

DIARY

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January 21, 1939 1940

(Dictated January 22, 1939)

Mr. Ziegler, Chief Engineer of the French Ministry of Air, came to my house at 6 o'clock Sunday night. He has taken over the work of Colonel Jacquin who has returned to France.

Ziegler says that sometime during December, the Germans got out a new Messerschmitt pursuit plane which is some 60 kilometers faster than the Curtiss P-36 and that they now have supremacy in the air. The French had a new plane which was just coming off the line and they have not put it in commission as they felt it was not worth teaching their aviators how to fly this plane as it is inferior to the new Messerschmitt.

He said they want to buy a plane in this country that will do 600 kilometers an hour and it looks as though the only plane we have that can fill the bill is the new Bell fighter which they claim will do 400 kilometers an hour.

When I visited the exhibition at Bolling Field, Saturday, General Brett told me that one of the things they need so desperately is to have some technical man at the Allied front to keep them posted as to latest developments in the air. He said he has been trying for months to get this, without success. He says the only information comes to him through one Curtiss representative who is over there and that he did not know about the information brought to me by Ziegler that the P-36 was considered obsolete by the French.

January 22, 1940

4:30 p.m.

Present;

Mr. Bell  
Mr. Gaston  
Mr. Schwarz  
Mrs. Klotz

HM, Jr: This is what happened. I called up Steve Early and said I am getting on a hot spot again on this airplane business. Was there any reason this so-called Capt. Collins' Board could not be announced by the White House? That that would be the answer. Steve said "Why not? And let's say you are going up Wednesday to inspect these plants and General Brett and Capt. Collins are going with you and, if necessary, take the other two members of the Board. I will either announce it tomorrow morning at my press conference at 10:30 or the President can at his at 4 o'clock." If we had done that with the French, before this fellow dropped out of the plane -- if the hurdles are too high, he will let me know. Early advised the same thing when I went to see him about molybdenum. We had the State Department announce it. Nobody has ever questioned it.

What he wants us to do is prepare a statement showing what the Collins Board is, who is on it and what it is to do.

Now, McReynolds has been in on this. I don't know, Herbert, whether you want him to come over to your office. I want this written tonight, so Steve has it. Mac knows as much about this as anybody. Do you know anything about it, Herbert?

Mr. Gaston: All I know is it is a clearance board to help regulate the purchases of the foreign Governments, belligerent governments, in the United States.

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HM, Jr: Mac wrote the regulations and the whole business. You had better get him and get the whole thing into Steve Early's hands and come out publicly and said General Brett and I are going up there Wednesday to inspect these plants. I can't go to Buffalo without their knowing I go there.

Gaston: Curtiss-Wright?

HM, Jr: Curtiss-Wright and Bell. And let's do this before. I am not going until Wednesday.

You see, what is happening, the Army is again clipping this stuff out "What am I doing this for? I am doing it to give the British and French a break over our own needs."

Mr. Schwarz: Such a statement would throw it right back in their laps.

HM, Jr: Well, it's the President of the United States and if he wants to designate the Secretary or the Treasury or the Director of Public Health or anybody else to go up to Buffalo openly to look out a plant -- can't I go up and look at an airplane plant? What's the matter with that?

Mr. Gaston: What's the matter with that from the Army standpoint is they have had this function of clearance before and it has been taken out of their hands.

HM, Jr: There is smoke there, Herbert! Don't you think there isn't!

Mr. Gaston: I should not wonder.

HM, Jr: "But I wanted Bell to know about this thing. See? Just what's going on. But I will leave it up to you. The whole War Department -- Woodring, Arnold, Johnson, have fought us to a standstill on this thing and the President of the United States wants to do it this way. Woodring and Johnson argue with him so he has to use me. All right! I think I am serving my country by using me. I may have to take the rap. That's all. But get this thing together tonight. Walk it over yourself, Chick. What would you think -- take Coblins over there tomorrow or

just walk it over? No. I think you walk it over to Steve tomorrow and wait in his office. Get there about 9:15. You got any doubts about this, Herbert? I will be investigated and everything else.

Mr. Gaston: No. We had better not have a mystery about it. Haven't hurt anything but the feelings of the Army.

HM, Jr: I can't help it. The President at Cabinet -- tell them what he said.

Mr. Bell: That the Secretary was out investigating airplane plants to see if they could be expanded particularly to manufacture engines, not only to meet our own needs but also foreign needs. Monday morning it was in the paper. That's all he had to say at the Cabinet meeting.

Mr. Schwarz: It's so simple that by speculation it becomes complex.

HM, Jr: I can explain it, but I can't say I am doing it at White House orders. Well, why doesn't the White House say there is a Collins Board and Steve Early says "let's say it before some Frenchman drops out of a plane."

Mr. Gaston: We might mention the Coordination Board which the President had, the Chairman of which was the Director of Procurement. Coordination Board on Army and Navy purchases.

Mr. Schwarz: As a precedent.

(At this point, HM, Jr spoke to Mr. McReynolds and following is the Secretary's side of the conversation.)

HM, Jr: Listen, we are fixing up some publicity for Steve Early on what I call the Collins Board and inasmuch as you drafted that thing, come on over to Herbert Gaston's office and help the boys fix it up. Right away. Big day to find you there at a quarter of five! All right. Gaston will be waiting for you.

January 22, 1940  
4:35 p.m.

Captain  
Collins: I was wondering if it would be possible at his request to let Bell come in to see you for just two minutes tomorrow?

HMJr: Well, now you and I are going up there Wednesday.

C: I didn't know that.

HMJr: Well, it has just been arranged.

C: Oh, I see.

HMJr: And he'll hear from General Brett right away. He's going to call him.

C: Um-hm.

HMJr: We're going up there Wednesday.

C: Am I going with you, sir?

HMJr: Yeah.

C: I see, sir.

HMJr: And the White House, unless they change their plans, are going to announce the so-called Collins Board and the fact that you and I are going up there.

C: I see, sir.

HMJr: They're going to do it right out in the open.

C: I see. Well.....

HMJr: Bell could come in and see me tomorrow and.....

C: What time would be convenient?

HMJr: Eleven-thirty.

C: Yes, sir. He'll be there.

HMJr: What?

C: I'll have him in then.

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HMJr: Eleven-thirty.

C: Yes, sir.

HMJr: I think that you ought to -- I'm going to have Gaston and "Chick" Schwarz write a release for Early.....

C: Um-hm.

HMJr: .....and I think you better come over here to Gaston's office and see it and help. When could you come over?

C: Any time you say. Tomorrow you mean?

HMJr: No, now.

C: Oh, well I could come over now.

HMJr: Well, come over to Mr. Gaston's office, will you?

C: I'll do that.

HMJr: Right.

C: Yes, sir.

HMJr: Thank you. And now that's for Bell tomorrow at eleven-thirty?

C: Eleven-thirty, sir.

HMJr: Righto.

C: All right, sir.

January 22, 1940  
4:22 p.m.

HMJr: Hello.

Operator: General Brett.

HMJr: Hello.

Gen. Geo. H.  
Brett: General Brett talking.

HMJr: Morgenthau.

B: Yes, sir.

HMJr: How are you?

B: Fine and dandy, how are you, sir?

HMJr: General, I thought that I'd, after lunching with the President, that I'd go on up to Buffalo as you suggested and see the Curtis and the Bell plant.

B: Yes, sir.

HMJr: Now, is Wednesday all right?

B: Wednesday is fine, sir.

HMJr: Well.....

B: I.....

HMJr: What airports do you go to?

B: Well, we go right to the -- the Buffalo airport, sir.

HMJr: Does.....

B: And either Bell -- either way you wish it - whether you go to -- desire to go to Bell first or Curtis first, why their representatives will meet you and then we'll go right out to the factory and go through the factory, spending as much time as you wish. Then we can go from there directly over to the Curtis factory and spend as much time as you wish there.

- 2 -

HMJr: Which would you suggest going to first?

B: Well, I would suggest going to the Bell first, sir.

HMJr: All right. Now -- we'd only go if it was a good day.

B: Yes, sir.

HMJr: What time would you leave in your plane?

B: Well, my plane does about 150 miles indicated air, which varies from 135 up to 180, and I would -- I think it's approximately an hour and forty-five to two hours' trip.

HMJr: Leave about eight o'clock?

B: What's that, sir?

HMJr: Leave about eight?

B: Eight would be fine. Where do you take off from?

HMJr: Washington Hoover.

B: You take off Washington Hoover.

HMJr: Yeah.

B: Well, I could keep in touch with you and -- in fact, just follow you up as far as that's concerned. About what speed do you make?

HMJr: We cruise -- I've got a Lockheed. We cruise at about 160.

B: Yeah. Well, I'm -- I'm afraid you're a little faster than I am then so I'll plan -- I'll tell you what I'll do, Mr. Secretary, I'll plan to take off - oh, probably half an hour, thirty-five minutes ahead of you. If the weather is O.K - I'll get a report - have my pilot get a report from your pilot and if you're planning to take off at eight-thirty I'll plan to take off around seven-thirty so that -- in view of the fact that I'm slower.

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HMJr: Well, I'll take off at the -- supposing I take off at eight-thirty?

B: All right, sir. You take off at eight-thirty and I'll take off at eight.

HMJr: Yes. Now, my pilot's name is Burke -- B-u-r-k-e.

B: B-u-r-k-e.

HMJr: And I'll have him at the weather bureau at the Washington Hoover field at seven-thirty.

B: O.K., sir.

HMJr: See?

B: Yes.

HMJr: And how could he contact your man?

B: Well, I'll have my pilot, whose name is Berry -- I'll have my man contact your pilot at -- at seven-thirty, sir.

HMJr: At the.....

B: At -- he'll call him at the Washington Hoover Airport.

HMJr: Yes. Well, he'll -- the weather bureau.

B: Yes, sir.

HMJr: It's -- he's a Lieutenant in the Coast Guard.

B: Yes, sir. I'll have him call your man there.

HMJr: And they can decide between them whether the weather is all right to go.

B: Yes, sir.

HMJr: Will you make the arrangements with Bell?

B: I'll make all the arrangements with Bell, yes, sir.

HMJr: All right.

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B: I'll get a wire off stating that we're planning to leave here eight-thirty on Wednesday, should arrive about ten.

HMJr: Yes.

B: Inspect the Bell factory first and then followed by an inspection of the Curtis factory.

HMJr: I'm -- I'll plan to take off at eight-thirty.

B: Eight-thirty. Yes, sir.

HMJr: And I think I'll take Collins with me.

B: Very well, sir.

HMJr: Do you know him?

B: Oh, yes. Captain Collins.

HMJr: Yes.

B: Oh, yes.

HMJr: You get along all right with him.

B: Very well, sir.

HMJr: What?

B: In fact I get along very well with everybody.

HMJr: (Laughs) Well, so do I, but it isn't always two ways.

B: Yes, sir. Well, I'll.....

HMJr: Now, I'm not -- I'm going to try to keep this quiet because I don't like any publicity.

B: Very well. Well, I can -- in fact Larry Bell is up at -- he was up at the Carlton this afternoon. I'll try and get in touch with him and tell him that we're coming and there is to be no publicity.

HMJr: Right. Right.

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B: So we'll just slip in and nobody would know anything about it.

HMJr: The President had a grand time there Saturday.

B: Oh, good.

HMJr: Yeah.

B: I want to thank you for helping us out on that.

HMJr: Well.....

B: We were very anxious to have him come but we didn't know quite how to persuade him to do it.

HMJr: I'm having a little trouble now with the press because they say that -- the same thing they started last time, that I'm trying to push things for the Allies over the -- our own domestic requirements, which of course isn't true.

B: I see.

HMJr: As long as the President wants me to do this I'll do it and I'll have to take the rap I guess.

B: I see. Well, I'll tell you we'll get a much better picture of it after we've been to Buffalo.

HMJr: That's right.

B: Yes, sir.

HMJr: All right. I'm looking forward to it.

B: Yes, sir. Bye-bye.

January 22, 1940

Present:

Mr. Victor Emanuel  
Mr. Beal  
Capt. Collins  
Mrs. Klotz

Mr. Beal: We are going to have the Lycoming engine running by June and delivered to the Navy in September.

HM, Jr: Let's say it is acceptable and the engine is a success, beginning with September 1940 you say it will take ten months to tool up, provided you can get them. Have you talked to the machine tool people?

Mr. Beal: Yes, we have, and they are full to capacity at the moment and are behind. I have an idea that things can be done to expedite those deliveries -- plant expansion in the machine tool industry. For a program of the kind you want, we will need 1,600,000 feet. If we were to get an order to produce 1,000, we could not do it at Williamsport, but if we were to produce 250 a month we could do it at Williamsport. We would need a footage requirement of 500,000 square feet and would use the plant we now have at Williamsport for an experimental plant. We would put the new plant somewhere near the airport.

HM, Jr: Have you studied the tools which are available at Packard and Reo?

Mr. Beal: The aircraft engines are different from automotive engines and are not, therefore, adaptable.

HM, Jr: If there was an order out for 1,000 engines a month, you would have to build a new plant and supplement the tools that you have. You say that in September you will deliver these engines to the Navy. Let's call it October. And you say ten months to tool

-3-

up, and I will say a year. Then you would have over a year to build a plant and get ready. By the time you get your plane tested, it will be out of date. However, I may be wrong. 1,000 horsepower will not be large enough.

To produce 200 engines a month, for the plant, tools, etc., how much would it cost?

Mr. Beal: \$10,000,000 to \$15,000,000 for the plant and tools.

Hi, Jr.: Would you have to go out and sell stock to raise this money?

Mr. Emanuel: We would either have to do that or dispose of other assets that we have, and in a large program of this sort we would be willing to do that provided, of course, that it was profitable to use. We have stock in the American Airlines, about \$10,000,000; also 10% of the stock of Pan American, which amounts to about \$2,500,000 to \$3,000,000.

Hi, Jr.: Do you have any New York Shipbuilding stock?

Mr. Emanuel: Yes. We have two companies. We have about 110,000 or 115,000 shares.

We have real estate and stock exchange securities and, as I said, we have enough assets to sell provided that this program would be profitable to us. We would like to go into the airplane manufacturing.

Hi, Jr.: Would you? On account of the delay in this, supposing you could get a license for one of the accepted engines, would that interest you?

Mr. Emanuel: Very much.

Hi, Jr.: What about Rolls Royce or Pratt-Whitney?

Mr. Emanuel: Rolls has approached us to make some parts for them and we are figuring on that.

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HM, Jr: I understand that you are making five hubs a day for Curtiss-Wright and that they want you to make seven, but that you have nothing from Pratt-Whitney.

Mr. Emanuel: That is correct.

We have enough assets to finance ourselves if the aviation program will be a profitable one for us.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France,

DATE: January 22, 1940, 5 p.m.

NO.: 103

The following is personal and confidential for Secretary Morgenthau from Matthews:

References: Your letter of October 4 asking that certain messages be transmitted to Mr. Wayne Taylor. Telegram No. 94 of January 19 from the Embassy.

I had lunch today with Mr. Taylor. He said that he had several important impressions about the situation in Finland which he would like me to transmit to you by cable. Finland in the first place, he said, is in desperate need of every sort of munitions and arms. As for the munitions, fortunately Finnish guns are of a similar caliber to those of the Russians, and captured supplies have enabled them to keep going to a large extent. Notwithstanding this, when Mr. Taylor left on Christmas eve the Finnish military were even then compelled to husband the munitions they still had. In this regard the most help has come from Sweden, but even so the game will be up unless large quantities of munitions, guns and airplanes are received by Finland by spring.

He emphasized a second point, and that was that these supplies and supplies of the Red Cross are needed immediately.

Mr.

- 2 -

Mr. Taylor said he is not familiar with the shipping situation, and he was not inclined to put forth any reasons or blame for the lack of transportation facilities; however, he felt that the fact that important quantities of Red Cross supplies and other materials which are very much needed are being held at New York because ships are lacking for their transport - whether neutral, Allied or American ships - (omission) the Finnish cause serious harm. Mr. Taylor said that January 19 was the first date on which a Red Cross ship cleared, and he expressed the hope that it might be possible for you to bring some pressure to bear to influence this particular aspect of present circumstances. He mentioned that food is the one thing that the Finns are not in need of, and that it would be a loss to the cause of Finland if any cargo space were wasted on shipments of food.

The Finns have found very useful the money and funds which have been received through the Hoover Relief Committee. However, Mr. Taylor said that the volume has been disappointing, and he expressed the hope that somehow there will be forthcoming a larger volume of voluntary contributions. Mr. Taylor felt it would be of only limited aid to Finland if the United States Government made any loan with restrictions preventing its utilization for

arms

- 2 -

arms purchases - and he said he is well aware of the factors influencing such restrictions.

He said that one of the principal reasons for the defeat of Finland would be the lack of man power, unless substantial quantities are furnished by the Allies in the near future, through an expeditionary force, a move which is very much favored by Mr. Taylor. The 15,000 volunteers from Sweden he said are excellent, but that sheer exhaustion is taking its toll of the forces made up of Finns.

END SECTIONS ONE TWO AND THREE.

BARNES.

EA:LWW

PARAPHRASE OF SECTION FOUR OF TELEGRAM NO. 103 of  
January 22 from the American Embassy, Paris.

Mr. Taylor said that the situation in Finland could not be better from the point of view of morale and organization. However, he said that the leaders do not have any illusions that once spring is here they will be able to hold out in the absence of much more assistance by way of men, money and munitions than has so far appeared on the horizon; he added that the Finns are spending a pearl at a time, but that it would all be over by summer unless they received assistance in a big way from the Allies or from the neutrals.

END OF MESSAGE.

BARNES.

TO DIRECTOR, FBI  
FROM AMEMB, PARIS  
JAN 22 1944  
RECEIVED



DEPARTMENT OF STATE  
WASHINGTON

*[Handwritten signature]*

January 22, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information one copy of paraphrase of telegram No. 103 of January 22 from the American Embassy, Paris.

*e. J. [unclear]*  
*4-129-L6*

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

JAN 23 1940

RECEIVED

HE

January 22, 1940.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston



Herbert Feis called me today at 3:50 P.M. to tell me the following: He said I was probably familiar with the fact that Brazil had quite considerable iron deposits. United States Steel Corporation, he said, on its own motion and not as the result of any suggestion by this Government, had sent a committee of seven experts to Brazil to look into the possibility of developing these resources. The report of these experts has been received and a tentative decision is understood to have been reached that United States Steel will not go into Brazil. The State Department thinks it desirable to review this situation. Accordingly they are calling a meeting for Wednesday at three P.M., to be participated in by representatives of various departments. State will have a memorandum prepared for discussion. The purpose is not to reach any decision but merely to see if any good ideas can be evoked through discussion. There will be persons present representing the R.F.C. and Commerce and a representative from the Treasury Department is asked. Ed Noble expects to attend and possibly Jesse Jones himself. I told Mr. Feis that we would be represented.



DEPARTMENT OF STATE  
WASHINGTON

January 22, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information three copies of despatch No. 4265 of January 3, 1940, from the American Embassy, London, transmitting a memorandum by Mr. Butterworth setting forth the information he conveyed to the Embassy in Paris at the request of the Secretary of the Treasury.

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

BWD MM SS MW 2 21

RECEIVED  
TECHNICAL ASSISTANT

LONDON, January 3, 1940.

No. 4255

SUBJECT: The Department's 1668, December 26,  
12 noon.

CONFIDENTIAL

The Honorable  
The Secretary of State,  
Washington.

Sir:

In compliance with the Department's 1668, December 26,  
12 noon, I have the honor to transmit herewith a Memorandum  
by Mr. Butterworth setting forth the information he  
conveyed to the Embassy in Paris at the request of the  
Secretary of the Treasury.

