Honorable work is any work that you do well.

It may be objected that there aren't the opportunities now that there were in the old days. Well, we have had bad times, and it would be unfair to deny that a lot of willing

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youngsters have had discouraging experiences.

But there is nothing wrong with this country which American brains, energy, and good will cannot cure. As we readjust and get back into balance there are going to be greater opportunities than ever before. The boy who assumes otherwise, who is not ready for his opportunities as they come, is going to miss the boat. From my knowledge of American industry, it is my conviction that the development in this country is going to be greater in the next fifty years than it was in the last fifty years.

If I were twenty-one, well—I would much rather be it than talk about it, but I would not, I believe, hesitate for a moment to try it over again on the same pattern.

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EXHIBIT E

This reprint from a popular magazine is an example of the efforts made to guide high grade young men into the skilled metal trades.

EXHIBIT F

Another example of the guidance activities of the school and the industry. Such literature as this is often placed in employment offices or distributed to the homes.

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LEARN
TO
EARN

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WILLIAMSPORT SCHOOL DISTRICT
January 1939

Do You Want to Learn a Trade?

ONE of the finest future outlets for ambitious young men lies in the hundreds of good jobs in our great industrial world. The young man who is a thorough master of a good trade, is and will be, free from the spectre of continued unemployment. For the young man who will begin his life planning early, and who will study and work as he would have to study and work for success in a profession, the opportunities for advancement in industry are at least equivalent to the opportunities in the professions.

How to Learn a Trade?

It is no longer possible for a young man to secure all of his trade training in industry, because industry is organized for production and not for education. A large proportion of the early mechanical training has been taken over by the public

school system of vocational education, with a year or more in industry for the completion of the apprenticeship. Those young men who pursue a good vocational course in High School are much more likely to be accepted in industry as advanced apprentices and workmen.

For this reason, if you are handy with hands; if you like to build things; if you are interested in scientific matters; and if you like to study mechanical and scientific material, you should give serious consideration to the possibilities in an industrial career.

Where Can I Get Information on Trades?

The SCHOOL DISTRICT of the City of Williamsport maintains a program of guidance and try-out in the junior high schools. This work will give you some idea about your interest and ability in mechanical things. Your teachers of shop work and drawing are all skilled craftsmen themselves, and they will be glad to discuss a-

reers with you. The School District also maintains a guidance and adjustment center on the ground floor of the Senior High School at Susquehanna and West Third Streets. Here you can obtain expert guidance service and information about jobs and wages in Williamsport at any time during the day and evening. Your parents are invited to come in and discuss your career with the school coordinators.

The usual office hours at the occupational center in the high school building are: 1:30 to 4:00 P. M., 7:00 to 10:00 P. M.

Must You Live in Williamsport?

Under the laws of Pennsylvania, you are entitled to free vocational education regardless of where you live so long as you are over 14 year of age and have no vocational program of the type you wish in your local schools. Many boys from outlying communities attend the vocational courses in Williamsport with the idea of learning a trade. The best time to start is in the tenth grade.

You may secure full information about this free instruction at the occupational center at the high school, or you may write to the Director of Vocational Education, Room 101, Williamsport Senior High School.

What about Correspondence Courses?

Correspondence courses, and other educational services which are widely advertised may or may not be a good investment for you. When you are interested in a certain occupation, check carefully with your former teacher, or at the high school occupational center, for the possibilities of placement after you have learned. Be especially cautious about any correspondence course which promises you employment. These are usually worthless promises.

The better correspondence courses are fine, and many employers will give serious attention to the application of a young man who has the ambition to complete a full course, but these courses are chiefly intended for the person who already has a

job or trade and wishes to advance. Except under unusual circumstances, do not take a correspondence course to learn a trade or business from the beginning.

Where are Most Job Opportunities?

A recent study of jobs in Williamsport shows that about seventy per cent of our employment is in industry. Only about five per cent of our people work at jobs which require a college diploma, but a high school education is now absolutely essential for many jobs. Your chances for success in life are improved if you have gained in high school some skill or knowledge which an employer can use. The market for "good general education" is not very promising.

Study your wishes and capacities carefully. Study the jobs in the community. Unless you are especially gifted, or can afford a long period of education, do not prepare for jobs which are not available in this area.



What Is Retraining?

THAT man who through technological changes or through other causes within and outside of his control, finds himself continuously out of employment, is an ill man. He is suffering from a disease which if unchecked will destroy his social and economic value to civilization just as surely as a malignant anatomical disease will destroy his body. It is quite certain that the underlying causes of his disability are imperfectly understood, but it is altogether probable that organized education can do much to shed light upon these causes, and to point the way toward an effective cure.

A. M. WEAVER

Unemployment Rehabilitation, 1932

Public Schools · Williamsport, Pennsylvania · 1937

WHAT IS RETRAINING?

Ten Minutes Of Your Time

This little booklet tells in simple question and answer form about the work of retraining unemployed adults and youth for economic security thru an inexpensive adaptation of modern education. Perhaps your son, or your nephew, has left school and is having a hard time getting a foothold on that all-important job, or your brother or your sister finds it hard to earn a decent living after the depression. If so, a few minutes spent in thinking about an organized community attack on job adjustment may be well spent.

The particular philosophy expressed herein is based on seven years of hand-to-hand battle with individual employment problems in an industrial community of 47,000. In these seven years, thousands of unemployed persons have been retrained or rehabilitated for employment and placed on private payrolls. The program is now gradually changing to a youth and young adult adjustment service. The older men and women, who made up the bulk of the clients during the depression, seem to be reasonably well adjusted, or at any rate are not easily attracted to the retraining school. About six hundred youths and adults are placed on private payrolls thru the retraining school each year.

The Williamsport development has been a working job, with working people, using the materials at hand, and employing for the most part, simple human relationships. The backlog of the program has been an excellent staff of occupationally competent, sympathetic, and understanding teachers drawn from the industrial and business life of the city.

George H. Parkes
Director Retraining School
Williamsport, Pennsylvania

ANSWERING YOUR QUESTIONS

Q. What is a retraining school?

A. A cooperative community enterprise by means of which a community may apply the principles of modern educational engineering to its unemployment problems. It consists of finding the individual cause for unemployment, removing the cause by the application of fairly well understood techniques, finding a job for the client, and assisting him to hold that job until the adjustment is completed.

Q. What organizations should assist?

A. Since education plays the most important part in the scheme, the local Board of Education should be very active. Labor groups should be represented as well as employer organizations. The Public Employment Service is also a key organization, as are such organizations as the Works Progress Administration and the National Youth Administration. Social agencies of all kinds have an equity in this program.

Q. Will retraining solve all unemployment problems?

A. No. Experience indicates that any young person participating in the program for a reasonable time has about an 80-20 chance of good employment. If the client will not cooperate, and follow the suggestions of the staff faithfully, nothing can be done for him.

Q. Does retraining interfere with the employment or chance for employment of other workers? Does it force the older employee out?

A. It does not seem to work out that way, but above all, the staff sets up strong safeguards against such an outcome. This is one of the reasons why the staff must be made up principally of experienced industrial and business workers who know employment conditions first hand.

ANSWERING YOUR QUESTIONS

Q. When does the retraining school operate?

A. Usually in the evening and late afternoon so that clients may continue with such employment as they may have. Saturdays, dull seasons, "graveyard shifts" all come in for their share. The time is arranged to suit the worker. The school is open the year around.

Q. Does retraining pay?

A. Yes. Assume that it costs \$100.00 to adjust an unemployed laborer to a semi-skilled job. At 25, as a laborer, he may look forward to 30 years of more or less haphazard casual employment at say \$15.00 a week. If he can be qualified for a semi skilled job, or a skilled job, his earnings can be doubled, and he can be assumed to have an earning career of 40 years. His increased economic worth to his community is almost \$30,000.00. In one series of cases studied from this viewpoint, the return on training cost was 30 fold in one month.

Q. In general what percentage of the persons unemployed can be considered good subjects for retraining?

A. Research in one community shows that about 85 percent of the persons unemployed in 1932 possessed the inherent capacity to be trained for employment beyond the common labor level.

Q. What are the usual retraining steps?

- A. (1) Individual diagnosis, to discover any barriers to employment.
(2) Training or retraining, to remove these barriers.
(3) Placement, finding a job.
(4) Follow up, to insure success on the job.

ANSWERING YOUR QUESTIONS

Q. For what shall we retrain? What jobs will be open?

A. There must be a close and constant contact between the staff and the industries, especially with workers of all grades. Surveys and statistical information will help, but the most reliable information seems to result from the detailed knowledge of payroll jobs acquired by the staff thru contact with specific industrial situations. To understand this fully, it must be noted that a staff member is expected to know in detail all payroll jobs and most of the foremen in his special field of training. It is not uncommon to have in the retraining school an unemployed man preparing for a special payroll job which is expected to "break" several months in the future.

Q. What percentage of people asking for retraining and entering the program can be expected to profit?

A. They all profit to some degree. About 40 per cent may be expected to find jobs thru the program. Many of course will not remain after the first few days.

Q. What are some of the individual reasons for unemployment?

- A. (1) Lack of proper training or experience.
(2) Unsatisfactory records on previous jobs.
(3) Physical disability.
(4) Poor attitude toward work.
(5) Inadequate or incompetent guidance in school.

HOW IT WORKS IN WILLIAMSPORT†

Q. From where does the staff come?

A. Sometimes a few come from the regular school staff. Usually part-time industrial foremen and others in actual contact with industry do good work. The best practice is to employ full-time instructors for this work. Such instructors usually teach from 6 P.M. to 10 P.M. and spend their afternoons in contact with industry and in individual conferences with students.

Q. Does the retraining school promote apprenticeship?

A. Yes. Wherever possible apprentice relations are established with employers. There is at present a pronounced interest in apprenticeship.

Q. What is the average entering wage of persons placed by the school?

A. \$16.22 per week.

Q. Does the school receive any assistance in the placement work?

A. Yes. The Public Employment Office cooperates actively. Wherever possible placements are made thru this service.

Q. How much does it cost to retrain an unemployed man?

A. Early depression estimates average about \$28. per person to Williamsport. The cost is lower now, due to the influence of Acts 426 and 315 of the 1935

† NOTE: The writer would prefer to use some other example, but is unfortunately not sufficiently familiar with other programs to do so. A concrete example seems to be necessary for a complete picture of the retraining idea, but the reader is cautioned against assuming that this particular program can be copied elsewhere.

HOW IT WORKS IN WILLIAMSPORT

Legislature which provided additional money for this purpose. Since the cost estimates are complicated by the factor of existing day school facilities, exact retraining costs are not available. The staff estimates that the total cost of retraining and placing an unemployed person including the full operating costs of the day program does not exceed \$100,00.

Q. How is the Williamsport program sponsored?

A. The general sponsorship is by the Employment Committee of the local Chamber of Commerce, now known as the Williamsport Community Trade Association. The School District operates the program as a part of its educational service, but many other agencies cooperate.

Q. Are there jobs for the persons retrained in Williamsport?

A. Yes. Of course the school fails in many cases, but few persons who have continued with the school as long as recommended by the staff have failed to find employment. At present certain types of jobs are always available; the problem becomes one of finding candidates for the jobs.

Q. What does the retraining school offer the unemployed youth?

A. With growing assurance, the staff promises any youth who will persist in the program outlined by the school, a satisfactory job.

Q. What are some of the unsolved problems of the retraining school? What is now needed?

A. A means of attracting to the service young people who most need the service. The National Youth Administration has been of great assistance in this.



The retraining of handicapped persons is conducted in cooperation with the Rehabilitation Bureau.

Adequate medical examination services and provisions for correcting physical conditions inhibiting employment.

The services of psychologists, and experts in mental hygiene.

A more adequate physical plant.

An adequate supply of occupationally proficient teachers who can be employed under existing certification regulations.

HOW IT WORKS IN WILLIAMSPORT

Q. What agencies are financially interested?

A. The Department of Public Instruction,
The U. S. Office of Education,
The Works Progress Administration,
The National Youth Administration,
The Pennsylvania Department of Labor and Industry (Rehabilitation),
The Williamsport School District, which acts as coordinating agency.

Q. Does the program have public support?

A. Yes, to a most gratifying degree. During the dark days for public education, when all educational services were more or less under fire, not one criticism of the extra expenditure for retraining was voiced. In 1936 the staff received the Grit Publishing Company award for outstanding public service, the most coveted recognition at the disposal of the community.

Q. Does the retraining school receive the co-operation of industry?

A. Yes. A total of 320 different employers cooperate in various ways. One valuable contribution by industry is material and equipment for instruction.

Q. Does the retraining school have the co-operation of the workers?

A. Yes. Many individuals contribute thru advice and assistance in matters not well understood by the staff.

Q. What is the size of the community?

A. It is an industrial and residential city of about 45,000, with a drawing population of about 60,000.

HOW IT WORKS IN WILLIAMSPORT

Q. How many people are now enrolled in the retraining school?

A. About 1200. Other Adult School enrollment brings the total enrollment to about 3000, but the exact number considered as retraining students is not available.

Q. How many persons have been retrained and placed since the program began in 1930?

A. For economy reasons, no reliable statistics are available for the early years. For the past three years, the yearly average has been about 600. We think nearly 3000 persons found employment thru the retraining programs thruout the depression.

Q. What is counted as a placement?

A. Any new employment or important promotion which can be traced to the school, and which lasts thirty days, unless at the time of employment the placement is known to be temporary. The school often places clients in temporary or low paid positions for encouragement, but no placement is counted which does not pay a minimum wage of \$10.00 a week unless it is a true learning or apprentice relationship.

Q. What does the retraining school cost per unit of instruction?

A. It costs .0570 per student hour total, and .0389, per student hour, local district cost. The State and Federal governments make up the remainder.

Q. What is the average age of members of the retraining school?

A. About 25. Earlier in the depression this was about 40. This indicates that the retraining problem is becoming a youth problem.



Retraining for C. C. C. Men

Q. What is the size of the staff?

A. A total of 58 people participate in the work in Williamsport at present.

Q. Is skill training the only problem?

A. No. Many other individual failure characteristics appear. Attitude training is often more important than the acquisition of skill. Sometimes the skill training is only the vehicle on which the unemployed person is carried while attitude training progresses.

Q. Does the retraining school co-operate with other social and character building agencies?

A. Yes, to a very gratifying extent. At least 20 such agencies thus cooperate. Every precaution is taken to avoid duplicating the work of other agencies.

HOW IT WORKS IN WILLIAMSPORT

Q. What about the man over 40?

A. The retraining school encounters no particular difficulty in retraining and adjusting such persons, providing they have the personal "drive" to follow the program of the school. It is becoming increasingly difficult, however, to attract this class of unemployed people into the school.

LIST OF AGENCIES COOPERATING WITH THE RETRAINING SCHOOL

Catholic School System Parochial Schools
 CCC Retraining Program
 Department of Labor and Industry
 Federal Civil Service Commission
 Library, James V. Brown
 Lycoming County Crippled Children Society
 Lycoming County Children's Aid Society
 N.Y.A.
 Rehabilitation Bureau
 Social Service Bureau
 State Civil Service Commission
 State Employment Agencies
 Williamsport Community Trade Association
 Williamsport Ministerial Association
 Williamsport School District
 W.P.A. Education
 Y.M.C.A. and Y.W.C.A.
 Department of Public Instruction
 Pennsylvania State College (Teacher training)

HOW IT WORKS IN WILLIAMSPORT

A TYPICAL CASE OF RETRAINING

Mr. James Kelley, 50 years old, prematurely gray, and badly depressed, was referred to the retraining school by the county chairman of the major political party, not as a matter of patronage, but out of his interest in the human problem involved.

The preliminary interview revealed several illuminating facts. Mr. Kelley had had no regular private employment for many years; his was not a depression problem. The interview also uncovered the fact he had served an apprenticeship as a machinist. In searching for additional light on the case, the interviewer discovered Mr. Kelley had suffered with a double hernia for some twenty years, and of course this was immediately recognized as the chief handicap to useful employment.