Respectfully yours,

Herschel V. Johnson  
Chargé d'Affaires ad interim

Enclosure:

- 1. Memorandum as stated.

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

NOV 2 1940

TREASURY DEPARTMENT  
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ORIGINAL

WWB/JC

MEMORANDUM

En route from the United States to London I reached Paris at 6:45 a.m. on Saturday, December 16, and left the Air France Terminus at 12 noon on the same day.

Before leaving Washington the Secretary of the Treasury suggested that I see M. Rist in Paris who had first raised with Mr. Matthews the question of exports of molybdenum and that I inform him of the agreement of the American molybdenum producers to refrain from exporting to Russia or Japan for the time being. In turn, I suggested that since developments would no doubt occur in connection with this question between my departure from Washington and my arrival in Paris that a telegram of information and instruction be sent care of the Embassy in Paris which would form an authoritative basis for any talk I might have with M. Rist. Since I was informed by the Embassy in Paris that no such telegram had been received I did not seek an appointment with M. Rist. Nor did I see any other official of the French Government or of the Bank of France.

As reported in my 2657, December 18, I did have the opportunity of talking with Mr. Matthews and Mr. Offie and I had a telephone conversation with Ambassador Bullitt who was at his country place at Chantilly. I left with Mr. Matthews, and I so informed Ambassador Bullitt, two copies of the following enclosed documents:

- (1) "Notes on World Production of Molybdenum and on Consumption by Certain Countries" which was given to the Secretary of the Treasury on December 6 by the Climax Molybdenum Company and

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(2) a letter of December 9 which Mr. Paul D. Merica of the International Nickel Company wrote to Mr. Arthur B. Purvis, a copy of which the latter posted to me care of the Pan American Clipper.

These documents constituted the only written material which I had on this general question.

I also gave Messrs. Matthews and Offie such oral information as I had. I explained that I was in New York at the Federal Reserve Bank on the afternoon of Friday, December 8, when Mr. Morgenthau telephoned and instructed me to call immediately upon Mr. Purvis and after talking with him to take the night train for Washington; that when I saw Mr. Purvis he had returned that morning from Washington where he had seen Mr. Morgenthau and discussed the problem of the prohibition of molybdenum exports in relation to the other elements composing alloy steels, that after seeing Mr. Morgenthau he had talked with Mr. Stanley of the International Nickel Company who, on his own initiative, had agreed that no further nickel exports to Russia would be made by his Company but he could not undertake any commitment as regards exports to Japan without prior consultation with his London associates; that Mr. Merica, the Chief Metallurgist of the International Nickel Company, was to prepare a brief report on the dimensions problem which is now to be found in the letter to Mr. Purvis of December 9. I also informed Messrs. Matthews and Offie that I had attended on Saturday, December 9, the meeting between Mr. Morgenthau and the officials of the Climax Molybdenum Corporation and was given at that time a copy of the "Notes on World Production of Molybdenum and on

Consumption by Certain Countries", the original of which had been supplied to Mr. Morgenthau on December 6. I stated that it was agreed at the meeting that the Climax Molybdenum Corporation would formulate proposals which would be presented to Mr. Morgenthau in the course of the following week, that at the meeting the officials of the Climax Corporation had expressed opposition to the idea that the British and French might, by way of compensation, build up unusual stocks of molybdenum as being contrary to their general business policy but that they appeared to want an opportunity to demonstrate the extent of the utility of their product to our own Navy as well as to the British and French steel industries. I also stated that when the officials of the Climax Molybdenum Corporation were asked whether in delaying any sales to Russia or Japan they could not advantageously refer to the President's public statement of December 2 they stated that the amount of molybdenum which went into an airplane was so small that they felt it would be better merely to adopt a policy of delay in any dealings which they might have in the very near future with either of these buyers until the whole position had been further clarified.

I also passed on a message from Mr. Morgenthau that although unusual efforts had been made in Washington to meet the French Government's urgent demand in the matter of aluminum, including the personal intervention of the President with the aluminum company, the French representative mentioned in the Paris Embassy's telegrams had not made his appearance in Washington and the French Embassy in Washington knew nothing of him.

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I also passed on to Mr. Matthews a personal message from Mr. Morgenthau to the effect that he would prefer Mr. Matthews not to send his telegrams "From Treasury" and use "we" as the personal pronoun since he found it confusing, but to send them "For Treasury from Matthews" and employ the personal pronoun "I".

W. W. BUTTERWORTH

LONDON, January 3, 1940.

December 5, 1939.

NOTES ON WORLD PRODUCTION OF MOLYBDENUM  
AND ON CONSUMPTION BY CERTAIN COUNTRIES.

Production

The production of molybdenum for the year 1939, so far as can now be estimated, will be approximately as follows (figures are in pounds of molybdenum contained in all forms of molybdenum products):

U.S.A.

Climax Molybdenum Co.	-	22,000,000	
Kennecott Copper Corp.	-	4,000,000	
Molybdenum Corp. of America	-	600,000	
Miscellaneous	-	<u>200,000</u>	26,800,000

Other Countries

	-		
Mexico	-	1,000,000	
Norway	-	1,000,000	
Morocco	-	300,000	
Miscellaneous	-	<u>100,000</u>	2,400,000

Total for the World - 29,200,000 lbs.

As indicated above, Climax accounts for about 75% of the world production.

Because of business conditions Climax' production in 1939 will be lower than it was in 1938. During recent weeks, however, Climax has considerably increased its rate of production and at the moment is producing at the rate of approximately 22,000,000 lbs. per annum.

Kennecott's molybdenum is a by-product of copper in its Utah mine. Its molybdenum production therefore varies according to its copper production. Kennecott is known to have increased during the last few weeks its rate of producing copper and, hence, molybdenum.

Russian Purchases

Climax made a contract in November 1938 with the USSR for the total Russian requirements of molybdenum for the year 1939. Shipments against this contract are almost completed. The product is shipped to Russia, as to most European buyers, in the form of molybdenum sulphide concentrates. The requirements were estimated in the contract at 6200 metric tons of concentrates, with the provision that if the USSR needed more concentrates they would give Climax a chance to supply the same. They did need more, so that the total shipments under the contract are estimated, instead of 6200 metric tons, at 8200 metric tons, equivalent to approximately 9,700,000 lbs. of molybdenum contained.

The molybdenum concentrates are delivered to the Russians f.o.b. New York or Baltimore, cash against railroad bill of lading. Climax has nothing to do with the shipping arrangements beyond that.

The total estimated Russian purchases of molybdenum for the past three years are as follows:

1937	-	8,700,000 lbs.
1938	-	8,000,000 "
1939	-	9,700,000 "

About a month ago Amtorg approached Climax regarding next year's requirements. They intimated that they would want to make a contract based on estimated requirements of 3000 tons for the year (which would be less than 40% of what they took this year, but with a provision similar to the one in the present contract whereby they might apply to Climax for further quantities. The discussion on the contract for 1940 was general in nature and came to no conclusion. Nothing further has been heard from Amtorg on the subject since then.

Under the contract the USSR guarantees not to re-export the molybdenum products as such and promises to consume the molybdenum in Russia. Naturally, Climax has no way of checking up as to the fulfillment of this guarantee once the material has been loaded on steamers for Russia.

In view of Russia's large purchases this year it would seem likely that she will begin 1940 with a large stock of molybdenum on hand.

#### Purchases by Certain Other Countries.

Climax' sales to Germany, England, France and Japan for the last three years have been as follows (all in pounds of molybdenum contained):

	1937	1938	1939 (to date)
Germany	- 8,900,000	8,840,000	2,448,000
England	- 3,722,000	1,681,000	2,500,000
France	- 1,058,000	880,000	1,065,000
Japan	- 530,000	1,218,000	3,500,000

The consumers of the above countries, unlike Russia, make purchases also from other producers than Climax. Since, however, Climax accounts for 75% of the world production and since the other producers sell part of their molybdenum in the United States, it would be not far off to assume that the Climax sales to the four above mentioned countries account for at least 75% of the total purchases of the said countries.

Sales to Japan are made through the leading Japanese export-import houses. Deliveries to Japan, like those to Russia, are made f.o.b. American ports, cash against railroad bill of lading. The Japanese make a guarantee similar to the Russian that the molybdenum will not be re-exported but will be consumed in Japan.

Paul D. Merica  
67 Wall Street,  
New York City.

December 9, 1939.

Mr. Arthur B. Purvis,  
25 Broadway,  
New York, N.Y.

Dear Mr. Purvis:

Following our conversation yesterday, I offer these comments on the alloy steel situation. In order to be brief, I have had to "over generalize" and you will appreciate that there are many qualifications that should be added if even this limited area of the whole problem were to be presented in its real complexity.

1. Alloy steels include "constructional" or "structural" steels, for which combinations of chromium, copper, manganese, molybdenum, nickel, silicon and vanadium are currently used and tool steels, particularly "high speed" steels, for which tungsten, chromium, molybdenum and vanadium are used. For all of these steels, as well as for plain carbon steels, manganese and silicon may be regarded as the most essential constituents (although Germany is reported to be using a "Nazi" manganese-free steel, details of which I do not have).

2. Referring for a moment only to "constructional" steels, the alloys may be divided into two groups -

- (a) molybdenum, nickel and vanadium which in various combinations usually with chromium and manganese yield the high grade alloy steels, and
- (b) chromium, manganese, silicon (and copper) of which combinations may be produced having properties approaching those of "a" but which are generally inferior in reliability and uniformity; these are "substitute" grades of alloy steels.

The heavier the section of the steel article and the more severe the service requirements, the more evident is the disparity in performance between these two grades of steel. There is a considerable and normal diversity in practice in specifying alloy steels and a good deal of substitution within the general limits suggested above takes place here and abroad.

3. Generalizing very broadly, unavailability of the "a" alloys would seriously cripple the production of heavy alloy steel forgings, - large guns, heavy armor plates, locomotive and machinery heavy forgings and dies and would impair the efficiency and reliability of automotive construction (trucks, tanks, tractors), and particularly that of airplanes. It would not, however, absolutely require general redesign. Unavailability of the "b" group as well would, however, in most cases require redesign of equipment and machinery and would induce a major dislocation of production. Only by shutting off both "a" and "b" alloys, therefore, could major interruption of "high performance" steel production be secured; a more limited restriction would bring merely irritation and friction by break-downs and unreliable performance.

4. To particularize a moment: the extent to which substitution may be made in alloy steel obviously depends on many factors, including particularly the status of design and the efficiency of manufacturing production. It will vary widely and in different industrial fields. In the fields of:

- (a) Small arms, ammunition, machine guns, etc., "a" group alloys are hardly used; and the "b" alloys are entirely adequate.
- (b) Large guns, heavy armor plate, armor piercing projectiles, heavy industrial forgings, large dies, etc., "a" alloys are almost necessary; and substitution of "b" alloys would work real hardship.
- (c) Automotive vehicles, trucks, tanks, tractors, "a" alloys are distinctly preferable; but "b" alloys could be substituted without such design change but with lowered reliability of performance and endurance.
- (d) Airplanes, "a" alloys almost necessary for vital parts; substitution of "b" alloys would certainly work hardship.
- (e) Locomotive and railroad equipment, "a" alloys are distinctly preferable for heavy parts; but "b" alloys could be substituted: carbon steels could even be used in part.
- (f) Machinery and machine tools (excluding working tools themselves), except for heavy parts (press forgings, dies, etc., "b" alloys could be substituted for the preferable "a" ones; much could be done even with manganese-silicon steels if necessary.)

5. Inasmuch as production of nickel (Canada), or molybdenum (U.S.) and of vanadium (Peru) is fairly sharply localized, supply of these alloys might without too much difficulty be controlled. On the other hand, Russia is the principal producer of manganese; ferro-silicon is or could be produced anywhere; and chromite ore is widely available (currently produced in Yugoslavia, Greece, Turkey, Cuba, Philippines). It would appear at least difficult to achieve adequate control of all of the "b" alloys necessary to achieve the larger objective of paragraph "3".

One should also not overlook the important position of Russia controlling the major portion of the production and export of the high grade manganese ores which are almost essential for steel production; the strategic vulnerability of such supplies as antimony (China) might similarly be noted.

Referring now to "tool steels", the unavailability of tungsten (as well as of its analogue, molybdenum) for "high speed" tool steels (containing also chromium and vanadium) would seriously cripple manufacturing production of steel equipment. A major portion of tungsten production in Central China is, however, not invulnerable strategically and diplomatically to Russia and Japan.

These are rather disjointed comments but I thought you might care to have them today even in this form. I shall be glad to pursue the subject further at your suggestion.

Yours very truly,

(Signed) Paul R. Davies

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GENERAL INVESTIGATIVE  
DIVISION  
JAN 25 1945  
U.S. DEPARTMENT OF JUSTICE

JAN 25 1945  
U.S. DEPARTMENT OF JUSTICE

# The University of Chicago

Department of Economics

January 22, 1940

31

Secretary Henry Morgenthau, Jr.  
Treasury Department  
Washington, D.C.

Dear Henry,

Once more I have to express my apologies that the demands of my regular job have made it impossible for me to find time to read the draft of a speech which you sent me until the week end. I have now read it carefully, and have made some marginal comments and queries with respect to details. As for the speech as a whole, I know you want my honest opinion, and want it expressed frankly. It is essentially a political speech, in support of the New Deal, could be given appropriately only on a political platform, and would receive a cold, if not hostile, reception from any audience which is not already definitely and unqualifiedly committed to the New Deal. There is almost no argument in the speech, and it consists largely of more-or-less dogmatic claims with respect to debatable issues. The claim that only reactionaries can be critical of the New Deal is argumentum ad hominem, and is not fair treatment of at least some of the critics.

If the speech is intended to provide a public demonstration that the Administration has your full support, it might be of some help to the Administration, and for this purpose it seems to me to be rather cleverly designed, for it avoids dealing with the more controversial aspects of the New Deal in terms specific enough to open you to very effective rejoinder either from its critics in general or from critics of particular items in the program and record of the New Deal. If such is the purpose of the speech, I would suggest that it be not given until the campaign is in full swing, and be given then under auspices which make it clear that you know you are making a political speech. If the speech does not have this as its primary purpose, I can't see what other purpose it can usefully serve, but you may of course have something in mind which I have not guessed, and which makes the above comments irrelevant.

I hope that things are going quietly and smoothly at the Treasury.

Cordially,

  
Jacob Viner

JV-W

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These are troubled days, in which grave questions concerning our relations with the outside world press for consideration. Of this, no one could be more aware than I, dealing, as I do, with our day-by-day fiscal, monetary and foreign-exchange problems. But Europe and Asia must not be permitted to divert our attention from our first responsibility, the internal welfare of our own country.

Here in this country we have a political tradition of democracy, an economic tradition of capitalism. But whatever system of government or mis-government Europe chooses, be it Fascism, Nazism, or Communism, for us here in America only one system is thinkable. We mean to hold fast to democracy and capitalism because we think they constitute the best political form, the most efficient economic instrument and the highest social

order that has yet been devised. By democracy we mean that the government of the community exists for the interests of the individuals composing it; that every individual is equal before the law and has rights of which he cannot be deprived by arbitrary fiat; that every citizen <sup>of</sup> whatever race, color, creed or sex has the right to participate in the governing of the nation.

By Capitalism I mean the system of free enterprise and private property in which the driving force <sup>is</sup> of competition and the profit motive. All the great achievements of our nation have been accomplished under this partnership of capitalism and democracy. They are the twin pillars upholding our order of society.

Democracy and capitalism, however, can continue only if they are successful, only if they can deliver the goods. What, then, should our objectives be? We

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must have a constantly rising standard of living. We must have economic security. And, parenthetically, the annual wage already established by certain forward-looking concerns is a courageous attempt to grapple with this problem. And, finally, we must make it possible for many more people to acquire private property.

The problem that is ever present in my mind can best be stated not in the language of economists, but in human terms. What hope have bright, plucky boys or girls, leaving high school, of acquiring a profitable business of their own in their life times. Unless this simple question can be answered "Yes, he has a chance", all talk about free enterprise and the driving force of competition is mockery.

The difficulty of American youth in establishing itself in business is not the whole problem. It is true that unless we have an economic system that has both stability and growth, the small producer, whether he be on a farm or in business, has little prospect of ultimate success. Yet it is no less true that without an opportunity for the small business man to be successful, we cannot have stability or growth.

I should like to indulge in a figure of speech. One of the admirable achievements of the New Deal has been its conservation of forest resources, its teaching of the importance of re-planting cut-over forest areas. It is similarly true that men and women, young or old, who want to start a taxi stand, a coffee shop, a clothing store or a machine shop are the seedlings of capitalism. When they die out our system of capitalism with its free enterprise and private competition is also dead.

From my experience at the head of the Farm Credit Administration, I know what the New Deal has done to help farm boys and girls to own their own farms. They have today the means of acquiring technical education in agricultural colleges of an extremely high quality. Through agricultural cooperatives organized under the auspices of the Federal Government they have access to credit on terms more favorable than ever before in our history. While they are engaged in paying for their farms they can call on the government for many valuable services. If we could do as much for the courageous boy or girl who wanted to establish himself or herself in a small shop or small factory we will have gone a long way toward making our capitalist system successful.

In the nature of things, Americans cannot all be in business for themselves. We can hope to have a nation of one-family farms, but a nation of small businessmen

would throw us back to the cottage industries of the  
 Eighteenth Century when a pair of shoes cost a month's  
earnings. Most Americans in industry will be wage  
earners.

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What should capitalism mean to them? Among other  
 things it ought to bring to them, as consumers, constantly  
 better and cheaper goods, which is another way of saying  
 a higher standard of living. It ought to give them a  
 constantly increasing measure of economic security.

- (1) It ought to preserve for them the freedom to enter what-  
 ever employment they please, and to become members of  
 the labor union of their choice, the first rights which  
 totalitarian systems take away from the worker. It  
 ought also to provide for a more widespread ownership  
 of private property.

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Again I want to speak of simple things. The best  
 form of private property is the home. Capitalism must

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make it possible for more and more people to own their own homes. Perhaps no other problem has so occupied members of this Administration as the diffusion of home ownership. I myself have participated in continuous attempts to spread home ownership and I know how much serious effort has gone into the program. Nothing so certainly expresses the phrase "the more abundant life".

Again the system should give wage earners a reasonable hope of accumulating the savings that will permit them to help their children, to give their children an easier lot and a chance to go further in the world. It should also give them the hope of savings adequate to supplement the old age payments that, at last, the New Deal is bringing to the greater part of our citizens.

When the New Deal came into power in 1933, this country was moving away from these objectives of a

higher standard of living, of greater economic security and of more widespread ownership of private property at so alarming a rate that the very structure of capitalism was being threatened. All through the preceding four years this trend away from these objectives of democracy and capitalism had gone on at an alarming pace. By 1933, the separation of people from their homes, farmers from their farms, businessmen from their businesses, investors from their savings, workers from their jobs and youths from their families was delivering shattering blows to our system of free enterprise, property rights and production for profit. The great achievement of the New Deal was that it immediately directed all its energies towards reversing this disastrous trend, that it at once took measures to strengthen the foundations of democracy and capitalism.

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One of the first steps of the New Deal was to take in hand our tottering banking system. Free enterprise cannot thrive without a sound banking system. Therefore the New Deal at once introduced banking reforms which have cut down our banking failures from 27 hundred a year to less than 50. Fewer banks <sup>per annum</sup> fail now than at any time in the past century and the small depositor is virtually immune from the loss of his deposits.