After a series of discussions on the subject, Mr. Kelley was persuaded to seek medical assistance. The result was a very satisfactory physical restoration with a corresponding brightened mental outlook. When he fully recuperated from his operation, Mr. Kelley entered the retraining school and there for three months worked to bring his mechanical skill up to date, and was finally pronounced employable by the instructor in charge.

Thru the wide contacts of the retraining school, an employment opportunity was found in a large city two hundred miles away. Mr. Kelley reported for work. At this writing he has a good job and is happy in his return to productive work. Recently he stopped in at the school to express his appreciation.

NOTE ON RECENT TRENDS

As of November 1, 1937, a survey 1145 cases of individuals enrolled in the evening schools of the Williamsport School District reveals that ten per cent of the students are unemployed, thirty per cent are employed at jobs which will not maintain a reasonable standard of living, and sixty per cent are employed and not seeking employment.

This indicates that at present the occupational objective is present in about forty per cent of the cases. In the early depression enrollments, the job objective was present in at least ninety per cent of the cases. The retraining school thus seems to be changing into a "security training" activity.

EXHIBIT G

This leaflet describes briefly the Public Retraining School. This school exists for the specific purpose of adjusting unemployed persons for profitable employment in industry. The Aviation Manufacturing Corporation and all other industries in the surrounding area cooperate in this program. Adjustment for the metal working industry is the largest single occupational training program.

The Aviation Course

THE SCHOOL DISTRICT OF THE CITY OF WILLIAMSPORT, PENNSYLVANIA

THE aviation course is open to both boys and girls who have a desire to make aviation their life work. Only boys and girls who are skillful with their hands and who are good students should enter this course. There are three parts to the course:

Part I is the Sophomore year in High School. This is a tryout year in which you study aviation and subjects which are related to aviation. You also study in the classrooms. If you like the aviation work, and if you are a good student, you may enter Part II.

Part II is the Junior and Senior years in High School. You spend one half of your time in the aviation shop and the remainder of your time in classes. These classroom subjects are the same as those for other industrial courses. If you complete part II you will be graduated from High School and will be eligible for certain types of jobs in aviation plants. If you are willing to work hard and wish to become a full-fledged aviation worker, you may take Part III.

Part III is an Adult School course. It is two years in length and consists of advanced aviation training and classroom work. When you are through with this course, you should have a Department of Commerce license as airplane and engine mechanic, and you will have full preparation for entering engineering and technical colleges. You will be ready for a very good job in the aviation industry. To successfully complete the whole aviation course, which takes five years, you must spend four summer vacations in the special summer school for aviation. These summer courses will be eight weeks in length.

IMPORTANT: Before you enroll in the aviation course, you and your parents should come to the aviation department of the Senior High School and discuss the course with the instructor in charge. The shop will be open on Tuesday and Thursday evenings from 7:30 to 9:30.

COURSE OUTLINE

GRADE X

English	3 hrs. per week
Mathematics	6 hrs. per week
History	2 hrs. per week
Drafting	3 hrs. per week
Phys. Edu.	1 hr. per week
Shop	15 hrs. per week

Woodwork 3 weeks, Machine 3 weeks, Electrical 3 weeks, Sheet Metal 3 weeks, Aviation 6 weeks.

Note: The 10th grade is a trial year. Final admission to the aviation course will be based on achievement during the first year.

GRADE XI

English	3 hrs. per week
Mathematics	3 hrs. per week
History	2 hrs. per week
Drafting	3 hrs. per week
Science	3 hrs. per week
Phys. Edu.	1 hr. per week
Shop	15 hrs. per week

Note: Students who expect later to continue in the advanced course must attend an eight week summer session during the summer vacations.

GRADE XII

English	3 hrs. per week
Mathematics	4 hrs. per week
Economics	2 hrs. per week
Drafting	3 hrs. per week
Science	2 hrs. per week
Phys. Edu.	1 hr. per week
Shop	15 hrs. per week

Note: At the end of the 12th grade all students will receive the High School Diploma. Those who wish to qualify for advanced positions in aviation will continue for the 13th and 14th grades in the Adult School.

Note: This course does not include flight instruction, but students pursuing the course will work with engines and propellers, and will fly as observers and for mechanical adjustments as a part of this course.

GRADE XIII

Science	3 hrs. per week
Mathematics	6 hrs. per week
History	3 hrs. per week
Languages	3 hrs. per week
Shop	15 hrs. per week

Note: Students who do not expect to use languages in their careers may elect another subject in place of the languages.

GRADE XIV

English	2 hrs. per week
Geography	2 hrs. per week
Topography	2 hrs. per week
Science	3 hrs. per week
Mathematics	6 hrs. per week
Shop	15 hrs. per week

Note: During the 13th and 14th year, depending on business conditions, students will work part time in industry in the place of doing shop work in school.

STANDARDS FOR ADMISSION

AVIATION COURSE, WILLIAMSPORT SENIOR HIGH SCHOOL

The aviation course is designed to qualify a limited number of boys for positions in the aviation industry. Because of the high standards maintained by the industry, the boys preparing for jobs in aviation must demonstrate that they possess the qualities of good aviation workers. For this reason, the following standards for entering and continuing in the aviation course have been established. If you cannot meet these requirements, you may enter some other and transfer when you can meet the requirements, providing of course there are vacancies in the aviation course.

Scholarship: The prospective student must be a good scholar. Honor Roll standing during the past school semester, for at least half of the report card periods, is evidence of good scholastic standing.

Manual Training: Manual skill is important. Good shop grades, averaging 85 or more is an indication of a good degree of skill.

Interest In Aviation: The prospective student should be interested in aviation as shown by the construction of model planes, the study of aviation literature, and the use of aviation terms.

Attitude: No student known to have poor school attitudes can be admitted to the aviation course.

CONTINUING IN THE COURSE

Scholarship: At least half of the time on the Honor Roll.

Skill: Skill of a high order, as displayed by careful and thorough work. Slipshod work has no place in aviation.

Interest In Aviation: The student must continuously read and read aviation literature. There will be a considerable amount of outside reading and preparation.

Attitude: The student must at all times have a businesslike and purposeful attitude toward his work. Human life will someday depend on your attention to business. Laziness and willful disregard of school regulations will not be tolerated.

A COURSE OUTLINE *and* STANDARDS OF ADMISSION AVIATION COURSE



SCHOOL DISTRICT OF THE CITY OF WILLIAMSPORT,
PENNSYLVANIA, FEBRUARY 1939

EXHIBIT I

This pamphlet shows some of the aviation training activities of the vocational school. It was prepared to assist with the passage of certain state legislation which was designed to release more funds for the training of men for the aviation manufacturing industry.

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Government will match, dollar for dollar, and sometimes even on a two for one basis, each dollar of State funds expended for certain types of vocational training. Local districts will participate in some phases of the program, so that there is a possibility of the State's dollar being matched three for one. During the last biennium, Pennsylvania returned many thousands of dollars of Federal money for vocational education, because the State could not advance its share.

MUST NOT ENDANGER PRESENT WORKER

One of the fundamentals of this aviation training plan is that nothing shall be done to jeopardize the equity of any present worker, on the prospects of any unemployed skilled worker in this field. The development must be gradual and for every man or woman trained, a job must be seen ahead. The State Board for Vocational Education will establish standards which will safeguard the rights of labor.

TRAINING IS ECONOMY

Training for this new industry is an economy. For example, a recent speaker quoted figures to show that for every \$300.00 spent in aviation, a new worker went on the payroll. But that worker must be qualified to work in the industry. It is estimated that it would take about \$500 of it to train or retrain a man for participation in this new field. It takes about \$100 a month to keep that same worker on relief. If you spend the \$500 to get him a job, you save the \$100 a month in relief. Money spent in training or retraining people for jobs in Pennsylvania is money saved, providing of course that the new jobs exist. There

is ample evidence that such jobs will exist in the aviation field long before the worker now entering training can be prepared.

WE MUST LOOK TO THE FUTURE

We must remember that the training of a workman for an exacting industry, such as aviation, requires time. The young man who enters such training this summer will not be ready for a job for at least four years. By that time, if the present growth of the industry continues, there will be a vast shortage of properly qualified workers.



AVIATION

AN INDUSTRIAL
OPPORTUNITY FOR
PENNSYLVANIA

AVIATION TRAINING COMMITTEE
Williamsport Community Trade Association

ARE WE *Ready* IN PENNSYLVANIA?

AVIATION is on the march! This is our next great industry. It has doubled in size in the last five years and will triple and quadruple in the next five. Expansion of private flying, and the grave need for more adequate national defense in the air, are the two chief factors in this growth. The Army alone proposes to spend \$300,000,000 for new ships. The Civil Aeronautical Authority will spend \$10,000,000 in the training of 20,000 new pilots for national defense. A vast program of training and development in the non-flying branches of the industry is under way.

As one of the foremost industrial states, Pennsylvania must be ready and willing to participate in this vast industrial development. To avail itself of this opportunity, the Commonwealth must have an organized training program to prepare our future workers, and to retrain our unemployed workers to participate in the new developments. We can get the industries if we have the men to man them.



THE PLAN EXPLAINED

The plan is to solve the problem of preparing our youth and younger adults through a gradual development of public area training centers with federal, state, and local funds. A specific appropriation for this purpose is suggested in a bill now before the General Assembly. The federal funds are already available through national-vocational training acts.

NO NEW PROGRAM CONTEMPLATED

The plan does not contemplate the organization of a new training agency. We have, in Pennsylvania, a fine "going" program of vocational education. This program is preparing hundreds of youth and unemployed men and women for profitable employment. To fit the new aviation training demand only slight modifications need be made in this "going" program. We should build on this existing foundation. No new administrative staff is needed or desired.

A LARGE AREA OF SERVICE

The plan suggests a large area of service in the field of aviation training. In this great industry, city and even county boundaries are of no consequence. Under the plan, there will be about four centers for public aviation training established by the Commonwealth. These service areas will be expansions of present vocational training facilities into the new field. Youth and adults from a wide area, perhaps from fifty miles, would come to the center for training. The administration of this plan will be through our public school system.

ENTRANCE REQUIREMENTS

Even though aviation is the next great industry, the prospective student should realize that there are opportunities only for well-trained workers in limited but gradually increasing numbers. High standards are the keynote of this industry, and no person should consider aviation as a career unless he has the qualities of industry, determination, and ability to study, required for an exacting profession.

Entrance requirements for the new program will be determined by the State Department of Public Instruction, but in general the applicant will be required to show evidence of good scholastic ability and a high degree of manual skill. Previous mechanical experience will be considered a definite asset.

VILLAGE YOUTH MUST HAVE AN OPPORTUNITY

Everywhere the boys and young men of rural-and-village-Pennsylvania are clamoring for opportunities in the great field of aviation. Unless they are well-to-do the door is closed. Their own local school resources are exhausted. They can enlist in the armed forces of the nation and thus receive aeronautical training along military lines. The only way to open the door for these youth is for the Commonwealth to take over most of the cost. The plan here proposed is designed to accomplish this through a slight modification of our existing facilities for vocational education.

THE USE OF FEDERAL FUNDS

Under the provisions of the George-Deen and Smith-Hughes Federal Acts, the Federal



EXHIBIT J

Course outline Vocational School - High School Level

Industrial Course

GRADE X

Subject	Hours Per Week
English	3
Mathematics	6
History	2½
Drafting	3
Physical Education	¾
Shop	15
Electives (Choose 1)	
Automotive	
Carpentry and Building	
Patternmaking	
Machine and Toolmaking	
Printing	
Electrical	
Architectural Drafting	
Mechanical Drafting	
Diesel Engines	
Aviation Mechanics	

GRADE XI

Subject	Hours Per Week
English	3
Mathematics	3¾
History	1½
Drafting	3
Science	3
Physical Education	¾
Shop	15

Electives: Continuation of Grade X shop.

Note: For continued admission to Aviation, Printing, Drafting, Patternmaking, Toolmaking, and Diesel Engines, the student must maintain an average standing of 85 percent.

GRADE XII

Subject	Hrs. Per Week
English	3
Mathematics	3¾
History	1½
Drafting	3
Science	3
Physical Education	¾
Shop	15

Electives: Continuation of Grade XI Shop. Alternate two weeks apprenticeship in industrial plants will be available to certain Grade XII students.

Note: The Industrial course is not intended for those who wish to enter college, but arrangements can be made so that high ranking students may learn a trade in the Industrial Course, and at the same time prepare for admission to certain engineering colleges.

To make the best possible progress in the trade work, you should try very hard to collect a few personal tools and the proper clothing for shop work. The following list will indicate equipment that you should have when you start in September. Ask your Junior High School shop teacher to help you in selecting these tools.

MACHINE SHOP

Item	Price
1 Ball-peen Hammer, 12 oz.	\$.60
1 Center Gauge	.35
1 Pr. Spring Calipers, 6 in. outside	.80
1 Pr. Spring Calipers, 6 in. inside	.50
1 Center Punch	.10
1 Tool Box, 6 in. x 7 in. x 14 in.	1.00
1 Suit Khaki Coveralls	2.00

AUTO SHOP

Item	Price
1 End Wrench, ½ and ¾ openings	\$.50
1 End Wrench, ¼ and ½ openings	.60
1 Small Screwdriver, 6 inch	.30
1 Ball-peen Hammer, 12 oz.	.60
1 Pair 6 inch Gas Pliers	.30
1 Tool Box, 6 in. x 7 in. x 14 in.	1.00
1 Suit Khaki Coveralls	2.00

PRINTING

1 Pair Tweezers	\$.25
1 Blue Denim Apron	.40
1 Makeredy Knife	1.00

ELECTRIC SHOP

1 Rule, 12 inch, four fold	\$.25	1 Tool Box, 14 in. x 6½ in. x 6 in.	\$1.00
1 Pocket Knife	.25	1 Small, 1 Large Screwdriver	.65
1 Nail Hammer, 13 oz.	.60	1 14 oz. Claw Hammer	.90
1 Nail Set	.10	1 Pair Side Cutting Pliers	1.30
1 Screwdriver, 8 inch	.30	1 Hack Saw Frame 10 in. solid back	.50
1 Try Square, 6 inch	.80		
1 Tool Box, 6 in. x 7 in. x 14 in.	1.00		
1 Suit Khaki Coveralls	2.00		

RFP

GRAY

Berlin

Dated January 20, 1940

Rec'd 9:30 p.m.

Secretary of State

Washington

153, January 20, noon.

My No. 23, January 5, 9 a.m.

The investments of the Reichsbank which had increased greatly during the last weeks of 1939 decreased by large amounts during the first two weeks of the new year although the total is still above the November 15 or even of November 30 (total of bills, checks, and treasury bills discounted, eligible securities, collaterals, other securities and miscellaneous assets: 13,435 million on January 15, 12631 on November 15, 13287 on November 30.) The more significant change however, has been in the distribution of assets.

Bills, checks, and treasury bills discounted which had reached a record height of 11,392,000,000 marks on December 30, having increased by 1,244,000,000 during December of which 970,000,000 was during the last week, decreased by a total of 525,000,000 marks during the first two weeks of January to 10,867,000,000 marks which is still higher than in any statement prior to December 30.

Eligible

RFP -2- #153, January 20, noon from Berlin

Eligible securities declined further by 273,000,000 marks to 531,000,000 marks during the first two weeks of January and the Reichsbank's holdings of these are now only slightly above one third of the record figure on October 31 of last year. Miscellaneous assets which declined by 524,000,000 marks during the first week of January increased by 107,000,000 marks during the second week to 1,615,000,000 marks. During the same two week period, the Reichsbank's holdings of coins increased by 50,000,000 to 398,000,000 marks and its holdings of Renten bank notes by 46,000,000 to 162,000,000 marks. Collateral loans showed only a negligible change.

The circulation of Reichsbank notes decreased by 758,000,000 marks during the first half of January to 11,040,000,000 marks. Demand deposits decreased by 401,000,000 marks during the first week of January followed by an increase during the second week to 1,641,000,000 marks.

KIRK

NK:EMB

FROM THE DESK OF
W. K. COOPER
army.

432

180 - R-6-80-11 (220 H.P.)