It adopted the S. E. Act, <sup>c.</sup> one of the important steps which were taken to help safeguard the investments of the small investors, and to prevent advantages being taken of his ignorance of the security market by unscrupulous corporations.

More than a million homes were <sup>to their owners</sup> saved by the HOLC and the other housing agencies have helped 2½ million families either to improve their present homes or to build new ones.

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Recognizing that a healthy capitalism cannot exist without a healthy labor movement, the New Deal strove to foster the growth of organized labor. Labor's stake in the survival of capitalism was increased by the growth of collective bargaining, by improvement in working conditions and by higher wages.

Knowing that capitalism thrives best when competition is fair, the New Deal adopted the Fair Labor Standards Act to protect capital and labor alike from sweatshops. It is the Magna Carta of the lowest paid workers.

Recognizing further that we cannot have full employment of our resources unless the prices of key commodities are free to move with the judgment of the market, the New Deal has initiated a comprehensive investigation of the price rigidities which clog our present economy. An essential fact of a totalitarian economy is that prices may be set by a dictator from his mountain hide-away.

What reason have we for calling ours a free economy if prices of key and important commodities can be set by a little group of men in the offices of a New York corporation lawyer? Whenever prices are kept fixed at a level higher than the market justifies, hundreds and thousands of workers are denied jobs they otherwise might have. The Temporary National Economic Committee set up by the New Deal is now engaged in examining the ways and means in which price flexibility can be restored to capitalism.

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Nor did the New Deal ignore a less obvious threat to capitalism and democracy. The youth of America saw the door of opportunity closing to them. Back in 1933 vast numbers of boys and girls could find for themselves no place at all in our economic system. At loose ends, hopeless, passive — they represented an explosive force that could readily be turned into an active struggle against the system which they felt had callously let them down.

The New Deal is proud of its record in creating opportunities for youth. The CCC and NYA have provided almost a million young men and women a year with health, livelihood and the preparation for a future career. While other countries, faced with the same problem, were conscripting their youth into armies and labor camps, we chose to open productive paths for the men and women of tomorrow.

Finally, realizing that economic security was as near to man's happiness as food or shelter, and that the growing lack of such security for the mass of our people was the most serious indictment of capitalism, the New Deal took the first important step toward providing it for all. As the Social Security Act comes into full operation more and more workers will be more protected against the hazards of old age and unemployment.

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Such is the pattern of the New Deal. Not all the parts of it have been coordinative, not all elements are harmonious. But one design runs through that pattern. One principle has dominated the program of the New Deal — to restore to capitalism its strength, its vitality, its flexibility, to make our system provide an abundant life for all.

We know that we have made some progress in the right direction. But we cannot emphasize often enough that we have made only a start. We have gone but a small part of the way on the road we must travel before democracy and capitalism are safe. We cannot stop moving. We must continue on the road we have started. To wander from the direction the New Deal has set will be fatal to the American system. The path we have chosen is the only path by which capitalism and democracy can be preserved and strengthened.

Reactionaries fail to understand this. They confuse the preservation of capitalism with the preservation of special privilege. They fight implacably for the status quo and existing vested interests, blindly unaware that by so doing they are sapping the foundations of the very system they wish to preserve. They have fought against the measures that the New Deal has taken to protect free enterprise on the ground that they were threats to the sanctity of private property and the profit motive. This is the fatal error. They would imperil democracy and the capitalist system rather than forego any curtailment of their powers.

The real threat to the survival of capitalism arises when it fails to deliver the goods. When our economy fails to provide our people with employment, with a reasonable measure of security, with a standard of living within the reach of our capacities, then it is

failing to deliver the goods. And when it fails to deliver the goods people become more willing to turn from honest and practical attempts to correct defects in the system to destructive "isms". Their just discontents are diverted into destructive channels. We must not forget that. We must not forget that it is not so much ideologies that foster discontent as it is that discontent fosters ideologies.

Yes, the New Deal is forward-looking — the New Deal is liberal. Its liberalism is the willingness to adopt new, progressive methods, but to adopt them in the effort to preserve the finest in our national tradition. It does not believe that the solutions to our problems lie in return to the old days. It recognizes that change, adaptation and growth are necessary to capitalism if it is to survive. Conservatives, on the other hand, would sacrifice the real essence of our traditions and institutions in order to hold on to the devices that protect

their special interests. In that significant sense the liberalism of the New Deal is more truly conservative than the conservatism of its opponents.

A cure for our ills is not to abandon our reforms but to extend them, not less democracy but more, not weaker but stronger capitalism. We must maintain and enlarge our civil liberties. We must continue our attempts to achieve a higher standard of living and economic security for all. We must make equality of opportunity a living reality.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: January 22, 1940, 4 p.m.

NO.: 35

Refer to your no. 14 of January 20, 1940, 4 p.m.

This afternoon the Minister of Finance and I discussed the situation. He has told his debt expert to draw up a new schedule of payments satisfactory to us which will reverse the present favorable treatment which is enjoyed under the 1st year of the Aranha plan by European bondholders. Also his expert has been instructed to postpone the meeting scheduled for tomorrow until the afternoon of Thursday, the 25th.

However, he says that due to the present state of his budget, he will not be able to increase the global figure, which is the amount required for the first year of the Aranha plan, set aside for first-year payments to commence on April 1, 1940.

CAFFERY

EA:FL:MSG

January 22, 1940.

MEMORANDUM



TO: Secretary Morgenthau  
FROM: Mr. Gaston

The following is to supplement my memorandum of Saturday with respect to the Brazilian debt matter:

The question of the Treasury's participation or non-participation in further negotiations with respect to Brazilian debt came up for discussion at the staff conference held at 11:45 A.M., Saturday, January 20. Those members of the staff who entered into a discussion of the matter - Messrs. Bell, White, Cochran, Cotton and Gaston - agreed that we ought not to participate. The Secretary signed a letter to this effect to Secretary Hull. Immediately after the conference I called up Herbert Feis and told him that he could count the Treasury out on the further negotiations on the Brazilian debt. He said, however, that he would continue to send us information on the matter.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 22, 1940

TO Secretary Morgenthau  
 FROM Mr. Haas *HA*  
 Subject: The Business Situation,  
 Week ending January 20, 1940.

Summary

(1) In view of the unusual dependence of the 1939 recovery on the steel industry, a continued sagging in new orders for steel products appears of major significance as an unfavorable factor in the near-term business outlook. With new steel orders in recent weeks at only one-half the current output rate, unfilled orders are being rapidly depleted. New orders must increase soon if a substantial setback in steel activity is to be avoided.

(2) The outlook for activity in the textile industry, second most important in the FRB index of industrial production, has been improved by an increase in new orders for cotton and woolen goods. Consumers' goods industries in general seem likely to make a better showing than the capital goods industries in the months immediately ahead.

(3) Aside from the unfavorable near-term outlook in the heavy industries, basic conditions remain generally satisfactory. A prospective business setback, which has been widely anticipated, has in many respects been already discounted. Stock prices remain low in relation to earnings; commodity prices, though influenced currently by slackness in demand, show an improved balance between raw material and finished goods prices; and no excessive accumulation of inventories, in the ordinary usage of the term, has appeared, though there has been some advance ordering in the steel industry.

Low steel orders affect current business outlook

As the new year gets further under way, evidences of a coming setback in business activity from the high level of late 1939 are becoming more concrete. Of most significance is the failure of steel orders to improve since the holidays, with steel companies now expecting little improvement in new buying until mid-February at the earliest.

Secretary Morgenthau - 2

Confidential data from the United States Steel Corporation show a continued downward trend in new orders (see Chart 1), which are now running at the low level of August 1938, while steel output of the Corporation is currently being maintained at double the output of that month. The Iron Age mentions that, for the industry as a whole, new business now is averaging about 50 per cent of shipments, with some companies doing as well as 60 per cent and others no better than 40 per cent.

It is possible that the independent steel companies are doing slightly better on orders than the United States Steel Corporation, since their average output rate (lower section of chart) has been consistently higher than that of the United States Steel Corporation, and has been somewhat better maintained in recent weeks.

A significant point (shown by upper section of chart) is that steel production has been maintained for about 2½ months substantially above the level of incoming orders. This means that the backlog of unfilled orders has been materially reduced, and that the operating rate may soon become dependent upon new orders alone. We estimate that the United States Steel Corporation, at the middle of January, had worked off approximately one-half of the peak backlog of unfilled orders reached in November. Our estimates indicate that the excess orders remaining on the books of the Corporation now equal slightly more than three weeks' production at an 80 per cent output rate. Trade reports, taking into account the effect of current new orders, indicate that the unfilled order backlog of the industry will be worked off in about six weeks.

A part of the present steel ingot production is going into the rebuilding of mill stocks of semi-finished steel, which were practically exhausted by the urgent shipment demands of the last quarter of 1939.

#### Export steel demand reported improving

In the outlook for new steel orders, the export market is taking a more prominent place, now that domestic business has slackened and producers are able to give more active attention to potential export business. A substantial increase in export steel purchases occurred in December, according to trade reports, and export demand currently is showing some improvement. Tin plate currently is one of the items most sought after, inquiries

Secretary Morgenthau - 3

and orders being reported from many former customers of belligerent countries. In view of the relatively small proportion of our steel products normally exported, however, an enormous percentage increase in export orders would be necessary to have any substantial effect on our new orders index.

#### Recovery centered in steel industry

The unusual extent to which the 1939 business upturn was dependent on the steel industry is indicated in Chart 2, which shows the amount which each important industrial group contributed to the FRB index. It is rather clearly evident in this chart that the steel industry has temporarily got out of step with other industries, owing to production having been forced up sharply by orders based on war fears. The excess production has apparently gone largely into capital equipment, and into restoring inventories to more nearly normal levels after their depletion to low levels in the summer of 1939.

#### General outlook satisfactory

Aside from the prospect of a corrective reaction in the steel industry, which in some degree would be reflected in various other industries, the underlying situation appears generally satisfactory. The trend of real incomes of consumers has risen to above the 1929 level. Its effect is being felt currently in a rising trend of retail buying, which was indirectly responsible for a sharp increase in textile buying in the wholesale markets last week.

The lack of any evidence of excessive speculation in stocks, commodities, or inventories, rules out the danger that a business setback might be aggravated or prolonged by liquidation of speculative holdings. On the contrary, it has been apparent during the past month or two that the widespread expectation of a business decline has led buyers generally to follow conservative buying policies. Hesitation among buyers due to this conservatism may have been largely responsible for the recent low level of steel orders.

Secretary Morgenthau - 4

### The price situation

While sensitive commodity prices have suffered from the recent slackness in industrial demand, together with more bearish developments for certain individual commodities, a firming of the ELS index of raw material prices has occurred during the past month, placing it in better balance with prices of finished goods.

In Chart 3 we compare the trend of the ELS all-commodities index with the ELS index of raw material prices (109 quotations). This chart was first presented in the business memorandum of October 2, at which time it appeared that no further immediate rise in the all-commodities index was likely because this index was already too high in relation to prices of raw materials. In the past several weeks the balance has improved, the raw materials index having risen to meet the general index.

Our weekly index of sensitive industrial material prices, covering a selected group of 9 commodities, shows a further gradual decline in response to the less favorable recent trend of business activity. (See Chart 4)

The decline in sensitive prices showed some indications of flattening out last week, when upturns in certain agricultural prices offset weakness in copper, tin and some other industrial materials. Silk prices broke sharply further, but rallied later in the week. Spot copper prices were reduced as much as  $\frac{1}{2}$  cent by some producing companies because of the low level of new orders, which are reported as not more than 40 per cent of current production.

### New orders index rises

Our index of new orders for the second week of January (see Chart 5) increased for the first time since early December, but remains about as low as at this time a year ago. A marked upturn in orders for woolen goods during the week more than offset a decrease in steel orders. A heavy increase in orders for cotton textiles, reported in the trade at the end of the week, will probably appear in next week's index. Sales of gray goods on Friday, estimated at 30,000,000 yards, are believed by observers to foreshadow a strong textile demand for spring sales.

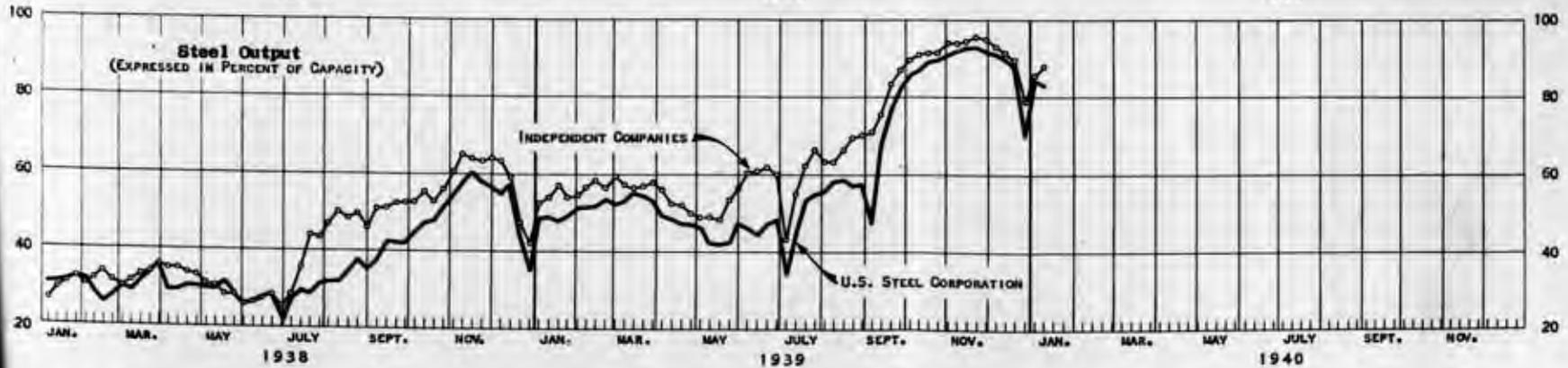
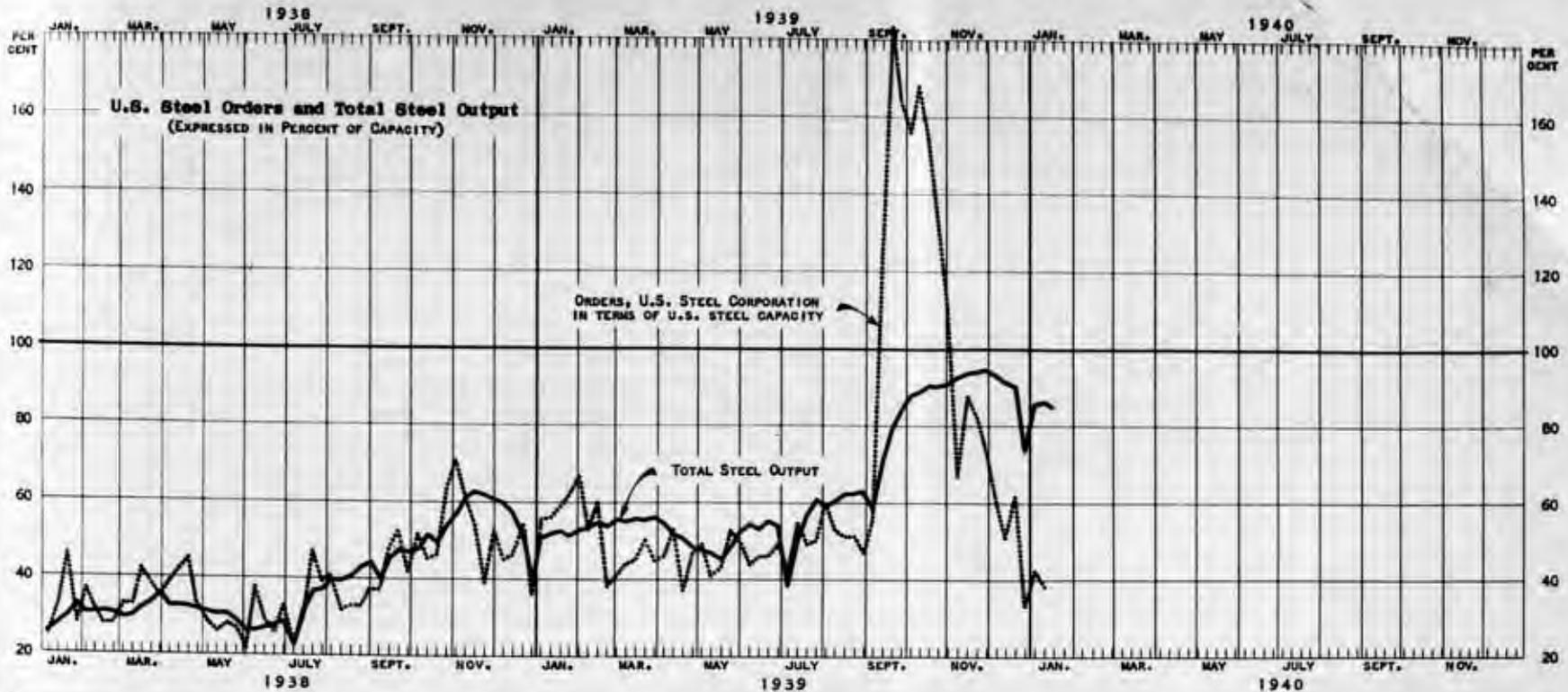
Secretary Morgenthau - 5

New York Times index lower

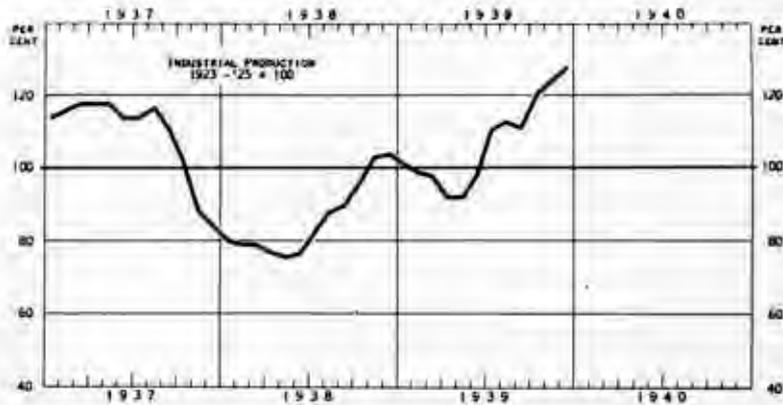
A continuing gradual decline in business activity is shown by a further downturn of 0.9 point in the New York Times index to 105.0 for the week ended January 13, and by indicated additional declines in the adjusted indices of steel production and automobile production during the following week. All components except the two carloadings indices were lower during the week of January 13.

STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS

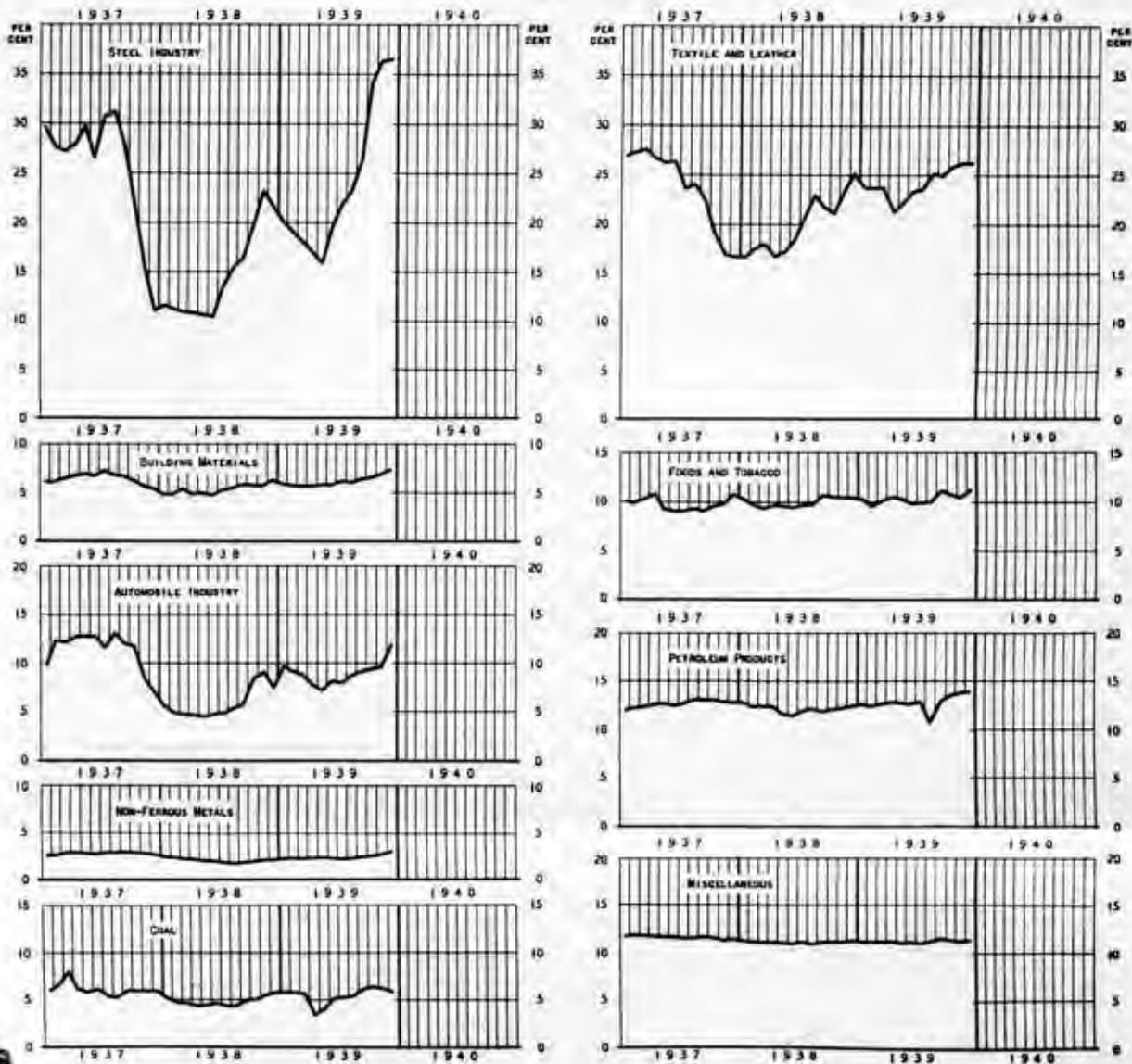
Chart 1  
CONFIDENTIAL



FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION\*  
SEASONALLY ADJUSTED

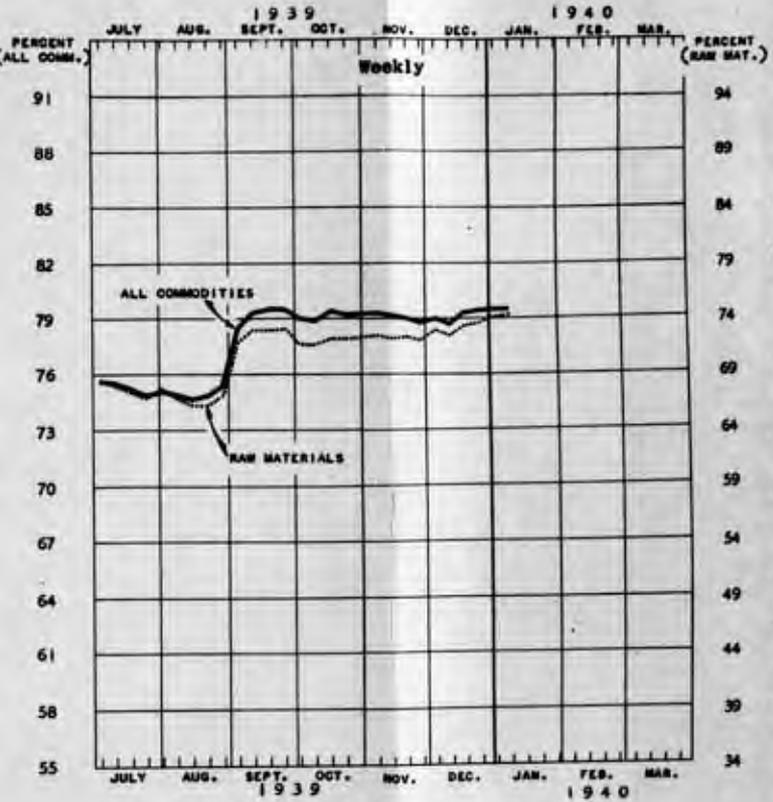
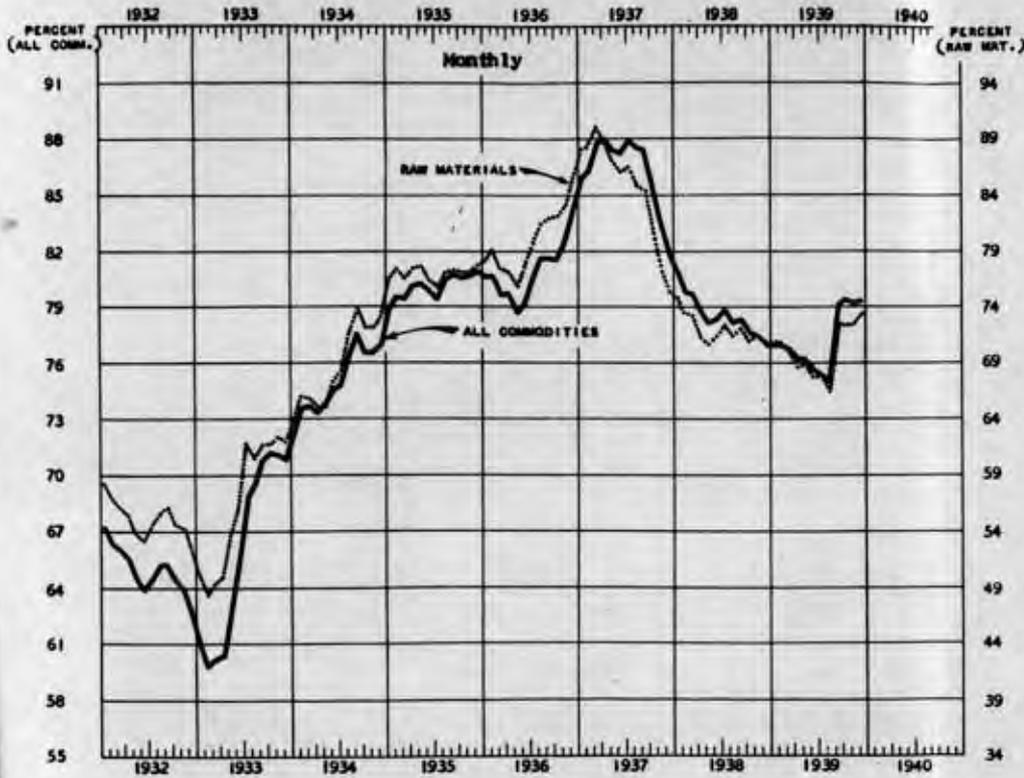


Components by Industrial Groups

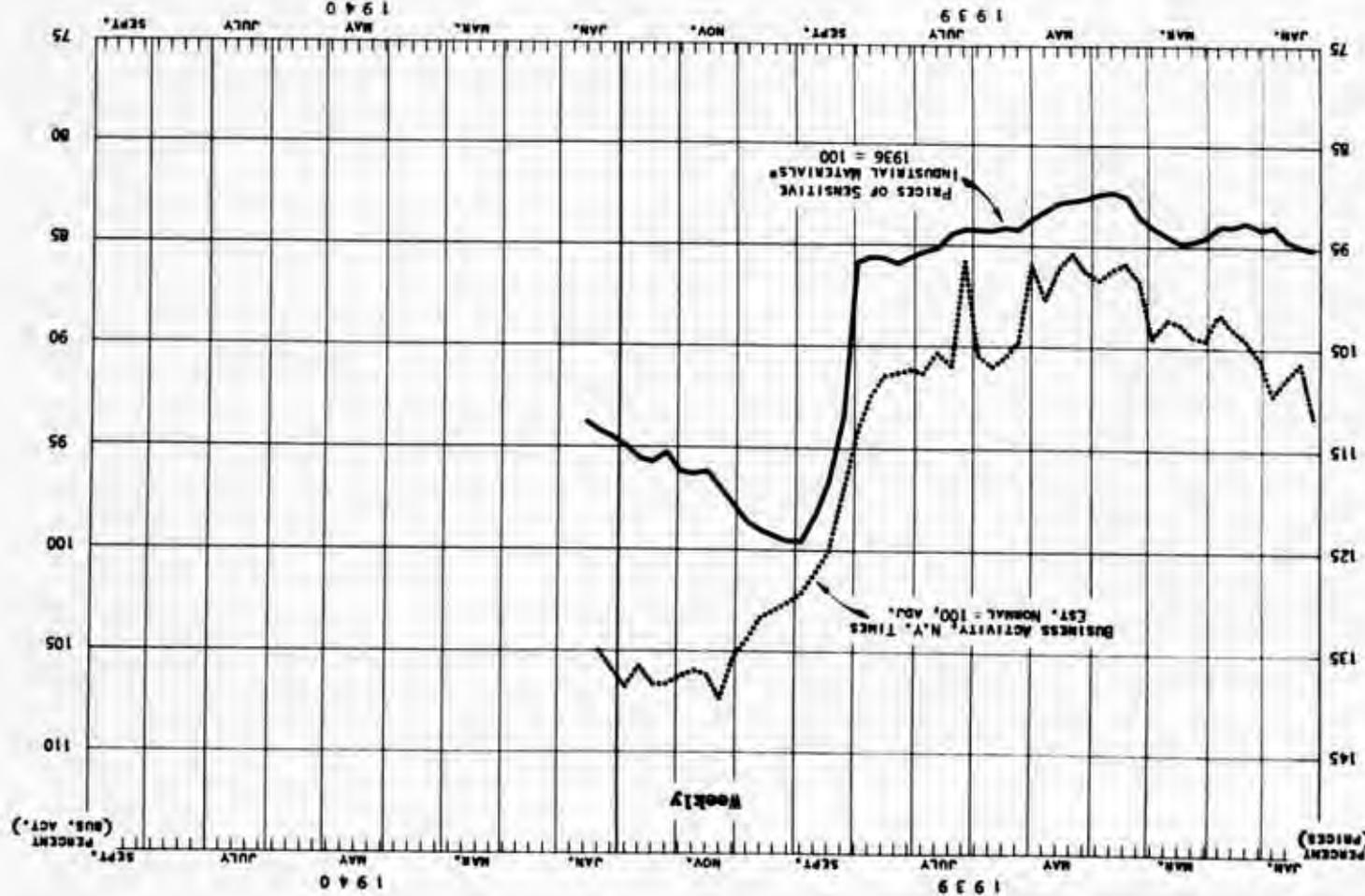


\* MOST ACCENT FIGURES ARE PRELIMINARY

B.L.S. ALL COMMODITY PRICE INDEX AND INDEX OF RAW MATERIALS  
1926 = 100



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

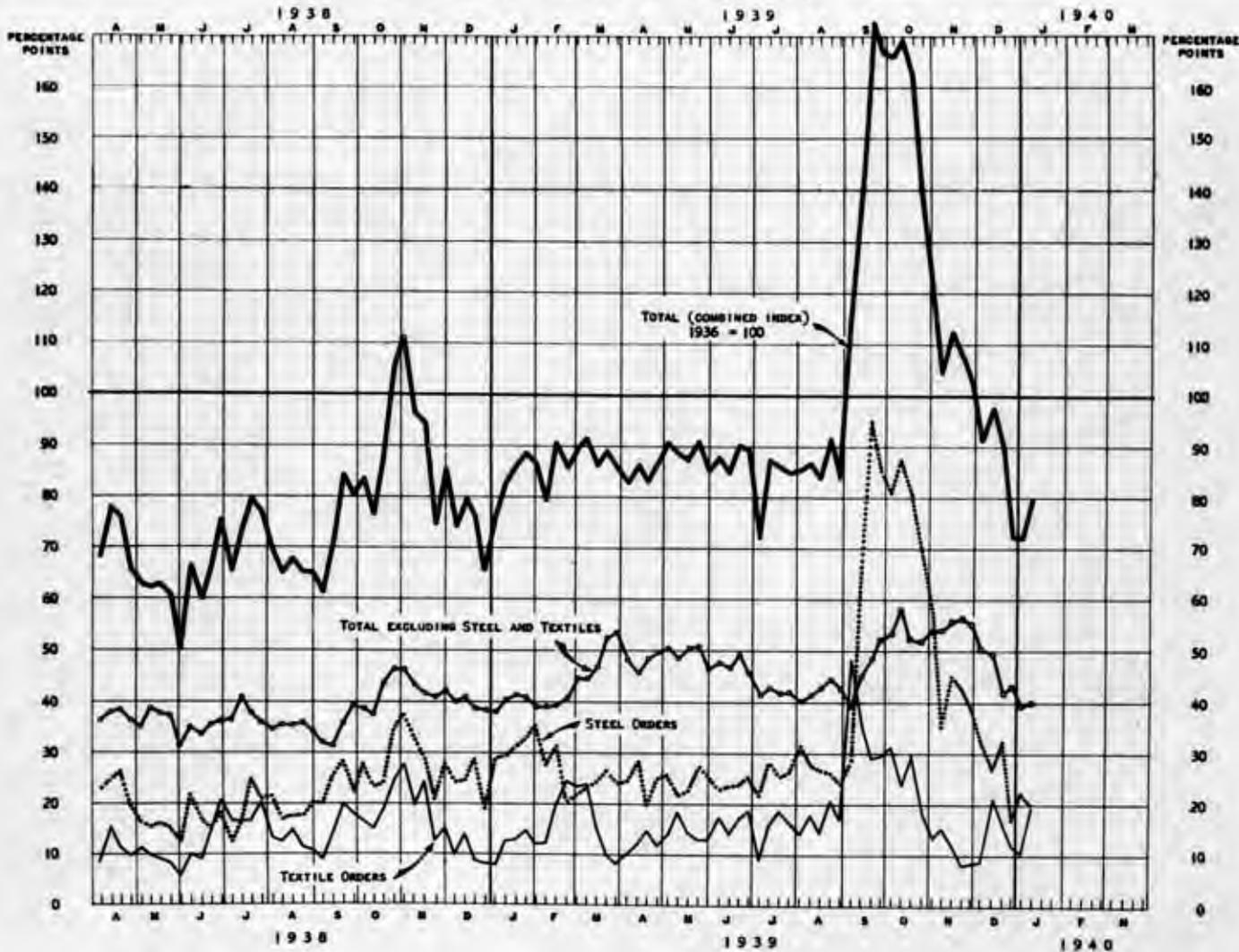


\*INDEX INCLUDES SPOT PRICES OF STEEL SCRAP, TIN, COPPER, LEAD, ZINC, WOOL, PRINT CLOTH, RUBBER AND HIDES.

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

C - 274 - A

Combined Index of New Orders and Selected Components



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Although the volume of sterling transactions as given by the reporting banks was nearly three times that of the last full session on Friday, there was virtually no movement in the rate. After opening at 3.96-1/2, sterling fluctuated within a narrow range all day and closed at 3.96-1/2.

Sales of spot sterling by the four reporting banks totaled £792,000, from the following sources:

By commercial concerns.....	£ 399,000
By foreign banks (Europe, Far East and South America)...	£ 393,000
Total...	£ 792,000

Purchases of spot sterling amounted to £472,000, as indicated below:

By commercial concerns.....	£ 270,000
By foreign banks (Europe).....	£ 202,000
Total...	£ 472,000

The following reporting banks sold cotton bills totaling £18,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 16,000 by the Guaranty Trust Co.
2,000 by the Chase National Bank
£ 18,000 Total

The other important currencies closed as follows:

French francs	.0224-5/8
Guilders	.5315
Swiss francs	.2242-1/2
Belgas	.1682-1/2
Canadian dollars	11-7/8% discount

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

\$10,000,000 from the Bank of France
1,250,000 from the National Bank of Rumania
1,015,000 from the National Bank of Belgium
156,000 from the Central Bank of Chile
<u>\$12,421,000 Total</u>

- 2 -

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

\$4,350,000 from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.  
 139,000 from Switzerland, shipped by the Banque Fédérale, Bern, to the National City Bank of New York, for sale to the U. S. Assay Office.  
 80,000 from Ceylon, consigned to the Guaranty Trust Company, New York, for sale to the U. S. Assay Office.  
\$4,569,000 Total

A substantial decline in the Bombay silver price developed in the past week, with the quotation falling from an equivalent of 43.15¢ on January 15 to 40.81¢ today, the lowest price since October 20. The recession in the price was attributed to liquidation of speculative silver positions built up in Bombay last month in anticipation of an Indian up-country demand for silver which has not developed as expected. A New York bank reported that, at the end of last week, the Reserve Bank of India had purchased silver in Bombay in order to steady the market.

The London spot and forward fixing prices for silver, at 22d, were unchanged from Saturday. The U. S. equivalents were also unchanged at 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 thirteen purchases of silver totaling 1,161,000 ounces under the Silver Purchase Act. Of this amount 286,000 ounces were from the inventories of three refining companies and 250,000 ounces consisted of trading silver which an American refining company had purchased some time ago in New York. These sales were for delivery tomorrow. The remaining 625,000 ounces were new production silver from foreign countries, for forward delivery.

Part of today's activity in silver sales may have resulted from the release of the Handy and Harman annual report and press comment thereon, such as the Journal of Commerce editorial against the silver purchase policy. Senator Pittman made a statement in defense of the program in mid-afternoon.

Mr. Knoke told me by telephone today that the balance of the State Bank of Russia with the Chase National Bank had declined from \$4,000,000 on January 12 to \$2,900,000 as of January 19; that the letter of credit account of the State Bank of Russia with the Chase National Bank had declined from \$7,000,000 to \$6,800,000 for the same period; and that the Amtorg balance with the Chase had gone down from \$2,000,000 to \$900,000. The largest in-payment for the period under reference consisted of a remittance to the State Bank of Russia of \$1,000,000 from the Rotterdam Bank. Out-payments from the Russian State Bank account included: a payment of \$1,500,000 to Amtorg; \$500,000 on letters of credit; \$150,000 to the Lithuanian State Bank; \$350,000 to the Estonian State Bank; \$300,000 to the Western Machine Company of Pennsylvania; and certain scattered payments, including one for interest coupons on the 7% Russian State loan. Amtorg's out-payments were scattered.

*A. M. F.*  
**CONFIDENTIAL**



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

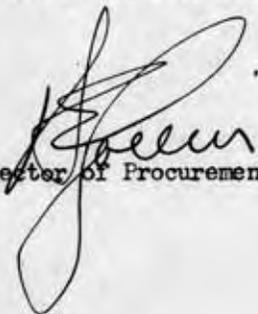
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January 22, 1940

MEMORANDUM FOR THE SECRETARY

After leaving your office this morning I had a further conversation with Mr. Emanuel and Mr. Beale. They are going to send to me, most informally, a memorandum as to the possibilities of production of the engine we discussed. Also, as to what additional facilities, machine tools and equipment that would be required and an estimate as to their cost.