Stearman P.T. 13

primary trainer

army

150 R-6-80-9 (300 H.P.)

Stinson (observation)

Developing 2400 H.P.

engine for navy

ready for air

1200 H.P. for army

Commander Botta (navy)

General Brett

FROM THE DESK OF

W. K. COOPER

433

Propeller

8-6

11-6

15-

now building $17\frac{1}{2}$ for Navy
(3000 blades
can be produced)



AIR PATROL DETACHMENT

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

Cape May, New Jersey,
20 January, 1940.

Impression gained from visit to Lycoming Engine Factory, and conversation with Army Inspector at plant of Lycoming Engine Company, Williamsport, Pennsylvania. Army Inspector has been on duty at factory approximately 4 years.

FACTORY MANAGEMENT:

Previous management slow, very slow, and policies uncertain. Present new management shows promise of getting underway effectively if given help and backing. New management in effect approximately one year.

PRODUCTION METHODS:

Slow on getting deliveries out on time, due to inexperienced personnel. Few experienced skilled men. Production methods could be greatly improved and overhauled. Factory or Company inspectors are inexperienced and they have very few of them.

RAW MATERIALS READILY OBTAINABLE?:

NO - due to inexperienced and poor purchasing agents. Skilled and wide awake key men are lacking. Poor materials or improper materials received in stock. Causes delays due to Army rejection. This condition is gradually improving, however.

TESTS:

On Army job, tests were slow and tardy. Inexperienced personnel. Had three penalty runs on Army contract.

FACTORY MACHINE TOOLS:

Factory cluttered with much old tools and equipment and production methods. Aviation section composed of 60% new tools and 40% old, obsolete equipment. They have some new equipment on order. Delivery date in uncertain future.

LABOR CONDITIONS:

NO C.I.O. or A.F.O.L. labor troubles. Have Company union. No strikes. All local labor, American citizens. No riff raff or floaters employed. Skilled labor shortage. Very hard to get skilled labor and don't know how, they will get skilled labor if they wanted to expand.

CAPABILITY OF EXPANSION OF FACTORY:

Would be a slow process, due to old machinery, lack of new equipment, lack of skilled labor, skilled inspectors and skilled production men. Don't know where they would or could get them. Too many of their personnel are old automobile and Marine Engine men who are used to and set in their ways of production, and are hard to change over to the exacting, skilled and critical methods of production and inspiration required in Aviation. If a change is put into effect they flounder around and require rigid and close inspection by skilled inspectors. Don't have the inspectors. A complete new layout of plant equipment would be necessary for a big expansion. Skilled, able personnel, new blood would be biggest handicap toward expansion. Believe could expand and get going in possibly one year's time. Should clean out automotive and marine engine production and concentrate on aviation engines and propellers and allied aviation products. The smaller aircraft engines being turned out are very good. Were slow getting started on Army contract, due to evils of previous management and uncertain methods and costly mistakes. Factory has possibilities. New Propeller production has possibilities, but skilled personnel, new machines and alert production methods lacking. Very promising new method of propeller manufacture. Propeller has no modern efficient hub, can be adapted to Curtiss or Hamilton Standard hub. Have several experimental contracts with Army and Navy. Slow and floundering production methods. A small orphan company of a large syndicate.

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GROUP MEETING

January 20, 1940.
10:45 a.m.

Present: Mr. Bell
Mr. Gaston
Mr. Graves
Mr. Thompson
Mr. Haas
Mr. Cochran
Mr. Sullivan
Mr. Foley
Mr. Schwarz
Mrs Klotz

H.M.Jr: Where is Harry White?

Gaston: Harry White went to New York.

H.M.Jr: I think Louie Johnson, as usual, shot his mouth off about tin and rubber and here the Amtorg comes back. Let Harry talk to you about it. I thought he was shooting his mouth off. That whole story about tin and rubber was Louie Johnson's. I am sorry, Sullivan. I didn't mean it that way.

Sullivan: You didn't?

H.M.Jr: Incidentally, I want you to know that I am the only Cabinet member who is a member of the American Legion.

Sullivan: Oh, no. Harry Woodring is also a member.

H.M.Jr: You are right.

Schwarz: In good standing?

Sullivan: Yes, very good

H.M.Jr: Nothing too serious today.

Thompson: The Treasury Appropriation Bill will be up in the House on Tuesday.

H.M.Jr: How much can I lose?

Thompson: We won't know until Tuesday.

Schwarz: The report is available for release.

- 2 -

Thompson: I will get it.

H.M.Jr: Dan?

Bell: Nothing.

H.M.Jr: You are looking all right. Cabinet seemed to agree with you.

Bell: Oh yes, it pepped me up.

H.M.Jr: What is Harry doing up in New York? He didn't ask my permission.

Klotz: I think he went up for some dental treatment.

H.M.Jr: Did he ask yours?

Klotz: No, but I have my pipelines.

H.M.Jr: Harold?

Graves: I have nothing.

H.M.Jr: Chick, I see that Mr. Puleston is working for me.

Schwarz: I hear so.

H.M.Jr: How did that secret burst out?

Gaston: Puleston has his name on the door, but who gave them the stuff as to what he was doing, I don't know.

Klotz: Puleston.

Schwarz: He told them he was working for you on detail from the Navy Department.

H.M.Jr: All right, what else?

Schwarz: I have a few clippings that I could show you afterward or now.

H.M.Jr: About what?

- 3 -

Schwarz: Bank of America and airplanes in Baltimore.

H.M.Jr: O. K. They are all pleasant, I am sure.

Schwarz: Very.

H.M.Jr: Are you doing anything about it?

Schwarz: Surely.

H.M.Jr: "Federal chiefs meet on war plans." Is there anything unpleasant here?

Schwarz: The Bank of America is.

H.M.Jr: Is unpleasant?

Schwarz: Yes.

H.M.Jr: "Giannini opens war to end on Morgenthau. Bank of America President blames Secretary for SEC action."

Schwarz: We will straighten them out.

H.M.Jr: Somebody was worried if we had a united front the Federal Reserve would get some of the credit. I hope they do.

Now, who feeds this thing to this paper?

Schwarz: The Giannini people out there.

H.M.Jr: It doesn't say what paper it is.

Schwarz: It is the San Francisco News.

H.M.Jr: Is the same day?

Schwarz: I believe so.

H.M.Jr: That is swell.

What are you (Foley) laughing at?

Foley: Something Sullivan was telling me.

Klotz: I will leave the room.

- 4 -

Sullivan: Not that way.

H.M.Jr: O. K., what else?

Schwarz: That is all.

H.M.Jr: That is all right. Giannini is beginning to feel the united front.

Schwarz: Protesting too much?

H.M.Jr: Well, these financial writers.... We may have to send somebody out there. I don't suppose that will do any good.

Foley: It might help.

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: Are you going to have that stuff for me on Mr. Victor Emanuel?

Haas: Yes. He is certainly a complicated individual. We are trying to straighten it out.

H.M.Jr: Well, you finish that job.

Haas: Oh, you want it tonight?

H.M.Jr: Yes.

Haas: I will have it.

H.M.Jr: Is Victor Emanuel Standard Gas?

Haas: Yes, that is where Crowley is going.

H.M.Jr: He is New York Shipping?

Haas: Yes, that is a subsidiary of this former Cord Corporation and he is in Republic Steel and Parmalee.

H.M.Jr: Parmalee Bus?

- 5 -

- Hass: Yes, Checker Cab, Yellow Cab. Those are all subsidiaries of this aviation transportation company. I am making a chart. I thought it would be easier.
- H.M.Jr: I knew he was quite a fellow. You told Elmer to look him up?
- Hass: Yes. There are certain parts of it I can't get any information on, Mr. Secretary. I think there are some personal holding companies.
- H.M.Jr: Well, he is coming in. I just wondered what kind of a gentleman I was meeting with. It is surprising how few people know Victor Emanuel.
- Hass: Sounds like he is king of some country.
- Cochran: Sounds like Italy.
- I have two cablegrams from Brazil this morning. They are going ahead on that plan.
- H.M.Jr: They are going ahead with it?
- Cochran: Yes, sir. Only they are going on the first year, not on the basis of the last year. Of course, the first year is lower than the last year.
- Sullivan: There will be a hearing on Monday morning on the joint resolution for the deficiency for refund for the Bureau and the Bureau can handle that all right but I thought I might just as well get introduced to them up there and dive in.
- H.M.Jr: Fine.
- Sullivan: Yesterday I had a call from a man in the Judge Advocate's office in the Navy Department. He wouldn't even take off his coat. He just wanted my offhand reaction to the Navy Expansion Bill and this tentative amendment to one of the sections which he put on my desk and I read it through and I told him I would be very glad to go into the matter. He said, "No, there isn't going to be time for that because the hearings are to be resumed Tuesday morning and we don't want to

- 6 -

go ahead with this if the Treasury Department isn't with us," and I said, "Well, this is the type of matter that I certainly wouldn't want to address myself to without a letter," that you were away, and it would, of course, have to be submitted to you. He thought he might write a letter but wasn't sure and didn't even want to leave the proposed amendment, and picked it up and put it back in his brief case, but I got it back and dictated it to one of the stenographers and then he said that he thought Mr. Edison would get in touch with you and go over it with you and I said I thought you would be reluctant to do that until after this had been properly submitted and we knew what we were working on, so he finally agreed to write the letter and then this morning called up and said he didn't want me to take that too seriously, that the Admirals were talking with the ship-builders and they might or might not write a letter, but not to consider that anything official had been done.

It was a rather clumsily phrased amendment and I think purposely so, and I think what it really wanted - what he really wanted was just to have authority to say the Treasury approves of this and when the smoke all cleared away the Vinson-Trammell Act would be repealed.

H.M.Jr: That is nice. Any other good news?

Sullivan: Yes, sir (handing letters to Secretary).

H.M.Jr: This rather pleases me. You people may or may not remember that Montgomery was the man who said that I was the only person he would dare go to on the Bloff case and now they are writing me, thanking me for having done it. It all started with him.

Foley: I remember it. It was a very nice letter he wrote.

H.M.Jr: A very nice letter.

All right.

- 7 -

Foley: I am cutting into Chick's territory. Here are the clippings on the Bioff case. I thought you might be interested in them.

H.M.Jr: Should I?

Foley: No, if you don't want to see them. They are all good.

H.M.Jr: No. Does it give the Treasury any credit?

Foley: No, not much.

Schwarz: A little bit.

Foley: It gives the Government credit.

H.M.Jr: Mr. Everard, Secretary of the Board of the Bank of America.

"Re your tel. 19th the hearing mentioned in the order dated January 11, 1940 is scheduled pursuant to the general authority of the Comptroller conferred by law in connection with his examination and supervision of national banks and conforms to the fairest and most accepted methods of administrative procedure. Such a hearing provides the Bank and its Directors with an opportunity to present before a disinterested tribunal any relevant matter before final action is taken by the Comptroller with respect to sanctions authorized by law."

Sounds all right to me.

Bell: O. K. I think it is O. K.

H.M.Jr: O. K.

They own 14 percent of Standard Gas?

Foley: Yes, I think that is right.

H.M.Jr: I don't understand that. This is Standard Gas, isn't it?

Foley: Yes. We traced Giannini's interest in the Pacific

- 8 -

Coast Mortgage and then into the Standard Gas system. It is not a substantial interest.

- H.M.Jr: Standard Gas, 10 percent of this is owned by Blair and 14 percent of Blair is owned by Pacific Coast Mortgage?
- Foley: That is right.
- H.M.Jr: And 10 percent is --
- Foley:owned by Giannini and then the Directors of the Transamerica who are in turn controlled by Giannini, also additional shares in Pacific Coast Mortgage.
- H.M.Jr: I see.
- Foley: It is hard to pin down exactly.
- H.M.Jr: I wonder if there is anything between Giannini and Victor Emanuel. Take a look at this, George, and send it up with that other, see. That is a lawyer's idea of the chart.
- Haas: That is always helpful.
- H.M.Jr: Laughter on my left.
- Foley: Do you know anybody in the Solomon R. Guggenheim Foundation?
- H.M.Jr: Is that the aviation foundation or is that the music foundation?
- Foley: I just don't know. We have seized a large shipment of obscene etchings and pictures that were consigned to the Solomon R. Guggenheim Foundation and we will have to suppress them. I thought you might hear about it.
- H.M.Jr: I thought you were going to tell me you found a still in their office, or something. I don't know anything about it. Go to it. Have you seen the pictures?
- Foley: I have.

- 9 -

H.M.Jr: Should they be suppressed?

Sullivan: While you were out looking at airplanes.

Foley: It is my considered opinion that they should be suppressed, after careful examination of all the evidence.

H.M.Jr: What else?

Foley: That is all.

H.M.Jr: Herbert, have you got your letter?

Gaston: Yes.

H.M.Jr: Will you read it out loud?

Gaston: First I think I should tell you that Feis called this morning and gave me the substance of these things from Brazil. They are standing by the plan that was considered by the Cabinet and Souza Costa called and said they were preparing to make an offer of 50 percent of the Aranha plan, which was their original communication communicated to Caffery last Wednesday and not the State Department's alternative proposition which was to start with last year's payments.

H.M.Jr: What is the difference?

Gaston: There is about a 50 percent increase on the last year's payments.

H.M.Jr: The last one is higher?

Gaston: Yes. The Aranha plan started at about 32 million and went up to about 45, so their plan would start - the Brazilian which they are proposing to announce would start at 32 millions, which would give us about six millions in the first year instead of starting with the last year, which would be a total of 45 million, which would give us about seven and a half.

H.M.Jr: That was a million and a half?

- 10 -

Gaston: Yes.

H.M.Jr: Less?

Gaston: A million and a half less, under the plan they are proposing. Feis told me of these dispatches and said, "I will handle it any way you want. If you want to participate in this thing, I will come over to the Treasury and we will go into it, or if you want to have it referred to the committee of three or if you want to stay out completely, as you indicated to me on Thursday, that is all right with me, any way you want to handle it," and he said, "Isn't that fair?" And I said, "That is fair enough." So, I told him that I would talk to you and promised to give him an answer during the day. He wanted an answer this morning.

H.M.Jr: Have you got that?

Gaston: Now, I wrote a letter - in fact, I have two alternatives, but I re-wrote it to include a paragraph which I thought you might want.

H.M.Jr: Which is the one referred?

Gaston: There is just one letter there.

H.M.Jr: I will read it out loud.

"My dear Cordell:

"I am writing to confirm a decision with respect to the Brazilian debt negotiations, of which Mr. Gaston advised Mr. Feis by telephone today."

Gaston: I haven't yet done so.

H.M.Jr: "This decision is that the Treasury will not participate in the present deliberations and negotiations looking to a settlement of the Brazilian debt matter, but will, however, stand ready and willing to supply any technical assistance in the way of research or computations that the State Department may desire."

- 11 -

"I am impelled to reach this decision by the history and present status of the Brazilian negotiations.

"You will recall my telephone conversation with you on Thursday, in which I told you that we had been asked to give within a matter of a few minutes our approval or disapproval to a despatch which it was proposed to transmit that day to Ambassador Caffery for communication to the Brazilian Government. This despatch was to inform the Brazilian Government that an offer in certain terms for a temporary settlement of the Brazilian dollar obligations would be regarded by this Government as a 'step forward'.

"It seemed to me clearly impossible, as I informed you then, for us to reach an intelligent decision on so important a matter in the time afforded, particularly in view of the fact that we had been so lately informed of the negotiations in which Ambassador Caffery was engaged. Since the offer under discussion affected the interests of private creditors, I also had in mind our obligation to the Bondholders' Protective Council, the representative of those creditors. I was impressed, too, by the fact that the proposed despatch undertook to state the considered view of this Government, which seemed to me to suggest that it ought to have the careful consideration of all of us who have been asked to confer together on these problems."

Obligation to the Bondholders' Protective Committee, does that sound all right? What is our obligation?

Gaston: The obligation implied in the fact that we are dealing for them. It is their claim, not the Government's claim, and also the fact that we brought them into the prior negotiations on the Colombian matter, which were to set a pattern for these negotiations.

H.M.Jr: Do you think that looks all right in print?