It is expected this memorandum will be received the latter part of this week.

  
Director of Procurement



## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 22, 1940

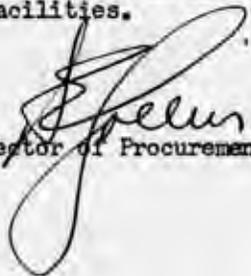
MEMORANDUM FOR THE SECRETARY

A conference was had this afternoon with Mr. A. Wild, the Sales Manager of the Continental Motors, Muskegon, Michigan, concerning the possibility of their undertaking the manufacture of parts for airplane engines of approximately 1000 horsepower, both from the viewpoint of utilizing existent facilities and on the basis of providing additional machine facilities and floor space if required.

Continental Motors is at present manufacturing motors for use on aircraft, automobiles, and motor-driven farm equipment. The officers of the company are G. J. Reese, President and General Manager; J. H. Ferry, Vice President; B. F. Tobin, Jr., Executive Vice President and Secretary; and L. P. Kalb, Vice President of Manufacturing and Engineering. All of the activities of this company are at present concentrated in Muskegon. The plant which they had previously operated in Detroit has been closed and is for sale, provided a suitable price for it can be had. They have had two loans, one of \$1,000,000 and one of \$300,000 from the RFC, some of which total loan has been repaid.

At the Muskegon plant, with a total floor space of 718,500 square feet, 119,800 square feet is used in the manufacture of aircraft engines. Out of a total of 1700 men 360 are employed in the aircraft engine division. They have developed a 1000 horsepower 12 cylinder, liquid cooled engine, on which a 50-hour development test has been completed, and the engine is now being flight tested. Mr. Wild stated that pending the outcome of flight tests nothing definite as to performance can be given, but it is expected that at least 360 MPH on pursuits will be obtained. Should the tests prove satisfactory, deliveries could be started in six months at the rate of one per week, and he believed that, with some additional tools and facilities, deliveries could be stepped up in three to four months to thirty engines per month.

Mr. Wild further stated that they would be interested in subcontract work, if of a type that could be performed with their facilities.

  
Director of Procurement

January 22, 1940  
11:55 a.m.

Operator: Go ahead.

HMJr: Hello.

Ben  
Cohen: Good morning.

HMJr: How are you?

C: All right. I've met through Felix a Dr. David Albala  
from Yugoslavia.....

HMJr: Yeah.

C: .....the famous surgeon from Belgrade, the leader  
of the supporting community there.

HMJr: Yes.

C: And he's a special Attache to their Legation here.

HMJr: Yes.

C: And he's eager to meet you and to meet other people,  
I think more to know what the real situation is  
regarding our relations to Europe and to tell you  
some of his problems.

HMJr: Well.....

C: He tells me that he knew your father many years back  
when he was Ambassador to Turkey, and I've just had  
a short talk with him and he seems to be an awfully  
decent sort of fellow.

HMJr: Well, I'll -- I'll fix it up.

C: Will you fix it direct through the Legation?

HMJr: Yes.

C: All right -- that is, he apparently makes his  
appointments informally rather than to -- so -- I  
mean, it's just on a friendly basis rather than.....

HMJr: I understand.

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C: .....strictly official.  
HMJr: O. K.  
C: All right. Thanks so much, Henry.  
HMJr: Goodbye.  
C: Goodbye.

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White House  
Jan 22, 1940

Brazilian Debt

Developments.

CHRONOLOGY OF EVENTS IN AMERICAN  
NEGOTIATIONS CONCERNING BRAZILIAN DEBT.

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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 the 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 cabled 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 I 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 advises against this.

- (5) On December 29 Mr. Pinsent, Financial Counsellor of the British Embassy, talked with Mr. Walmsley and Mr. Livesey of the State Department. In this conversation representatives of the State Department informed Mr. Pinsent that this Government would not support any proposals for settlement of the Federal debt alone. They also pointed out to Mr. Pinsent 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. Pinsent asked if he might be told of development when they occurred but representatives of the State Department said that they could not undertake to do so.
- (6) 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.

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- (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".

COPY

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 any-

-2-

body 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 Traphagen 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

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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.

Herbert Feis came to my office shortly after 2:30, accompanied by Emilio Collado. Harry Waite, 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.

COPY

## 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

COPY

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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 Aranha 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 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

C  
O  
P  
Y

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.

HSM

GRAY

Paris

Dated January 22, 1940

Rec'd 4 p. m.

Secretary of State,  
Washington.

104, January 22, 6 p. m.

FOR THE TREASURY FROM MATTHEWS.

Supplementing his recent articles on war financing and the capital circuit Frederic Jenny published in last evening's LE TEMPS a plea for greater use of the check as a means of payment. He starts from the premise that the volume of bank deposits in a country depends on the relative proportion of payments made in cash or by check and that on the volume of bank deposits depends in part the volume of credit available to the state for carrying on war. He proceeds to make comparisons in this respect between France and Great Britain. In the latter country he estimates that the ratio of check payments to cash payments is 6 to 1. This is shown by the fact that with a note circulation of 545 million pounds on November 30 last total deposits both of the London clearing banks and outside institutions reached approximately 3100 million pounds. (END SECTION ONE).

BARNES

C3B

HSM

GRAY

Paris

Dated January 22, 1940

Rec'd 4:26 p. m.

Secretary of State,  
Washington.

104, January 22, 6 p. m. (SECTION TWO).

In France on the other hand where deposits in the four large credit establishments amounted to 36,000,000,000 francs on October 31 giving roughly a total of all bank deposits of between 70,000,000,000 and 75,000,000,000 francs note circulation was 144,000,000,000. Thus where lump bank deposits were six times greater than note circulation in France, note circulation is double deposits! Even taking into consideration the hoarding habits of the French public and the importance of French savings banks deposits (almost 70,000,000,000 at present) of which a fraction represents Treasury funds it appears that total payments by check in France do not equal the volume of payments by cash. In view of the fact that present note circulation exceeds 150,000,000,000 and of the further fact that French banks are maintaining average cash reserves equal to 13.5% of deposits it is safe to say that if the French acquired the habit of making not

six-sevenths

hsm -2- No. 104, January 22, 6 p. m., from Paris (Section 2)

six-sevenths as in Great Britain but even two-thirds of their payments by check total bank deposits here would automatically soon exceed 200,000,000,000 francs as against the 75,000,000,000 of today. And if cash payments fell to a quarter of total payments the figure would reach 300,000,000,000 francs.

BARNES

EMB

REB

GRAY

Paris

Dated January 22, 1940

Rec'd 5:15 p. m.

Secretary of State,  
Washington.

104, January 22, 6 p. m. (SECTION THREE)

The advantages to be gained thereby, he says, are obvious. In the first place it is essentially from bank deposits that the available funds of the money market are drawn. It is therefore clear that the volume of floating debt which the money market can carry and therefore the resources which the State can derive from the money market depends directly on the volume of these deposits. He points out that in London the floating debt at the end of the year reached a total of £1,535,000,000 or the equivalent of 270,000,000,000 francs and that in the course of the same year the issue of tender bills increased £272,000,000 or approximately 48,000,000,000 francs. Secondly, a floating debt whereunder the obligations are held by banks -- a natural development if the increase of bank deposits permits -- is more stable than where short term obligations are placed by the State with the public. This, he says, is a consideration which from the point of view of the

financial

REB -#104, From Paris, Jan. 22, 6 p. m. (Section Three)

financial and monetary future is far from negligible. Finally the Treasury would be less obligated to request advances from the bank of issue in the proportion that it found more resources available in the unrestricted market.

BULLITT

EMB

REB

GRAY

Paris

Dated January 22, 1940

Rec'd 5:53 p. m.

Secretary of State,  
Washington.

104, January 22, 6 p. m. (SECTION FOUR)

Government inflation would be limited and a brake put through the rise in note circulation.

In conclusion Jenny with somewhat excessive optimism, it seems to me, urges the Government to endeavor to modify existing habits and encourage the greater use of the "Cheque Barre" (which as you know cannot be cashed but is only paid through a banking account). He is not specific in this respect but says, "The State can easily by different means bring such change in a relatively short time. It can doubtless more easily do so today with the powers it possesses in view of the war and the discipline which is imposed on the public than it could in normal times. Since its intervention is so manifest on all sides even where the results are questionable can't it exercise them in this domain where obviously its intervention could only be attested? Why cannot its intervention be used on behalf of a rational credit policy."

BARNES

EMB

REB

GRAY

Paris

Dated January 22, 1940

Rec'd 6:23 p. m.

Secretary of State,  
Washington.

104, January 22, 6 p. m. (SECTION FIVE)

The text of the Franco-Spanish commercial agreement signed at Madrid on January 18 (my telegram No. 74 of January 15, 3 p. m.) was published by the Journal Officiel of January 21. The arrangement enters into force today and will expire on December 31 next. The amounts and value of merchandise which France agrees to import from Spain are given in list A attached to the agreement. The chief items include 431,000 tons pyrites, 365,000 tons Riff iron, 672 tons mercury, between 7,000 and 10,000 tons lead, 21,000 tons sulphide of zinc, 200 tons of tungsten and important quantities of oranges, nuts, sardines and fresh fish and lamb skins.

The amounts and value of merchandise which Spain agrees to import from France are given on list B attached to the agreement. Chief items include 1,750,000 quintals of wheat, 325,000 tons of phosphates, 4,000 automobiles, pharmaceuticals of a value of 30,000,000 francs, dyestuffs 10,000,000, other chemical products 35,000,000, electric appliances

REB -2-#104, From Paris, Jan. 22, 6 p. m. (Section Five)

appliances 20,000,000, Algerian tobacco 20,000,000,  
wines and spirits 2,000,000, agricultural machinery  
6,000,000 and motors 8,000,000.

BARNES

JRL

EMB

LMS

GRAY

Paris

Dated January 22, 1940

Rec'd 6:05 p. m.

Secretary of State,  
Washington.

104, January 22, 6 p. m. (SECTION SIX)

It is laid down that the commercial payments involved (which I understand are theoretically supposed to balance but may well result in a further accumulation of blocked pesetas) on both sides will be effected through a clearing system. Payments for Spanish merchandise imported into France will be made in France to the French Clearing Office. Payments for French merchandise imported into Spain will be made in pesetas to the Spanish Institute of Foreign Currencies.

In addition to the National Committee of Propaganda set up under the decree of October 31 last to popularize armament bonds (my telegram No. 2625 of October 31, 7 p. m., 1939) provision is made under an arrete published in the Journal Officiel of today for the creation of a technical committee to study means of increasing investment in securities issued by the Treasury.

The committee

LMS 2-No.104, January 22, 6 p. m., Sec. 6, from Paris.

The committee will be composed of the Governor of the Bank of France, the General Manager of the Caisse des Depots et des Consignations, a Director of the General Movement of Funds, etc.

Securities market was hesitant and inactive today. Rentes were down about 50 centimes. The 1937 exchange guarantee issue lost about 3 points. Official exchange rates remained at the same level.

(END OF MESSAGE)

BARNES

JRL:EMB

January 22, 1940.

Dear Mr. Keeshin:

This morning we have received your letter dated January 19th, together with copy of one you have received from Mr. Sheehan under date of December 13th. There are also enclosures sent you by Mr. Sheehan.

We are very glad to have this material, which will have careful study.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Mr. J. L. Keeshin, President,  
Keeshin Freight Lines, Inc.,  
221 West Roosevelt Road,  
Chicago, Illinois.

GEF:lmf

Mrs. Tolmash

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Pls ack for H.S.K's  
sig.

## KEESHIN FREIGHT LINES, INC.

J. L. KEESHIN  
PRESIDENT

221 WEST ROOSEVELT ROAD  
CHICAGO

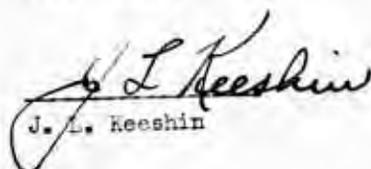
January 19, 1940

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

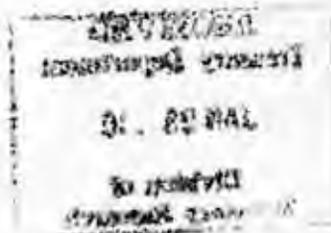
My dear Secretary:

I am forwarding to you,  
herewith enclosed, a copy of a letter I  
received from Mr. Sheahan, written at  
Chungking, China under date of December  
13, 1939, together with copies of en-  
closures he forwarded to me under the same  
date.

Very truly yours,

  
J. L. Keeshin

JLK:IR  
Encs.



C O P YChungking, China  
Dec. 13, 1939

Dear Mr. Keeshin:

Please look over the enclosed closely. If you have any objections or additions advise Mr. Chen as quickly as possible as I understand he is holding up two truck orders, one for 500 and one for 400. You will note I have included casehardened safety glass, for example. You may want to eliminate this feature and stick to the laminated type.

Air resistance and road speeds while not included in our specifications should be computed and submitted with Manufacturers bids in response to Universal Trading Corporation's questionnaire.

One thing I have not heretofore commented on is the low octane (down to 55Oct) gasoline supplied the China market. To permit American trucks to properly operate this octane rating should be brought up to at least the 67-70 rating. You might mention this, as it definitely affects results.

The new corporation, China Transport Corporation, adopted the Keeshin diamond color scheme and slogan, at least for the letterhead. As soon as we receive some will send you a sample.

Conditions at Haiphong are rather bad and the situation could easily be attributed to "squeeze". Some time ago I endeavored to have certain changes made and suggested the Vice Minister of Foreign Affairs, Dr. T. K. Tseng, now in Rangoon, Dr. F. K. Pan and myself proceed to Hanoi and Haiphong in an attempt to straighten out the transportation difficulties. Thursday, Dec. 14 I met with H. E. Dr. H. H. Kung (with whom I previously appraised the situation), Mr. T. L. Soong of S. W. Trans. Company, H. E. Chang Kia-Ngau and others for a general discussion of the entire transportation problem.

Have not lost sight of the necessity of shipping wood oil and present storage stocks at Hongkong assure the 1939 quota. The new Corporation, China Transport Corporation, should easily meet 1940 requirements if we can only keep them on the right track.

We are all well and not too busy, "raring" to get going and anxious to return home. Please accept my sincere wish to you and yours for a most happy Christmas and a prosperous New Year. With kindest regards to all, I remain as ever,

(Signed) Maurice

M. E. Sheahan

- 97
- A. HAIPHONG/KUNMING RAILWAY - referred to as a private (i.e. privately owned) railway.
  - B. SAIGON/NACHAM RAILWAY - referred to as Government (Indo-China) railway.
- 

1. Government railway runs from Saigon to Hanoi - where it has a common right of way with the private railway as far as Haiphong. At Hanoi, the Government railway runs to Dong Dang and Nacham. The private railway runs to Kunming.
2. The Chinese Government has been allotted and is entitled to a certain proportion of the total railway tonnage on the Haiphong/Kunming railway.
3. Much greater railway tonnage is arriving at Kunming than is being loaded in cars at Haiphong. Chinese Government cargo is not arriving at Kunming in the proportion of total tonnage to which the Chinese Government is entitled. Private cargo is arriving at Kunming in much greater proportion than the amount of cargo which should arrive under the share to which this type cargo is entitled.
4. All railway cars which are loaded at Haiphong are considered as tonnage to be shipped on the Haiphong/Kunming railway. A material proportion of Haiphong/Kunming railway cars are not arriving at and are not being loaded at Haiphong. This is the manner in which Chinese Government interests are being seriously and adversely affected.
5. A material proportion of the Haiphong/Kunming railway tonnage is being loaded at points between Haiphong and Hanoi (and outside of Hanoi - between Hanoi and Saigon) and is being shipped to Kunming under through Bills of Lading issued by the Government (Indo-China) railway.
6. On all such cars, the Chinese Government does not share in the tonnage. Some of the points are Nam Dinh, Gialam, Hanoi. There are other points where this situation is going on.
7. Payments of from IC\$1500.00 to IC\$2500.00 are paid for a 10-ton car from these points to Kunming. These payments are in addition to the regular published tariff of the railway.
8. This situation is materially reducing the Chinese Government tonnage which could be moved out of Haiphong and is in direct contravention of Chinese Government interests which are entitled to their proportionate share of total railway tonnage arriving at Kunming.
9. The foregoing can be easily checked by examining Kunming railway records of cargo arriving at Kunming over the past month - and checking similar railway records at Haiphong as to cargo shipped from Haiphong over the same period.

To

H.E. Minister Chang Kia-Ngau

98

In recommending the centralized operation of Civil Government highway transport requirements, you will recall our mention of the need for competition and continuation of free enterprise.

We are sure it is not the intent to create a transportation monopoly through the new Corporation. We understand there is now under consideration, the acquisition of trucks from commercial haulers that have suspended operations apparently on account of the August 1939 ban on imported luxury items or shortage of gasoline. Luxury items, we are agreed, can usually stand a higher freight charge than necessities.

As a matter of fact, one reason for our recommending the China Transport Corporation was to lend encouragement to commercial haulers who were hard hit by the bans. With China Transport Corporation a corporate form of enterprise it should secure compensatory revenue, and commercial haulers should certainly be able to survive under such conditions. The dearth of reliable expense of operation figures, leads to the conclusion that some services may have been heretofore rendered below cost.

In consideration of the foregoing it would seem unnecessary for China Transport Corporation to acquire un-needed equipment, from commercial haulers, particularly on the eve of their possible rehabilitation.

(Signed) M. E. Sheahan

HUNGKING

Dec. 12, 1939

To

H.E. Minister Chang Kia-NGau

In the interest of good organization I would appreciate matters concerning the work of this commission being referred to myself as the leader thereof pursuant to our contractual understanding with the National Government of the Republic of China.

As an example of the conditions that bring this request about, yesterday your Mr. S. N. Pan called on Mr. Van Patter requesting his aid in drafting a reply to your Haiphong representative's letter of November 30th, having to do with the assembly and operation of certain equipment now on hand at Haiphong. We have from time to time, by memoranda given you our best opinion in relation to this subject. Mr. Van Patter is strictly a Maintenance man and as such cannot be expected to have knowledge of operations. Mr. Bassi is cooperating with your Bureau of Public Roads and it requires our combined experience to properly answer many of the problems.

Another example comes to light this morning when Mr. Van Patter was asked by Mr. Y. C. Chen, Chairman of the Organization Committed of China Transport Corporation, through Mr. S. N. Pan, to request Mr. Van Patter to evaluate certain commercial equipment.

(Signed) M. E. Sheahan

Chungking

Dec. 12, 1939

To

H.E. Minister Chang Kia-Ngau

In connection with the probable headquarters of China Transport Corporation, believe consideration should be given to establishing the General offices in Kunming. The relative advantages of Kunming include, its strategic location with respect to arteries of commerce. The "Burma" road, French Indo-China Railway, Kweichow-Yunnan and Szechwan-Yunnan highways terminate at Kenming. Future highway developments to Indo-China will undoubtedly link Laokai and Kunming.

(Signed) M. E. Sheahan

Chungking

Dec. 12, 1939

Mr. E. P. Chen,  
Universal Trading Corporation  
630, 5th Avenue  
New York City, New York  
U. S. A.

Dear Mr. Chen,

With further reference to my cable of December 1st, and our prior correspondence, relating to the subject of detailed specifications, covering automotive equipment for use on the highways of free China. I have delayed this matter until we were in possession of more knowledge with respect to actual conditions on the highways, and the service in which the major portion of the equipment would be operated.

When I was last in New York, I discussed at some length with your Mr. K. J. Kang and others, the necessity of delving into extensive and detailed specifications, to govern the production of reputable manufacturers, pointing out that specifications in too great detail, are in effect a substitution of one's own ideas for those of the manufacturer's engineers, and that the comparative inexpensiveness of the American truck had been brought about through standardized practices and design and such economies might be lost should the detailed specification trend continue. As I recall, it was their idea that without definite minimum requirements, inferior products might result. With this I cannot agree, particularly as most manufacturers look upon the China market as holding out a good future for their products. The minor number of vehicles now in use in China, coupled with the recent awakened viewpoint towards highway progress, is about the only encouragement the manufacturers have had over a period of years. Naturally, the larger share in the development and use of automotive equipment in China, will fall to the manufacturer who best serves China's initial requirements.

In these recommendations we have given consideration to many factors;

1. First cost
2. Operating expenses
3. Highway surfaces
4. Grades
5. Elevation
6. Tire and wheel size
7. Axle ratio
8. Weight distribution
9. Split operations
10. War time emergencies

I have not given consideration to Road Speeds and Air Resistance. The operating conditions in free China, being such as to render such considerations unnecessary at this time.

As an illustration of consideration of capital expenditures; we have heretofore estimated that 40% of available vehicles are actually susceptible of constant operation. We have also reported that, in our opinion, the major portion of the trucks in service are too light. Assuming for example, present initial cost at US\$1,000. The 40% utilization factor produces  $2\frac{1}{2}$  times US\$1,000, or US\$2,500, per operated vehicle. Thus, it would be more economical to invest US\$1,250, in a vehicle that would increase the 40% utilization factor by 100% or secure at least an 60% utilization factor, I believe this is possible.

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If the foregoing is accepted as practical, the next consideration is to determine the vehicle best suited to present conditions of operation in free China. Highways, grades, elevation, bridges and ferries, tire and wheel size and axle ratio, are our next consideration. The key map and tables of these highways following page 44 of the "Memoranda on Chinese Highways" are reasonably accurate, and reflect amongst other pertinent data, maximum grades, minimum degrees of curvature, type of surface, and bridge and ferry limitations. For the present we need not consider highways lying north of an east and west line through Chungking and Chengtu. I would point out however, that these northwestern operations, operated for the most part with Soviet equipment, apparently present less operating difficulties than the highways here under consideration. Our first computation concerns the establishment of road resistance. For average packed gravel-packed rough natural soil or packed cinder type of road the accepted road resistance is 20 Lbs., per 1,000 Lbs., of gross vehicle weight. I submit, that the major highways of Southwestern China are not average. Most of these roads are of comparatively recent construction by hand labor and without mechanical aid. Profiles follow the natural topography for the most part and lying in temperate and tropical latitudes they are subject to severe weather damage. This weather damage is principally seasonal and consists of monsoons, torrential rainfalls of from 60 to 80 inches within a period of from 3 to 4 months. To carry off such rainfall requires a high degree of road engineering and most important, adequate drainage. Adequate drainage has not yet been provided in all cases, and it will be some time before noticeable improvements can be secured. Surfaces are usually of the so-called clay bound macadam, hand broken rocks of irregular size constituting the base, and water and clay, the surfacing. The maximum usage of such roads is about 500 vehicles daily and then adequate road maintenance is essential. Road maintenance in some sections has been limited, due to malarial, cholera or bubonic belts. Workmen simply refuse to expose themselves to such conditions. With "spotty" road maintenance, heavy traffic and extreme rainfall etc., road surfaces soon deteriorate and become rough and uncomfortable. Coupled with extreme grades, this uneven surface means an excessive amount of low gear operation because, each degree of unevenness is equivalent to a higher degree of grade. Our best estimate of road resistance under the aforementioned conditions is therefore 30 Lbs., per 1,000 Lbs., of gross vehicle weight. This figure should however, be frequently reviewed in the light of known improvements to highways.

Our next consideration is elevation. Accepted standards of power loss per 1,000 feet of elevation is 3%. Maximum average elevation between Yunnan-Fou (Kunming) and the Burma border for example, is 7,000 feet (Elevations from 3,000 up to 9,500 feet). True, other highways in free China, average much less, but considering the distance of 960 kilometers, we must observe this 7,000 feet average as our maximum. 7,000 feet average altitude times 3% produces a 21% power loss. Any excess power necessary to overcome this 21% power loss, when applied to highways of lesser average grade can be utilized by increasing the payload or for acceleration. The traffic is here to move, and maximum carrying capacity with lightest chassis weight, considering all factors, is therefore essential.

Our next consideration is the "Safety factor". In consideration of inexperienced drivers, mechanics and station forces, overloads are the rule rather than the exception. This overloading is not to the entire vehicle, but usually to the front end. Assuming that locally built cabs and bodies will hereafter be constructed to chassis manufacturers standards, proper weight distribution can only be brought about through intensive personnel training and this is a long time project. Improper greasing, tire pressures, and maintenance,

coupled with the foregoing, compel our advocacy of at least a 15% safety factor in determining section modulus of frame, front axle, springs, gear ratio, etc. In Table I we show a recommended frame section modulus, however, absence of reference books suggests that these figures be carefully reviewed by your engineers and necessary changes made in the table.

The proposed specifications have been drawn with the idea of securing an adequate performance, under the most trying conditions encountered, but without imposing unnecessary limitations upon the factory engineers, and having in mind at all times, the policy so wisely adopted in dealing with all manufacturers on a parity. Your specifications that I have seen, do not in my opinion obtain your objective. We believe, however that the form of Questionnaire now used, amply covers all technical specifications and should be continued. The reasons I do not believe your objectives have been obtained, can perhaps best be explained by treating with each of the items on your specifications, seriatim;

#### I. GENERAL REQUIREMENTS:-

Item 1. "Standard production of latest models", indicates a desire to take advantage of engineering advancements of the various manufacturers. The advancements in automotive engineering over the entire era of the internal combustion engine, has been to secure added horse power and more economical operation with less weight per pound of horse power developed. Requirements including at the same time minimum piston displacement and maximum torque as set forth in your present specifications are contradictory to this trend in engineering advancement.

Item 2. The brief description of road conditions in free China does not begin to convey true conditions, for example, the Burma road from the Burma-Chinese border at Wanting to Kunming, traverses over 10 mountain ranges requiring a climb on the north bound trip in excess of 7-7/10 miles within a distance of 388 miles, a climb of approximately 2%. The accumulative descent approximates 8-9/10 miles within a distance of 240 miles or about 2-9/10% down grade. These figures I do not believe are unusual for similar distances in other countries, however there are maximum grades of perhaps 20%, and 15% is not unusual. In addition there are hair-pin turns, limiting the turning radius to 30 feet or less. The reason these hair pin turns are so difficult to negotiate, is because the greatest rise is at the point where the minimum turning radius is encountered, and whether a unit is on the ascent or descent the "resolution of force" on such tortuous roads is perhaps "ten-fold" normal. Under present conditions and where weather damage is tremendous, the clay surface of the roadway is quickly washed away, deep ruts are created through lack of proper drainage and an uneven profile results. This unevenness or irregularity of surface, quite frequently runs from 1" to 2". The increased impact in normal operation over such irregularities becomes a very destructive force, and jar damage to vehicles, tire wear, accidents and increased gasoline consumption, etc. assume excessive proportions. Automotive engineers in considering classification of highways (which is more or less a matter of opinion) consider irregularities of grades, and extreme degree of curvature, in terms of rolling resistance, and consider such extreme rolling resistance in recommending performance factors to their engineering departments. The engineers in assembling standard units utilize this information in connection with established "rim-pull" per 1,000 lbs. of gross vehicle weight. Rim-pull is established through consideration of the various elements constituting the complete vehicle, commencing with the engine, and the best means of measuring engine performance yet developed is through accurate measurement of "torque" or power, under conditions simulating the actual.

I mention the foregoing, for the reason that, I have previously advised that presently predominating equipment in China, is considered too light. In substantiation of this observation, we believe that rolling resistance that might be accurately measured under ordinary conditions as from 20 to 25 Lbs. per 1,000 Lbs. of gross weight, should be increased to approximately 30 Lbs. due to seasonal variations, which vitally affect the condition of the highways in China. Further, the altitude range on the Burma road alone is from 3,000 to 9,500 feet with an average of approximately 7,000 feet. All of these circumstances, we have taken into consideration in the following specifications and the enclosed tables.

## II. SPECIFICATIONS:-

Item 1 "Guaranteed" payload capacity expressed in minimum terms is an assumption of warranty. The guarantee at best being your own or your engineers determination of the dependability of a manufacturer, and indicating the need for definite performance factors, rather than detailed specifications, (compliance with which, removes the vehicle from "standard production" and the attendant economies.) We recommend that "pay load" capacity, be as desired. Other considerations and minimum restrictions will establish gross vehicle weight and the lighter vehicles (all other factors being equal) naturally incur less expense to operate. Vehicles below 2½ ton capacity, should only be secured for special purposes. Vehicles with pay load capacities above 4 tons should be of the truck-tractor semi-trailer type, unless for some special reason such as concentration of weight, a shorter wheelbase can be used. Thus our proposed truck specifications are confined to the capacity range of from 2½ to 4 tons. Higher and lower capacity ranges are included in the tables as illustrative only.

Item 2 (Type of Cab) & 3 (Right hand drive) appear proper as included in your specifications.

Item 4 & 5 Dealing with gross and stripped chassis weight minimums appear unnecessary, for the reason that, the setting of such minimums may involve the loss of engineering advance and the transport of useless and unnecessary dead weight, a costly procedure in any country. Considering the dependability of the manufacturer the rated gross vehicle weight should be given due credence as well as price, as price is but the first cost and operating expenses are in fact more important. (See Table III)

Item 6 As an example, in your specification No. UEI-T10 (Net carrying capacity 6720 Lbs.) you specify a 32 x 6. 10 ply tire of standard tread type. As a matter of fact, your minimum gross vehicle weight of 13,500 Lbs., for ordinary roads, requires a recommended maximum loading of 2,200 Lbs. per tire. The rough and tortuous roads of Southwest China indicate the need of at least a 15% factor of safety, and this can only be obtained through adoption of larger tires, and in the instant case not less than 34 x 7 of manufacturers recommended standard tread. Rib treads are not as satisfactory as standard on these highways. There are many arguments that I could advance in favor of balloon tires, instead of high pressure tires, although I am informed, that tests have proven otherwise. It must be borne in mind that strict conformity with tire-manufacturers recommended air pressures are more essential in the balloon or low pressure tire, than in the high pressure type, and the infrequency of inflation facilities, coupled with inexperienced workmen, results in variations in tire pressure, and mismatching of dual tires increasing cost through inadequate mileage obtained. We therefore recommend, that wheel and tire sizes conform to American Tire Manufacturers Association standards for the gross vehicle weight produced in conformity with the minimum requirements of component elements included in the assembled vehicle.

Item 7 To specify as a "grade-ability" test, the ability of a truck to climb a 1.5% grade in high gear at 7,000 ft. altitude appears proper, provided, you qualify such a test to at least S.A.E. standards.

In determining "grade ability" as shown in Table I, I have used the following formulae:

$$\frac{T \times A}{RW} = R.P.$$

In computing "A" I have used the constant .00107  
 $2 - (6.2832) \div 5280 = .00119 - 10\%$  (Friction Loss through Transmission and rear axle) = .00107

Computing R.P., P.F., and G.A., on  $2\frac{1}{2}$  Ton Capacity truck, for example;

$$.00107 \text{ (Constant)} \times 150 \text{ (Torque)} \times 6.2 \text{ (Gear Ratio)} \times 625 \text{ (RM)} = 622 \text{ R.P.}$$

$$\frac{R.P. (622) \times 1000}{G.V.W. (13000)} = 48 = P.F. \text{ (Sea Level)}$$

$$49 - 10\frac{1}{2}\% = 43.8 = P.F. \text{ (3500' Alt.)}$$

$$49 - 21\% = 38.7 = P.F. \text{ (7000' Alt.)}$$

$$\frac{P.F. (49) - R.R. (30)}{10} = 1.9\% = G.A. \text{ (Sea Level)}$$

#### Key

- T = Torque
- A = Gear Ratio x Transmission Ratio or Gear Reduction
- RW = Radius of Wheels
- RM = Tire Revolutions per Mile
- RP = Rim Pull
- PF = Performance Factor
- GA = Grade Ability
- G.V.W. = Gross Vehicle Weight
- RR = Road Resistance

Items 8 & 9 deal with net minimum and maximum torques at stated R.P.M.'s. Here again the condition of establishing the torque curve is of extreme importance, and S.A.E. standards should be observed. Torque curve charts submitted should clearly state type of fuel, compression ratio, type of head, spark setting, equalizing factor and other standard practices observed in testing. In this way all manufacturers submitting torque curve charts in response to bids, will be placed upon an equal basis. The maximum torque, I believe should be considered, irrespective of the R.P.M.'s but the net maximum torque should be secured within the range of 800 to 1600 R.P.M.'s and the R.P.M.'s of the net maximum within the aforementioned range should be given first consideration.

Item 10 The setting of a "specified" rear axle ratio lessens the possibility of a manufacturer utilizing an engine with too small a torque for a given job. However, I would point out that proper consideration of net torque accomplishes the same purpose.

Item 11 The number of shifts forward, and reverse as a standard or as optional equipment is recommended as set forth in these specifications, (see Item 18-b) for the various classes of equipment under consideration.

Item 12 Requiring a 50-foot minimum turning circle appears proper in consideration of minimum curvatures presently encountered and in determining whether or not standard or G.O.E., should be used. The minimum curvatures should be frequently checked to assure consideration of improvement to the recommended 15 meter standard. Present highway improvements should allow, and I recommend adopting a 50-foot minimum turning circle at this time. Wherever possible standard type trucks are recommended, rather than G.O.E. Strict attention should be paid to the manner in which turning radius is accomplished, if clearance for chains for example, are not allowed, damage to tires and accidents may result. Frankly, I do not believe proper inspection of this feature has heretofore been made. The cost of removal of minimum curvatures of 8 meters, would undoubtedly be more than saved in utilizing less costly standard vehicles.

Item 13 Minimum or maximum wheel base specifications do not appear essential for the present purpose as the controlling factor, is the minimum radius of curvature over the highways to be traversed and type and volume of load to be transported, should govern deviation from standards.

Item 14 Referring to brakes; in my opinion, your specification exceeds requirements, particularly where you state the number of square inches of effective braking area, nor should we confine the application of the hand mechanical brakes to the rear wheel or drive shaft as each of these types have proved their efficacy in actual service. Standard performance factors are of more importance and we recommend that you indicate the distance within which vehicles of a given gross vehicle weight, over a fixed type of road at a given speed, can be brought to a stop, with a given rate of pedal pressure. We prefer the hydraulic type of braking system on 4 wheels and do not favor boosters. See specifications - Table I.

Item 15 In my opinion detailed specifications and minimum allowable piston displacement of an engine as set forth in your prior specifications are unnecessary, and the limitation in sizes and kinds of materials (in bearings, for example), is an infringement upon the manufacturers engineering ability. Nor should we specify the detailed construction of the cooling system. Performance under actual conditions is more essential. I therefore recommend the following as sufficiently broad to admit manufacturers on a parity:

- a. The power plant to be of a type satisfactory to assure adequate performance in accordance with requirements as herein stated. Operation to be with gasoline, or other substitute fuels, which may be available or susceptible of development in Southwest China. Where the engine is intended to use fuel other than gasoline, detail data relating to necessary conversion materials and labor as well as performance must be attached to the bid. In every instance the engine is to be equipped with:
  - (1) An engine oil filter, of adequate design, to remove harmful abrasives from the engine oil. The type used must be specified in the bid.
  - (2) Crank case ventilator to be provided in the engine design
  - (3) Liquid cooled engines must include:
    - (a) Centrifugal (packless and self lubricated preferred) type of water pump,
    - (b) Full length water jackets,
    - (c) Pressure water circulation around valve seats,
    - (d) Heavy duty radiator core, (or extra cooling capacity) with a minimum to provide at least 100° rise over atmosphere without boiling,

- (e) Heavy duty fan, V belt driven,
- (f) Temperature gauge on instrument panel,
- (g) Cooling system equipped with a by-pass thermostat.

Consideration should be given to a sealed cooling system with safety valve pressure release of  $1\frac{1}{2}$  Lb. minimum and 2 Lb. maximum. Bids should state the type of system to be installed.

Item 16 The fuel system shall include;

- a. Air cleaner provided with flame arrester, and in-take silencer, and of a size and quality to assure removal of harmful abrasives from the air. Specify type used in submitting bids.
- b. Carburetor must be equipped with metering rods, or jets to provide maximum performance and economy at altitudes of from 1,000 to 9,000 ft.
- c. Fuel pump capable of providing an ample fuel supply under all operating conditions for these specifications. In submitting bids specify type, method of operation and location in the completed assembly. If fuel pump is to be located on the same side of the engine as the exhaust manifold and pipe, adequate protection through shielding and insulation must be afforded, against vapor lock.
- d. Fuel Tank. The auxiliary tanks to be of the safety fire proof type, of not less than 12 gauge terne plate steel, with proper air control pipe, to assure air cushion in tank of 12%-15% when full. Minimum capacity of the regular and extra tanks shall be 40 U.S. gallons on vehicles with a net payload capacity of  $1\frac{1}{2}$  tons, 60 U.S. gallons on  $2\frac{1}{2}$ , 3, and 4 ton capacity vehicles and 80 U.S. gallons on 5 ton capacity vehicles. Tanks to be provided with lock type filler caps and anti-syphoning devices. Where more than one tank is used a control valve must be located in the driver's compartment. The exact location of the valve should be stated in submitting bids.
- e. Governor. The adjustable gas inertia or similar type. In submitting bids, state make and type to be used.
- f. Gasoline gauge to be located on the instrument panel. State type in submitting bids.

Item 17 Electrical System

- a. Ignition - distributor type, including ignition coil and condenser and water-proof housing fully automatic.
- b. Battery of ample amperage and high cranking capacity to take care of starting motor requirements, (heavy duty, excessive amperage batteries and condition indicator on the panel appears entirely unnecessary).
- c. Generator of the automatic voltage regulator type, preferably shunt-wound, ventilated and air cooled.
- d. Starter - self engaging and automatic release type of starter-drive manually operated, flywheel ring gear, drop-forged, properly heat-treated, and shrunk on flywheel. In submitting bids, state type of starter drive used and number of poles in starting motor as well as the make.
- e. State type of horn used and manufacturer.
- f. Give description of lights to be furnished (Newer lighting systems are the sealed lighting units with the reflector, bulb and lense in one piece and replaceable only as a complete unit)

Item 18 Chassis specification should cover a well balanced unit including;

- a. Clutch with adequate frictional area, (preferably of the single plate type) with torque capacity of 15% or more above maximum engine torque. Pilot, thrust, and release bearings, preferably of the prelubricated types, specify types used.
- b. Transmission. The Transmission shall be of the Synchro-mesh type with helical quiet second-speed gears. On equipment with a net pay load capacity of  $2\frac{1}{2}$  tons or less, there shall be a minimum of three speeds forward, one reverse. On trucks of more than  $2\frac{1}{2}$  tons net pay load capacity, there shall be four forward speeds and one reverse. The four forward speeds shall be of the sliding gear selective type with direct in fourth speed. On heavy duty trucks of 5 tons or over net pay load capacity, there shall be five speeds forward, with one reverse, sliding gear selective type in first, second and third speeds. Helical constant mesh gears on fourth, direct in fifth speed. Consideration will be given to sliding gear up to fourth with helical constant mesh in fifth.
- c. All transmissions except the three speed forward for  $2\frac{1}{2}$  tons or less net payload capacity, shall include power take-off opening of six stud type.
- d. Propellor shafts of the Hotchkiss or full torque drive. In submitting bids, give detail of the type and construction used.
- e. Universal Joints - All metal and enclosed. In submitting bids, give full particulars as to number and type and whether or not self lubricating. (The severe operating conditions encountered in China compels me to doubt the efficiency of self-lubricating Universal joints - Believe the old plain type lubrication to be superior)
- f. Front Axle I-beam section, king-pins, bearings, and steering knuckle spindles, of an adequate factor of safety, to allow for a minimum overload on the front axle of 25%.
- g. Rear Axle. The rear axle must be of adequate size to provide satisfactory operation with the engine or the torque specified in Table I. Consideration will be given to the addition as optional equipment of two speed axles where demonstrable economy in operation may result. In submitting bids, specify manufacturer, and type recommended.
- h. Front springs for vehicles and whether or not equipped with shock absorbers of the double acting type, shall be as shown on Table I. The spring rate regardless of width must be such as to conform with the weight distribution (Table II) of the gross vehicle weight. In submitting bids, give full details.
- i. The rear springs are to conform with the empty load and full load and the axle spring rating to ensure adequate performance both loaded and empty. In submitting bids, give complete specifications.
- j. Frame shall be of a size and strength capable of withstanding an overload of 25%. See Tables I, II and III. Bumper supports shall be reinforced and so designed that the bumper may be firmly secured. Cap screw mounting will not be considered. Cabs and bodies, whether supplied by the manufacturer, or built locally will be assumed to adhere strictly to the manufacturer's specifications. Full detail or recommended standards must be submitted with bid.