Gaston: They say there they are the representatives of those creditors. It is a private claim, not a Government claim.

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Schwarz: It is a moral obligation, isn't it?

H.M.Jr: Yes.

"I therefore suggested that the matter should be given more mature consideration at a meeting on this subject already scheduled for that afternoon, at which Mr. Feis, Mr. Gaston and others were to be present. Mr. Feis was therefore advised that in advance of that meeting the Treasury could give no decision and make no comment on the proposed despatch to Rio. The matter considered in the State Department to be urgent, the despatch was, however, sent and the Treasury Department so advised.

"I am now informed that a reply has been received from Rio which calls for a new decision and that the Treasury is invited to participate in the consideration of what further steps are to be taken.

"The negotiations are now quite obviously far advanced and their pattern has been set. Without implying any criticism of what has been done, I do not feel that the Treasury can contribute anything of value by entering into the discussions at this late stage."

I think it is a very good letter.

Bell: Do you have to write a letter?

H.M.Jr: Yes. I will tell you why, Dan. I want to take time for anybody to talk up. This is very important. Mr. Welles asked me just before he left if I would carry this thing on for him. I said I would. I then found that starting sometime last November there had gone a series of despatches back and forth between the State Department and of which I was in no way informed. I knew nothing about them. Welles left and he said to discuss this thing with Feis. The next thing we know - I don't know what it was, say Thursday morning, Feis called up. It was the

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day the fellow was sworn in. Feis said, "I have got to talk to you." Well, I didn't want to talk to Feis and I let him talk to Gaston, Cochran, White and Cotton. Knowing what it was, that they wanted this answer and White was afraid that it might put me in the hole, you see, I called up Mr. Hull and said, "We have scheduled a meeting for this afternoon to discuss Brazil and I can't give an answer this morning. I want to discuss it this afternoon." He said, "Why, of course, you must have a conference." I said, "Now, is there anything you have got in your mind you want to suggest? If so, let me know." He said, "No, go ahead."

I don't know whether they waited or not, but anyway, they go ahead and send the telegram that the U. S. Government wishes to inform the Brazilian Government that they feel that this proposal that they are making is all right. Now, on top of that, this committee of three is set up, Welles, Feis - Welles, Jones and myself. Jones doesn't know anything about it. We have an arrangement with Traphagen that he is to be our contact. The bondholders' committee know nothing about this, see. Mr. Jones knows nothing about it and I know nothing about it. Therefore, I want to make a record and I want to send Welles a copy so that when he comes back in three weeks he won't say, "You said you would do this; why didn't you do it?" I gave my word. I have given my word to Traphagen that we would work out a model on Colombia and then we would go ahead and do the others. There are other things which I don't care to go into, particularly. There has been a terrific amount of doublecrossing within the Department of State and with the bondholders and the bondholders feel - I have tried to give them a chance to be on the level and they have been on the level, the Bondholders' Protective Committee. Now, the same thing happened to me, you see, the last time Brazil came up.

Bell:

I think the letter is all right. I just thought maybe you could do it informally.

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- H.M.Jr: No, I think it is too important and I want to make a record and I want Mr. Hull to know that the record is there so he can show it to the President and I can send a copy of it to Mr. Welles and a copy to Mr. Jones. I think this is too important. When Mr. Hull sends out a cable that the U. S. Government says to the Cabinet of Brazil they can go ahead and do so and so and pay 50 percent on this thing, I don't want any part or parcel of it.
- Bell: That sounds right to me.
- H.M.Jr: The fact that I called up Hull and said, "Now, is there anything you want to say - we don't want to be hurried --"
- Bell: And the same day he sent the telegram?
- H.M.Jr: I don't know whether it went out in the morning or the afternoon.
- Gaston: I called him up - he called up here about 11:00 o'clock and I called him back around noon and he said, "All right, but I just want to let you know I am going to send the despatch anyway," and in the afternoon when he came in at 2:30 he told me the despatch had been sent.
- H.M.Jr: With 25 years in the State Department, do you (Cochran) think I ought to send this informal or not?
- Cochran: I think you are quite right. The only matter is whether we are going to break up this committee of three.
- H.M.Jr: I am through. I am going to go through with the Colombian thing, see.
- Cochran: I don't like to see the committee of three broken up.
- H.M.Jr: I do. The reason I asked you all, I want you all to know I do this because I can't work with any committee of three composed the way it is.

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- Cochran: I appreciate the difficulties of it.
- H.M.Jr: Merle, I never would have gotten the Tripartite Agreement if it had been a committee of three. The only reason I got it through was because we were able to handle it here, conferring with the President and letting Mr. Hull know. If it had been a committee of three we never would have had a Tripartite. I don't say I can settle the debts in South America, but at least I would have a chance. I can't do it this way and again I am going to do those things this year which - at least I have a chance of 51 percent of being successful and on the other two I haven't. I haven't got a 25 percent chance.
- Cochran: Then if the Brazil units, after the settlement is made, should come up here and want financial assistance --
- H.M.Jr: Let them go and see Jones.
- Cochran: I think that is right, to follow through that way.
- H.M.Jr: You see, where Mr. Hull has permitted himself to be boxed on this thing by his own people, he has consistently said to the President and me that all debt settlements he wants me to handle.
- Cochran: Well, I think that goes for the Government debts.
- H.M.Jr: Maybe you are right.
- Gaston: That is not Government debt.
- H.M.Jr: All right, then we will have a clean-cut issue for the 12 months that are left, still on Government debts. If anybody wants to pay them, let him do it, and that suits me all right.
- Gaston: This is the sort of thing that you have consistently, up until this Colombian matter came up, refused to have anything to do with. It is a matter of private claims.

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- H.M.Jr: I was right, up to the time I got into the Colombian thing. I have been stupid about that. I would like to get out of that.
- Gaston: There still is a lot of negotiation yet, because the status is that they have said they are going to make this announcement. It is not the thing that the State Department asked for, but it is a lesser offering. They have told the foreign representatives that they are going to announce it and they will meet on the 23rd of this month to consider what the foreign representatives will have to say about it before they make the actual announcement.
- H.M.Jr: On Brazil?
- Gaston: Brazil, yes.
- H.M.Jr: Does anybody think I am making a mistake? I realize you have only got part of the story. Does anybody think so?
- Cochran: My only question is if you are going to definitely cut off and not let them approach you on loans, financial assistance, I think you are right.
- H.M.Jr: I am not going to talk with them.
- Cochran: I am tired of this international bank being the same proposition.
- H.M.Jr: We have got that in nice shape.
- Cochran: My fear there is that you are the one, perhaps along with Mr. Jones, who would be obliged to sell this to Congress if we are going to have the funds.
- H.M.Jr: I have said consistently that I won't.
- Cochran: I doubt if you are on record with the State Department.
- H.M.Jr: Then we will have to make a record.
- Cochran: I should include not being approached on financial

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assistance and also the bank, if you are going to break up that committee of three.

H.M.Jr: While we are on it, we will hear what Berle has to say. You will hear about this.

Gaston: I must call Feis and let him know what decision has been made.

H.M.Jr: All right, just a minute. Have you any doubts at all in your mind, Herbert?

Gaston: No, I think that is the best way.

H.M.Jr: I asked you last night.

(On phone) Hello. (Telephone conversation with Mr. Berle follows:)

January 20, 1940
12:21 p.m.

HMJr: Hello.

Operator: Mr. Berle.

HMJr: Right.

HMJr: Hello.

Adolph
Berle: Good morning, sir. How are you?

HMJr: I'm fine.

B: I have two things on my mind. One more or less immediate and the second not so immediate but one that I should like to see you about in Mr. Welles' absence.

The first matter has to do with this inter-American bank. I am in receipt today of a long communication from the Board of Governors of the Federal Reserve System or -- and signed by Goldenweiser and presumably -- or I understand after discussion with this Board. A copy has gone forward to you.

HMJr: Good.

B: It really is in the nature of a commentary on the draft which your group courteously presented and which, in general, is running along nicely in the committee.

HMJr: Good.

B: By and large most of their comments don't present difficulties; their differences are on technical points which are -- which I should imagine the men as between themselves could iron out without difficulty with the exception of one which is the classic question of the capital and control of the bank.