- k. **Steering Gear.** The heavy duty or bus type steering gear of the cam and lever type, or worm and roller or worm and sector type, capable of negotiating minimum radius of curves with comparative ease of operation.
- l. **Wheels** of the spoke type are preferred and on equipment of a net pay load capacity of three tons or more the forged spoke type wheels are preferred. Full detail must accompany bid.
- m. **Controls** throttle, light, choke (if supplied), accelerator, clutch, and surface brakes, operated by pedals. Transmission gear shift, and hand brake levers in center of driver compartment.
- n. **Chassis Lubrication.** Pressure gun fittings when lubrication is required, (preferably of the Zerke type). Describe fully in submitting bids.
- o. **Chassis equipment,** all steel, standard full cowl and wind shield assembly cowl ventilator, dash, instrument panel, steel toe-board, hood (should be reinforced at the hinges and the hold-down clips, and the catcher should be of heavy construction), front and rear fenders (reinforced and strengthened, particularly at the top curvatures and capable of withstanding excessive road stress), running boards and aprons, foot operated dimmer, license brackets, complete electric system, instrument panel light, speedometer in kilometers, ammeter and other instruments as specified; dual windshield wipers; front bumper of single bar channel type; package compartment in instrument panel; whole set of tools and jack (fenders and radiator grills of sheet steel of sufficient strength to withstand excessive vibration, no chrome), and a best grade air pump. Reinforces steering gear bracket at the dash panel.

Item 19 Body:

- Minimum Overall Dimensions - Length -
- Width -
- Height -

- a. **Medium heavy duty wood stake or standard steel stake body.**
- b. **Express body sides and front end made of heavy-gauge steel, angle steel side members of the body frame riveted to the side panels, corner posts welded to the body sides, rolled edge construction for flareboards and front panel; heavy steel tail gate with truss-type rolled edge; front panel reinforced with horizontal ribs, 7/8" oak floor boards interlocked and protected by five 1/8" x 2" steel skid strips. Looking links on drop chains clamp body sides to tail gate when gate is closed.**

Item 20 Cab:

Standard shatter-proof glass, rear view mirror, adjustable type, sun visor.

Item 21 Finish:

Chassis frame, front bumper, springs, axles, and propeller shaft to be black; Hood, radiator shell, cowl, cab, fenders, splash guards, running boards, and wheels to be olive drab, Dulux or equivalent.

### Summary

By reference to Table I, you will observe that all models except the 5 ton, exceed the requirements of grade ability at 7000' of 1.5% with dual performance (2 Speed) axles. None of the models recommended should therefore be considered for operation between Kunming (Yunnan-Fou) and Wanting over the "Burma" highway without dual performance axles. Operations over the "Burma" route are such that I believe no added expense of importance, would be incurred through confining equipment to that route.

On all other routes under consideration, the 2½ and 3 ton trucks should include dual performance axles. The 3 ton Special and 4 ton could be used with single speed axles and still surpass the aforementioned grade ability minimum. Bridge capacity and ferry limitations must control gross vehicle weight. In all instances the 5 ton truck should not be considered as first cost of a truck with sufficient rim pull, torque etc., to meet the requirements, would probably exceed the cost of truck-tractor-trailers.

Added gross vehicle weight and minimum net torque of the 3 ton "Special" in my opinion, should leave more leeway for the manufacturer to construct a truck more universally suited to conditions in free China. Undoubtedly, by taking full advantage of engineering advances, a larger pay load could be secured and the truck gross weight kept below the maximum shown on Table I.

In connection with frame section modulus, it might be well to have your engineers determine to their satisfaction, the desirability of "fish plating" standard chassis frames.

I strongly urge, that future purchases of chassis without bodies, include as standard equipment, Standard full cowl and wind-shield assembly, including safety glass of either the case hardened or laminated type. Heretofore you have specified flat face cowl and local body builders have used plain window glass in some wind-shields. This use of plain window glass, results in distorting vision which distortion, coupled with a greatly enlarged "blind spot" at the corner of the cab, makes the task of driving, not only tiresome, but extremely dangerous to other users of the highway, as well as the vehicle being driven.

You will recall our discussion when we were last in Chicago, about the use of hypoid ring gear and pinion in rear axles. I am opposed to the hypoid gear for many reasons. The stress appears to be in the wrong plane and poor results have been my experience. Further, a hypoid gear is more difficult to adjust and requires a particular type of grease, designed for the purpose, and usually more costly than other grease lubricant. Facilities for special lubricants are not available in China, and inexperienced drivers, mechanics, and greasers must be considered. The principal reason for engineers to resort to the hypoid gear is to drop the propeller shaft and obtain lower body clearance. High clearance is desirable and necessary on Chinese highways.

Automotive specifications are one thing no two engineers or buyers agree upon, therefore be assured that the few suggestions I have made, without benefit of my reference books, are subject to

careful analysis by your staff, and changes etc., they may deem necessary should be given careful consideration. My principal objective has been to provide specifications that would assure fair competitive treatment to all manufacturers, and at the same time, a vehicle that could most economically serve the needs of free China.

Respectfully submitted,

(Signed) M. E. Sheahan

c.c. H.E.Dr.H.H.Kung  
H.E.Minister Chang Kia-NGau  
Mr. J. L. Keeshin

5  
OFFICIAL

**Table I**  
**Suggested Specifications for 2½ to 4 ton pay Load Capacity Trucks**  
**for use in Southwestern and Southeast China, and 5 ton Comparison**  
**Performance Factors and Grade Ability at Sea Level, 3500', and 7000' average Altitudes**

Specifications	2½ Ton			5 Ton			3 Ton Special			4 Ton		5 Ton			
	Sea Level	3500' Alt.	7000' Alt.	Sea Level	3500' Alt.	7000' Alt.	Sea Level	3500' Alt.	7000' Alt.	Sea Level	3500' Alt.	7000' Alt.	Sea Level	3500' Alt.	7000' Alt.
Pay Load Minimum	5000			6000			6000			8000		10000			
Maximum Gross Weight Rating	15000			14000			14500			17000		20500			
Minimum Net Torque 800-1600 R.P.M.	150			165			190			200		250			
Tire Size	32 x 6 x 8			34 x 7 x 10			34 x 7 x 10			32S x 20		37S x 20			
Gear Ratio - cr - 10% allowed Single Speed	6.20:1			6.6:1			6.6:1			7.50:1		7.2:1			
Dual Ratio Axle - suggested Combination 10% Variation allowed	6.20 - 1 8.20 - 1			6.6 - 1 8.0 - 1			6.6 - 1 8.0 - 1			6.4 - 1 8.7 - 1		6.4 - 1 8.7 - 1			
Frame Section Modulus - Minimum	4.5			6.			6.			7.5		8.5			
Front Spring Minimum Width with Double Acting Shock Absorbers	2"			2½"			2½"			2½"		2½"			
Front Spring Minimum Width x Shock Absorbers	2½"			2½"			2½"			2½"		2½"			
Minimum Rim Pull High Gear Single Speed Axle	622			656			758			866		925			
Minimum Rim Pull High Gear Power Gear Dual Axle	622			796			919			1051		1115			
Minimum Rim Pull High Gear Economy Gear Dual Axle	622			656			756			759		821			
Minimum Brakes Stopping Distance from a speed of 20 miles per hr. 200 Lbs. pedal pressure. Test to be made on level, dry, concrete pavement in good state of repair	32.5			35			35			34		35			
Minimum Performance Factor Single Speed Axle	49	45.6	38.7	47.	42.1	37.1	52.5	46.8	41.5	50.9	45.6	40.2	45	40.5	35.5
Minimum Performance Factor Economy Gear Dual Axle	49	45.6	38.7	47.	42.1	37.1	52.5	46.8	41.5	44.6	39.9	35.2	40	35.8	31.6
Minimum Performance Factor Power Gear Dual Axle	55.2	56.6	49.9	57.	51.	45.	65.4	56.8	50.1	60.6	54.2	47.9	54.4	48.7	43.0
High Gear Grade Ability Single Speed Axle	1.9%	1.56%	0.87%	1.7%	1.54%	0.71%	2.25%	1.68%	1.13%	2.09%	1.56%	1.02%	1.5%	1.02%	0.56%
High Gear Grade Ability Economy Gear Dual Axle	1.9%	1.36%	0.87%	1.7%	1.54%	0.71%	2.25%	1.68%	1.13%	1.46%	0.99%	0.52%	1.0%	0.56%	0.16%
High Gear Grade Ability Power Gear Dual Axle	3.52%	2.66%	1.99%	2.7%	2.1%	1.5%	3.34%	2.68%	2.01%	3.06%	2.42%	1.7%	2.4%	1.87%	1.3%

Performance Factor, and Grade-Ability, adjusted 10% for 3500' and 21% for 7000' Altitudes. - 7000' Averages are attained only on the "Yunnan" route between Kunming (Yunnan-Fou) and Wanting, 3500' average on all other operated routes in Southwest and Southeast China. Road resistance computed at 50 Lbs. per 1000 Lbs. Gross Vehicle Weight.

Table II

Weight Distribution Recommended for  $1\frac{1}{2}$  to 5 Ton Pay Load Capacity Trucks  
for use in Southwestern and Southeastern China

		(5000 Lbs.) $1\frac{1}{2}$ Ton	(5000 Lbs.) $2\frac{1}{2}$ Ton	(6000 Lbs.) 3 Ton	(6000 Lbs.) 5 Ton Special	(8000 Lbs.) 4 Ton	(10,000 Lbs.) 5 Ton
Front Axle	Normal Load	2945	5110	5320	5570	5710	4550
	Maximum Load	2705	5080	5200	5450	5670	4480
Rear Axle	Normal Load	5915	8690	10040	10290	12150	14490
	Maximum Load	7295	9920	10900	11050	13350	16020
	Totals Normal	8860	11800	15360	15860	15860	19040
	Totals Maximum	10000	15000	14000	14500	17000	20500

All computations are based on 158" wheelbase.  $1\frac{1}{2}$  Ton to 3 Ton computed on 145" center of gravity and from 3 Ton Special to 5 Ton on 149" center of gravity.

Normal load = Minimum load specified in Table III. When trucks carry maximum loading, it is assumed that the distribution of loading becomes more severe on the rear axle.

Computation also includes, weight distribution of Chassis Dry Weight, approximately 100 Lbs. more on front axle than on rear. Cab and contents computed on Center of Gravity 55" behind front axle on  $1\frac{1}{2}$ ,  $2\frac{1}{2}$  and 3 ton trucks, 56" on 3 ton Special and 57" on 4 and 5-ton trucks.

Chungking, China  
Dec. 12, 1939

Table III

Maximum Weights Recommended for  $1\frac{1}{2}$  to 5 Ton Pay Load Capacity Trucks for operation in Southwestern and Southeastern China.

	$1\frac{1}{2}$ Ton	$2\frac{1}{2}$ Ton	3 Ton	5 Ton Special	4 Ton	5 Ton
Cab, Cowl and Windshield Assembly	400	500	500	500	500	500
Stake Body	1200 (40 Gals)	1350 (60 Gals)	1350 (60 Gals)	1350 (60 Gals)	1350 (60 Gals)	1350 (80 Gals)
Fuel (Gasoline at 6.5 Lbs. per Gallon)	282	378	378	378	378	504
Oil	15	15	15	15	15	30
Water	35	35	35	35	35	50
Spare Tire	150	200	250	250	250	300
Tools	10	10	10	10	10	15
Drivers	300	300	300	300	300	300
Payload	3000	5000	6000	6000	8000	10000
<b>Totals</b>	<b>5562</b>	<b>7788</b>	<b>8838</b>	<b>8838</b>	<b>10638</b>	<b>13549</b>
Estimated Chassis Dry Weight	3500	4000	4500	5000	5000	6000
Minimum Load Weight	8862	11788	13338	15838	15638	19549
Maximum Gross Vehicle Weight	10000	13000	14000	14500	17000	20500

Estimated weight of Stake Body is based on 158" Wheelbase etc., as shown in Table II. Higher than normal weights are shown, due to prevalent practice of locally constructed bodies containing heavy woods, such as Pyinkado (45 Lbs. per board foot), Teak etc., Locally built bodies should not exceed specified maximum and must conform to Chassis Manufacturers specifications.

Chungking, China

Dec. 12, 1959



TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

OFFICE OF THE DIRECTOR

January 22, 1940

MEMORANDUM FOR THE SECRETARY

This afternoon I had a conference with Mr. J. S. Smith, President of Jacobs Aircraft Engine Company of Pottstown, Pennsylvania.

This company manufactures engines of 225 to 330 horsepower. Mr. Smith stated their capacity is approximately 720 engines per year, and they have on their books at present orders for 150 engines, with inquiries from Canada and commercial companies for numbers which will exceed their annual capacity. They have an order from the Army for 150 225-horsepower engines, with an option for 128 more, which are to be used on Stearman Primary Trainers.

The control of the majority of the stock is held by Mr. Smith and Mr. J. A. Harris, Vice President & Treasurer. Their factory has 45,000 square feet, is at present working on two shifts per day with 140 employees.

Mr. Smith stated that they have never gone into any research or development of an engine in excess of 330 horsepower; that should the Army exercise its option and the Canadian order be placed with them there would be no available capacity for other work. He did state, however, that they would be interested in an extension to their plant for the purpose of performing subcontract work but that they did not desire to go into the production of any engine beyond the range of those at present being manufactured.

  
Director of Procurement

## GROUP MEETING

January 22, 1940.  
9:30 a.m.

Present: Mr. Bell  
Mr. Gaston  
Mr. White  
Mr. Cochran  
Mr. Cotton  
Mr. Graves  
Mr. Haas  
Mr. Sullivan  
Mr. Thompson  
Miss Chauncey

H.M.Jr: Herbert?

Gaston: I haven't got anything new this morning.

H.M.Jr: Mr. Sullivan?

Sullivan: No.

H.M.Jr: Cochran?

Cochran: Nothing.

Schwarz: Do you want to talk about Mr. Kluckhohn's story in the morning Times?

H.M.Jr: It is what they call a thumb-sucking story, isn't it?

Schwarz: That is right. I got called about midnight by the Herald Tribune.

H.M.Jr: Well, there is nothing new in it, is there?

Schwarz: That is what I said.

H.M.Jr: It is just what I said in my press conference?

Schwarz: Yes.

H.M.Jr: He has just tied it up with a meeting at the President's?

Schwarz: Yes. He tried the trick of putting two paragraphs side by side.

H.M.Jr: You mean that is the way it is written?

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Schwarz: Yes. The first paragraph about the British and then he tried to indicate that we are helping them.

Gaston: Did you give that figure of a billion dollars on British purchases, was that in the press conference?

H.M.Jr: No, but they have had a figure of 10,000 planes. It has been out now for a week. You see, what happened was, I told Dan it would break today. The President asked Dan at Cabinet what I was doing. I said Monday morning it would be in the papers.

Bell: That is right.

Schwarz: From the War Department?

H.M.Jr: Sure. I mean the President told them in great glee where I was and what I was doing on Friday. He was very much pleased, wasn't he?

Bell: He got a big kick telling it.

Gaston: The President did go to the air show, I suppose you noticed.

H.M.Jr: Yes.

Gaston: Chick and I got there in time to wait for him to get out.

White: I read the first few paragraphs hurriedly and from that hurried reading I got the impression that you gave that information during your press conference. Is that in this morning's Times?

Schwarz: Last Thursday the Secretary gave the information that he had been to the Martin plant and that he intended to visit others.

H.M.Jr: It looks as though Kluckhohn had a personal interview.

White: Yes.

H.M.Jr: I guess that is permissible, isn't it?

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Schwarz: On Monday morning?

H.M.Jr: Yes.

Joe?

Cotton: Nothing.

H.M.Jr: Joe, if you will stay behind a minute with Herbert Gaston, I would like to talk with you.

George?

Haas: I just have this brief.

H.M.Jr: I got your stuff on Mr. Emanuel. He is quite a boy, isn't he?

Haas: He certainly is. He has got a big name, like a king.

H.M.Jr: Harry?

White: You asked about some statement with respect to rubber purchases by --

H.M.Jr: Yes, because Louie Johnson came out with a statement about we only had two weeks' supply of tin left in this country and that the Russian Amtorg was bringing all the tin and rubber into Russia.

White: We have been looking that up, you know, and the figures for September, October and November are available and we have got those. They show that they purchased 2 $\frac{1}{2}$  million dollars of crude rubber in October, a small amount, 25,000, in November. We haven't got the December figures because we can't look at the records unless somebody has received a letter from the Assistant - Undersecretary Noble. We are waiting for that. We can't find it. I don't know whether anybody here knows about it.

H.M.Jr: The point is, even if you knew the shipments, the question is about the net inventory.

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White: I was just referring to what they have purchased. That is a small amount compared to what we normally have on hand.

H.M.Jr: Can't we find out what the net inventory is?

White: There are figures for stocks on hand in rubber and as soon as we get to the December figures we will know what the position is as of the first of the year.

H.M.Jr: How could we contact the Department of Commerce?

White: We sent them a letter.

H.M.Jr: On rubber and tin?

White: No, we sent them a letter asking for permission to examine.... I am speaking of re-exports. We have to examine documents which are in their possession which we need permission for.

H.M.Jr: I have no letter.

White: It will probably come. They also bought four million dollars worth of tin in December.

H.M.Jr: Well, you see, it doesn't mean anything unless a person has the net picture, say of the first of January.

White: That is right, but this asked merely whether he denied having purchased any rubber in the past six weeks, so the denial, as far as we know, may be all right. We will know better after the December figures.

I received a letter from Mr. Riefler in answer to your request to make comment on the provisions of the bank.

H.M.Jr: Bank?

White: Inter-American proposed bank.

H.M.Jr: Oh.

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White: Did you happen to receive any from Mr. Stewart or Mr. Viner?

Chauncey: No.

White: There is also a letter from Mr. Goldenweiser enclosing a copy of a letter which he sent with the approval of and after consultation with the Board to Mr. Berle and the bank.

H.M.Jr: Right.

White: Have you seen that letter?

H.M.Jr: No, but Mr. Berle is coming here at 4:30 this afternoon to talk about it.