HMJr: Yes.

B: Ah -- there the historic difference of opinion shows up.

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HMJr: Right.

B: Now, how would you like me to proceed in the matter? I -- obviously, we are neither arbitrators nor anything else here. We are merely Chauffeurs, so to speak, and supplying from contact. I would suppose that this would be a thing that would have to be settled by a direct discussion between you and Eccles or something of that kind.

HMJr: Let's do it this way - White is out of town today getting some medical -- his teeth or something.

B: Well, the boy has been working like a dog so if he gets a little rest I'm glad.

HMJr: No, I suggest we wait until he comes back Monday.

B: Right.

HMJr: And then let's the three of us get together.

B: Well, why not. That's first rate and then determine how to handle it with the -- with the Federal Reserve.

HMJr: That's right.

B: I may say that I don't -- for the sake of this situation I have an idea, but I don't take the position on it because I don't think the State Department could possibly try to determine a question like that so please understand that I'm merely endeavoring to.....

HMJr: I understand.

B:be of any assistance.

HMJr: Well, let's say four.....

B: Aside from that main issue, I think -- I think that the -- down there they're very appreciative of the work of the Treasury; they have agreed, and while there are some odd little points backwards and forwards as to what somebody would like to do something different, they obviously can be washed up without, I should think, any great amount of trouble.

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- HMJr: How would four-thirty Monday be?
- B: Four-thirty Monday would be first-rate, sir.
- HMJr: I'll have Harry here and you might -- well, He'll be ready.
- B: I will meet you at four-thirty.
- HMJr: Now, you said you had two things.
- B: Well, now the other thing is a matter which we might discuss then - and I guess probably you've had some official notice on it. Your people have come to the conclusion that they ought to start proceedings to put countervailing duties on swiss cheese.
- HMJr: (Laughs)
- B: I like swiss cheese and therefore I, personally -- I'd rather -- leaving that one item aside. The Swiss Minister boiled in here and he was quite unhappy.
- HMJr: Well, I'll tell you what - we'll divide fifty-fifty. You take the holes and I'll take the cheese.
- B: (Laughs) That's -- that's fair enough. What I thought was, if I might, that perhaps we could discuss that a little.
- HMJr: All right.
- B: I realize the Treasury point of view, which is whenever they get ready to put on countervailing duties we always develop some first-class political reason why it shouldn't be done.
- HMJr: Well, frankly I don't know a thing about it.
- B: Well, I don't either and I gather that what -- what I've learned happens is that this merely arises out of a field report of your very able chief in Paris, who has been there picking up a lot of things. And my own point - of course, the thing that strikes us is this: We've been trying to help the Swiss and the Swiss likewise to maintain their own position in a touch and go situation, and to hit them another crack - we've already hit them one, a hard one, on

their cash-and-carry through Marseilles, and to hit them another crack, of course, does somewhat weaken their neutral position at a time when we've been rather trying to -- so far as we could, rather build up the neutrals a little, but perhaps we can talk about that on Monday after we get through with the other thing.

HMJr: Now, when you come over I'm going to talk to you about this so-called committee of three - Welles, Jones and myself.

B: Splendid!

HMJr: And I am going to try and do something on the Colombian debt because I started it -- with it.

B: Yes.

HMJr: But when that is through, I'm through, and I'm not going to take part in any more negotiations with any countries on their private debt and I'm writing Mr. Hull to that effect - the letter will be in his hands within the hour.

B: I'm sure that we shall miss you but why anybody should join a job of that kind is past my comprehension. It's ghastly work.

HMJr: Yeah. Well, I -- I admit that I was stupid, and I.....

B: I felt -- I -- I very much doubt that on any occasion, Mr. Secretary. I would.....

HMJr: And.....

B:believe anything except that.

HMJr: But unfortunately -- I just can't work the way they have been working. That's the thing. I just can't work.....

B: Well, I -- may I get it -- is this -- reflect a difference in the way they go at it, or ought it to be done alone? My feeling is this ought to be settled and whoever can do it ought to do it and everybody else get out of the way.

- HMJr: You said it and.....
- B: If you can do it, why then I would be in favor of having this Department drop out and stay out.
- HMJr: No. No, they don't want me to do it, and so I say God bless the State Department.
- B: Well, I -- excuse me, but of course I'm speaking as a junior here and not a major factor in this thing, but if the State Department yearns to get in and do that by itself, I think that the State Department is plain damn foolish.
- HMJr: Well, they've -- I won't argue with you about that.
- B: (Laughs) It isn't you that is stupid, but they, if that's it, because quite frankly these negotiations are long and complicated, and tricky things and it does seem to me that the thing that this Department ought to do in that regard is state any international considerations, if any they have, and then if they can find somebody who is a good negotiator and can trade it out, God bless them and let them alone!
- HMJr: Well, you've got one and he's self-nominated and he can go to it. And this letter will be in Mr. Hull's hand within a half an hour.
- B: Well, who's the one - Sumner you mean?
- HMJr: Oh, no. No, no, the self-appointed, self-anointed, self-nominated is Mr. Herbert Feis.
- B: Well now look here, may I talk quite confidentially to you?
- HMJr: Yeah.
- B: This is off the record here. I have been worried about that situation for -- well, it comes damn near years.
- HMJr: Yeah.
- B: I've been worried not so much about that but because -- I mean, I like Feis personally, but I

never know what's being done and maybe I don't have to, but I keep finding out things that I don't understand and things that sometimes you ought to know about, or I ought to know about, or somebody ought to know about.

HMJr: Well, we -- we -- from information furnished us by the State Department, we've done a time-table on what has been done since last November on Brazil, none of which I knew about, and then they held a pistol to my head at 11 o'clock Thursday and said I should agree to something, which I refused to do. I can't do business that way.

B: Well, obviously not.

HMJr: And so I'm just -- I've written Mr. Hull. I told the whole story to him and I -- and I'm out and I'm out permanently; I'm finished.

B: Well, I'm sorry for that. I'm not.....

HMJr:

B:altogether sorry that the issue has been made because something has got to happen here.

HMJr: And I can't work with Feis on the Colombian thing, so I'm going to ask Mr. Hull while I'm trying to clean it up to let -- let me work with you on it.

B: Well, I shall be only too glad though I -- I.....

HMJr: It won't be -- it won't be very arguous, because -- I don't know whether we can do anything and it's just this one country and I -- and I do want to try to do it for the.....

B: Well, I'm entirely at your service for your -- as I say, for your very silent.....

HMJr: It won't be very.....

B: -- silent ear I -- I try not to route anything through E.A. myself because then somebody takes the ball and goes off and hides it.

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- HMJr: But I -- I mean, I just can't understand how you -- your doing something on the Bank and then there's something done on Brazil or some other country, and you don't seem to know anything about it.
- B: Well, I can never get any direct information from up there. Knowledge is power and apparently you don't give away any. That seems to be the principal.
- HMJr: Well, I'll give you this time-table when you come over to show you what was done. I'll give you the whole story on the Brazil thing and.....
- B: All right, sir. I'll talk about that and we'll tackle that on Monday.
- HMJr: Righto.
- B: I'm sorry to have worried you, but I would like to say that on the inter-American Bank business, nobody could have been nicer than your Department.
- HMJr: Well.....
- B: These developments with the Federal Reserve are things that I think will wash out and they're -- they're natural and obvious -- relate to a point of view, but we couldn't be happier -- I think it's perhaps an illustration of the way the thing could be done.
- HMJr: O. K., Adolph.
- B: Except that I wish you'd had your own man chauffeuring it instead of me.
- HMJr: You're doing fine. You keep right on. You just keep right on.
- B: Oh, thank you very much. Four-thirty on Monday.
- HMJr: Good-bye.
- B: Goodbye.

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H.M.Jr: You (Gaston) be here at 4:30, too. This is what he said. He said that he never can find out what Feis does. He lets Feis know what he does and he says Feis just runs with the ball and that is the end of it. He said he can't find out. I like that "self-annointed, self-appointed, self-nominated." That was pretty good, wasn't it, just like that?

Gaston: Without in any way implying criticism.