White: It raises the fundamental issue, a difference of opinion.

H.M.Jr: You were notified, weren't you?

White: I didn't know.

H.M.Jr: Well, you are notified.

White: Will you want to go over some of the points before?

H.M.Jr: I will have to do it as I go along. I can't do it before. This is a bad day.

White: We have these figures of changes in gold, Central Bank, et cetera. If we can take your book, have the privilege of taking your book, we will finish that thing up.

H.M.Jr: What book?

White: Don't you keep some kind of a book in which you have weekly data that you look at occasionally? I think I have seen it only once.

H.M.Jr: You and I both. I don't know about it.

White: Well, you wanted it changed. Do you know about it, Merle?

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Cochran: That big black book?

White: Yes. Is that yours?

Cochran: Yes.

H.M.Jr: Get it so I can see it.

White: I will get it from Mr. Cochran and fix it up.

Cochran: We are still keeping that up. We might revise it or put in a new sheet, whichever seems necessary.

White: Last year there was a rather heavy inflow of capital, about 40 million, but otherwise no substantial change.

H.M.Jr: Excuse me, Harry.

White: Did you want to either have a meeting or make some comment now with respect to the handling of that statement by Aldrich? It is receiving more and more publicity.

H.M.Jr: Yes, I am waiting on you to give me the material.

White: All right. I will prepare a memo on it.

H.M.Jr: I am waiting on you.

White: O. K.

H.M.Jr: What else?

White: That is all.

H.M.Jr: Anything else?

White: Nothing.

H.M.Jr: You had better stay behind, too, when I talk with Cotton and Gaston on South America. You are in it, too, aren't you, Cochran?

Cochran: Yes, sir. On that gold, there is a splendid article in Standard Statistics this week.

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White: I haven't seen it.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: That is some necktie.

Graves: Yes.

H.M.Jr: Is spring here?

Graves: I am just trying to bring it here.

H.M.Jr: Dan?

Bell: I am going to have a conference this morning on Bank of America, just the people here in the Treasury, and see if we can work up a minimum program.

H.M.Jr: That is right.

Bell: We are going to discuss whether or not we should give that to the Federal Reserve. I think we ought to see you for 15 minutes sometime after lunch.

H.M.Jr: 3:00 o'clock. I was waiting to be asked. Tom Smith came in and had tea at the house at 5:00 o'clock.

Bell: Then you know about it.

H.M.Jr: No, he said all of you were lined up.

Bell: I am not so sure.

H.M.Jr: He said there was one part I wouldn't go along with.

Bell: Wouldn't go along with us?

H.M.Jr: He hoped it wouldn't be in the minimum requirements on the management.

Bell: Yes, he did mention that.

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H.M.Jr: You have got McKee all fixed?

Bell: Well, he thinks he has. He has got McKee in a receptive mood, at least to go along with the Treasury, and he has good support, so he says. I don't know whether you saw the way the British are refunding their 4<sup>1</sup>/<sub>2</sub>s, 350 million pounds, '40-'44 bonds.

White: Three and five-year notes.

Bell: Well, they are two percent five-year bonds. I suppose they call them bonds for a special reason, but the interesting part about it is that they have given a notice to the holders that if they want cash they have got to serve notice on the British Treasury by February 8 and if they don't come in and say they want cash, then they have got to come in and take the refunding bond.

H.M.Jr: I see.

Bell: This is a letter to the Secretary of Agriculture saying that he can consult the Treasury people on that cotton plan.

H.M.Jr: You don't want to designate a person?

Bell: Well, it is Bartelt on the disbursing end and somebody in the Bureau of Engraving and Printing on the printing end.

Miss Perkins is having another meeting. I don't know whether you want to go or not.

H.M.Jr: Oh, no.

Bell: I have accepted, not that I want to go.

Here is a memorandum on the Cabinet meeting.

H.M.Jr: Fine.

Bell: And that is Wallace's memorandum and a number of charts he submitted Friday.

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H.M.Jr: Right. What else?

Bell: That is all.

H.M.Jr: You had better listen to what I am going to say on South America. It may be important.

Thompson: I have nothing.

H.M.Jr: Norman, just so that we have some kind of thing - I don't know whether you want to do it or Bell wants to do it, but I think these top people, when they do go out of town, I think - I don't know whether Bell wants them to clear with you so that you would know where they are going and what their address is.

Thompson: He probably would want to clear it with me. I think that was the arrangement we made last year when Mac was here.

H.M.Jr: Could you send them a little notice so that we would be sure always there is one Undersecretary or Assistant Secretary here on Saturday, you see. Then if the people are going out of town, the 9:30 group, I think they ought to check with you and then if you have any objections you can tell me, but I think we ought to know. Just a little kind of system.

Thompson: Yes.

H.M.Jr: Don't you think so, Dan?

Bell: Yes.

H.M.Jr: Then especially, we can find out where they are in case of emergency. Don't you think it ought to go through Norman?

Bell: Yes.

H.M.Jr: Then there always ought to be one - I don't want too much school, but at least --

Sullivan: When one of us goes out of the building for any length of time --

- 10 -

H.M.Jr: Oh, no. Just out of Washington, out of the District. Your secretary will know where you are. Or, if they go off in the middle of the week. They always know where they can get me 24 hours of the day, worse luck, so we will have just a little system. Not too much school, but just a little system.

Sullivan: I think at this hearing this morning this question of the rate of interest on refunds and overassessment may come up. I don't think we are ready to discuss that.

H.M.Jr: No, I don't - just a little bit. O. K.? We will go on South America.

RE BRAZILIAN LOAN NEGOTIATION

January 22, 1940.  
9:50 a.m.

Present: Mr. Bell  
Mr. Gaston  
Mr. Cotton  
Mr. Cochran  
Mr. White

H.M.Jr: Two of you people were out of town Saturday, Cotton and White. I have written an important letter to Mr. Hull which I think you people ought to see and in which I have disassociated the Treasury from the Brazilian thing. You weren't here, were you?

White: No, I wasn't here.

H.M.Jr: You can get the letter from Miss Chauncey and read it. I am going to tell the President, if he has me for lunch or the next time I see him, anyway, why I don't want anything more to do with the collection of private debts. I don't want the Treasury to have anything more to do with it. I want to completely disassociate the Treasury. I am sorry to say I just can't work with the State Department because they won't work with me. They don't treat me fairly, they treat me very badly, and life is too short to have any fights and rows so I am just going to disassociate myself from it and this letter which I have written to Mr. Hull tells about it.

Now, on the Colombian thing, I will try to go through with it. Now, there is one thing, though. You (Cotton) did tell me you were going to try to do something with Mr. Traphagen. My impression was - I may be wrong - but I thought what you were going to send you would let me see first.

Cotton: I just sent him an attempt to work out - showing some figures on how to work out that suggestion you made, that the amortization of bonds should be in terms of the face amount of bonds. I didn't want to bother you with it until it got to the point where Traphagen got receptive to it.

H.M.Jr: I think it might be a little better if you did show it to me. I am not laying any great stress

- 2 -

on it, but I would like to see it now so I will have everything they have got.

Cotton: All right.

H.M.Jr: What I have in mind, Dan, is this: I am going to put this up to Berle this afternoon. In the first place, to make one more effort on Colombia, sending for the Ambassador of Colombia and Mr. Traphagen and Mr. Jones and Mr. Berle and myself to come over to my house or some place and take a couple of hours and tell these people that just as far as I am concerned, it is my last effort. If they don't want to do it after that, as far as I am concerned, they can do it any way they want but I am through.

Cotton: I think that is right, but I question whether the time has come for that.

H.M.Jr: Well, the purpose of this is a discussion. Why not?

Cotton: Well, because, as the situation stands now, the Colombian Ambassador is supposed to write Traphagen a letter saying what he would be willing to recommend to his Government and he has also sent Traphagen's proposition down to the Colombian Government and he is waiting more or less for instructions and their reaction on that, so the next move seems up to him and then if he submits something, then would be the time when you ought to get them together or leave them to their own devices. It doesn't seem to me quite the moment for you to try to do that.

H.M.Jr: Here is the trouble, Joe. I can't play the game the way the State Department is doing. They have this man, Jaramillo. They say he is the white-haired boy and they are constantly undercutting the Ambassador. I don't see how the Ambassador can ever get anywhere as long as the State Department keeps building up Jaramillo. I mean, the Ambassador's position is impossible. Jaramillo says, "Well, Mr. Welles had me for supper and he told me this and he told me that and this is what

- 3 -

I think you can get out of the thing," and he sends word back to Lopez, the ex-President - I mean, I am doing a little summarizing - and he sends word to Lopez and Lopez says this or that and then the Ambassador says it and it is all sixes and sevens.

Cotton: I think that is right but I somewhat question whether this would be the moment for you to make a last effort simply because the next move is up to the Colombian Ambassador, whether he is being undercut through Jaramillo and so on probably is true. There are two many cooks in this thing.

H.M.Jr: I want to get out first, publicly.

Cotton: Yes, but I think the thing would have a better chance of getting them together if you waited a little while.

H.M.Jr: I want to get out just one jump ahead of the other fellows, publicly, because I have tried darned hard to do this thing.

Cotton: I think it can be done and I think it might be successful.

H.M.Jr: You do?

Cotton: Well, maybe not. After all, the Colombian Ambassador has made an offer twice and has welched on it twice. He has got to come through.

H.M.Jr: How can he help it? He is in an impossible position due to this Government's messing in and not holding up the hand of Jaramillo - I mean of the Ambassador. If I was the Ambassador and was strong enough, I would just have a show-down with the State Department, either that I am the Ambassador or I am not.

Cotton: Well, everybody gets a little different slant of what is going on. My slant is that the Ambassador has made an offer twice and then has undercut it after talking to this Government.

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He thinks the Government is so anxious for a settlement that he is trying to get the best terms he can. He has offered two million dollars twice and then he has shaded that position twice. So, I think it is up to him to come forward and I think he will finally, with something, and then is the time to try and finally get them together and if it doesn't work, then get out.

H.M.Jr: What is Traphagen doing?

Cotton: He is waiting to get this letter from Turbay which says what Turbay will be ready to recommend.

H.M.Jr: (On phone) Hello. (Telephone conversation with Jesse Jones follows:)

January 22, 1940  
9:57 a.m.

HMJr: Hello.

Operator: Mr. Jones.

HMJr: Hello.

Jesse  
Jones: Hello, Henry.

HMJr: How are you?

J: All right.

HMJr: Jesse, I just want to let you know that I wrote  
a letter on Saturday to Mr. Hull.....

J: Yeah.

HMJr: .....telling him that the Treasury was taking no  
part and no responsibility of the negotiations  
which are going on as between Brazil and our  
private bondholders, see?

J: Yeah.

HMJr: I -- I'm completely out of it.

J: Yeah.

HMJr: And I wanted to let you know just as soon as I  
could.

J: All right, sir. Thank you.

HMJr: I mean, I'm -- I'm not going to.....

J: Not going to participate further in it.

HMJr: No, they sent forward a telegram on Thursday, the  
day that you and I had lunch.

J: Yeah.

HMJr: Saying that the -- that the United States govern-  
ment would do so and so, and so and so, see?  
I mean.....

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J: Yeah.

HMJr: And we asked to have a chance to consider it. We weren't given the chance and I'm just not in it and won't be in on it, and I'd like to try to clean up Colombia if possible, see?

J: Yeah.

HMJr: But when that's through, Jesse, I'm not going to -- I'm.....

J: Then you're going to sign off.

HMJr: Yeah, and I wanted to let you know before I let anybody else know.

J: All right, sir.

HMJr: And after you've thought it over if you care to let me know what your position will be, why I'd appreciate it.

J: All right. Now the -- the -- well, while you're on the line, have you heard anything further from the Colombian thing?

HMJr: Not a thing.

J: So we're waiting to hear from them.

HMJr: That's right.

J: O. K.

HMJr: No, I haven't heard a thing, and don't know anything.

J: All right. Thank you.

HMJr: Thank you.

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Cotton: I think there are too many people in this. For instance, the other day I heard that Jones and Welles had both told the Colombians they thought a three percent rate would be all right and they let it go to them through certain sources. That is undercover. It wasn't discussed here.

H.M.Jr: You see, gentlemen, I can't work like this. The best example is, if I had worked like this on the Tripartite Agreement, we never would have had one.

Cotton: I agree, Mr. Morgenthau. I was just hoping in this Colombian thing since you have a good relation with Mr. Traphagen and the Treasury more or less brought him into it, I think you ought to try and see if that can't be finished up.

H.M.Jr: Well, that is what I say.

Cotton: And on that I have a feeling that it would be wrong to move just at the moment.

H.M.Jr: But just remember this, that for the Treasury's sake, when we do move I want to make the first move publicly, because I have got plenty of evidence of how badly we have been doublecrossed on this thing.

Cotton: I think there is plenty of time for that. I think we ought to try and see if this can go through.

H.M.Jr: Well now, in talking with Berle, Berle said that - there is only one person can do that and whoever undertakes it is a damn fool, but he said only one person can do it and he said there is no question about it. He said that it must be done by one person and he, Berle, hasn't the faintest idea of what is going on in regard to either Brazil or Colombia and he says he can't find out. Now, if he can't find out - and I take it Berle is friendly toward South America, don't you?

White: Definitely.

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- H.M.Jr: If he can't find out as an Assistant Secretary of State, poor me, I haven't any chance. I have got the pattern. I know pretty well what is happening. I just don't want to be made a fool of.
- Cotton: I just felt that - I think you are right. I think there are too many cooks and the system ought to be changed, but I just would hope that the Treasury hadn't gotten Mr. Traphagen in and would not, after having a good relation with him, try to finish this up.
- H.M.Jr: But on Brazil, out.
- Cotton: All right.
- H.M.Jr: I don't think it is up to me, do you, Dan, to notify Mr. Traphagen we have nothing to do with Brazil, because he can find that out.
- Bell: I shouldn't think it would be up to you at this time. It might be later on. I was wondering if the Colombia propositions were definite enough at this stage that you could take the stand you are talking about.
- White: I am wondering whether you may not expedite it even if it is at the stage you say, Joe. It might still be the best way to get them to come together or to give a reasonable offer instead of another - some such move. I am not sure. I am just raising that point. I don't know enough about it.
- Cotton: Well, I just had a feeling it would be better to wait for that, let the Colombians come forward and then make a last effort to get them together, because it seems practically the next move is up to him.
- H.M.Jr: Well, you can all think about it. I am not going to go off half-cocked in the Colombian thing.
- Gaston: How long since you have seen Traphagen yourself?
- H.M.Jr: About a week.

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- Gaston: I think it would be a good idea to have another little talk with Traphagen. I think it is important that those people, Traphagen and his associates, shouldn't be given the idea that the Treasury is running out on them.
- White: I don't think the Secretary ought to see Mr. Traphagen alone, because the strength of his position is that he is cooperative and has never done anything that the others haven't acquiesced in or had knowledge of and if at this stage of the game he were to work individually, I think it would be wrong.
- H.M.Jr: I am only going to see Traphagen once more, with the Colombian Ambassador and with the Undersecretary of State and with Mr. Jones.
- Cochran: If you, Mr. Secretary, could arrive at a decision at that time as to the degree which you would back the Association --
- H.M.Jr: No, I am just going to say, "Now, gentlemen, I don't care whether it takes a half day or a day, I am willing to stay here until you fellows either get together or not, but I am not going to back either of you except that you can use my office for an arena. I am willing to sit here. If I think anybody gets unreasonable or out of bounds, I will call him, but I am willing to sit here for one day or two days." I will say, "Go to it." I will try to umpire this thing with Jones and Berle helping. If at the end, one or the other doesn't agree, all right, "Gentlemen, we have done our best. We have been here for two days and you haven't gotten anywhere. I have done my best. Glad to have met you. Goodbye."
- I am willing, if Jones is and Berle is, to have them come here or come to the house and use my property as an arena and go to it. They can get this President on the telephone and he can say yes or no. That is the way to do it. I mean, just sweat them into the thing. Traphagen can get his crowd together and they can say yes or no. But this jockeying and going on for three months, I will not have the New York Tribune hang

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the failure on me or something like that.

On this rushing us last week with the U. S. Steel having a meeting, you know, to consider - did you know about this, Harry? They say that they rushed us, you see, they already knew that United States Steel had decided to go into Brazil.

White: Fels mentioned that that afternoon, confidentially. He didn't give us any details.

H.M.Jr: But the decision had been made the night before. But he didn't tell that to Gaston when he called me up at 1:00 o'clock and held a pistol to my head and said, "Say yes or no."

White: He wouldn't have told us in any case except that Merle Cochran asked him. I asked him about a report and Merle asked him about that particular thing, so he mentioned that he didn't think possibly it was pertinent.

H.M.Jr: O. K.

January 22, 1940  
9:59 a.m.

Operator: Go ahead.

HMJr: Hello.

Edward  
Noble: Hello, Mr. Secretary.

HMJr: How are you, Ed?

N: Very fine, thanks.

HMJr: I thought you called me Henry.

N: (Laughs) Well, you're -- you're too good; you're too fine. I'd love to.

HMJr: Well, you'd better start anyway.

N: I'd love to. Thanks.

HMJr: Ed, could you -- you saw that blast of Louis Johnson's where he said we only had two months'-- two weeks' supply of tin and that the Russians were buying all of our tin and all of our rubber?

N: Yeah.

HMJr: Well, I wondered if you could get for me what the net position was, see, on January 1. You see? What are our stocks on tin and rubber and is it serious or isn't it, you see?

N: Yeah. Yeah.

HMJr: I've got grave doubt that Johnson knew what he was talking about.

N: Well, I don't think so either. We kept -- we keep very close track on those things and I was surprised on that -- I mean, he -- there had been some exports here to Russia that are a little disturbing the last 30 days or so.

HMJr: I know, but -- but that's only a piece of the picture.

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N: Yes.

HMJr: And when -- after the Russians have taken what they have, what -- what have we got left?

N: Yes.

HMJr: You see?

N: Yes. You want especially to know about tin and rubber?

HMJr: Yeah, if you could give us, say as of the first of January.....

N: Yeah.

HMJr: .....what is the position of tin and rubber in this country and -- or how many weeks' or months' supply have we got on hand to take care of our normal industry.

N: All right.

HMJr: As of the first of January.

N: Yes.

HMJr: Could you make a little -- a special effort to get that?

N: I'll get it for you today.

HMJr: And whether our exports of tin and rubber to the whole world -- whether they're abnormal or not. You see?

N: I'll get a whole complete picture on it.

HMJr: Thank you so much.

N: And I'll send it over to you.

HMJr: Thank you.

N: Thank you. Goodbye.

HMJr: Goodbye.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE Jan. 22, 1940.

TO Secretary Morgenthau  
FROM Mr. Haas *GA*

The Works Projects Administration reports an increase of 29,000 in the number of persons employed, from 2,160,000 during the week ended January 3, 1940, to 2,189,000 during the week ended January 10, 1940.

Attachments

WORKS PROJECTS ADMINISTRATION  
Number of Workers Employed - Weekly  
United States

Week Ending 1939	Number of Workers (In thousands)
May 3	2,736
May 10	2,660
May 17	2,623
May 24	2,609
May 31	2,600
June 7	2,593
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,082
August 9	2,054
August 16	1,977
August 23	1,897
August 30	1,842
September 6	1,662
September 13	1,696
September 20	1,735
September 27	1,790
October 4	1,834
October 11	1,875
October 18	1,898
October 25	1,901
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,189

Source: Works Projects Administration.

WORKS PROJECTS ADMINISTRATION  
 Number of Workers Employed - Monthly  
 United States

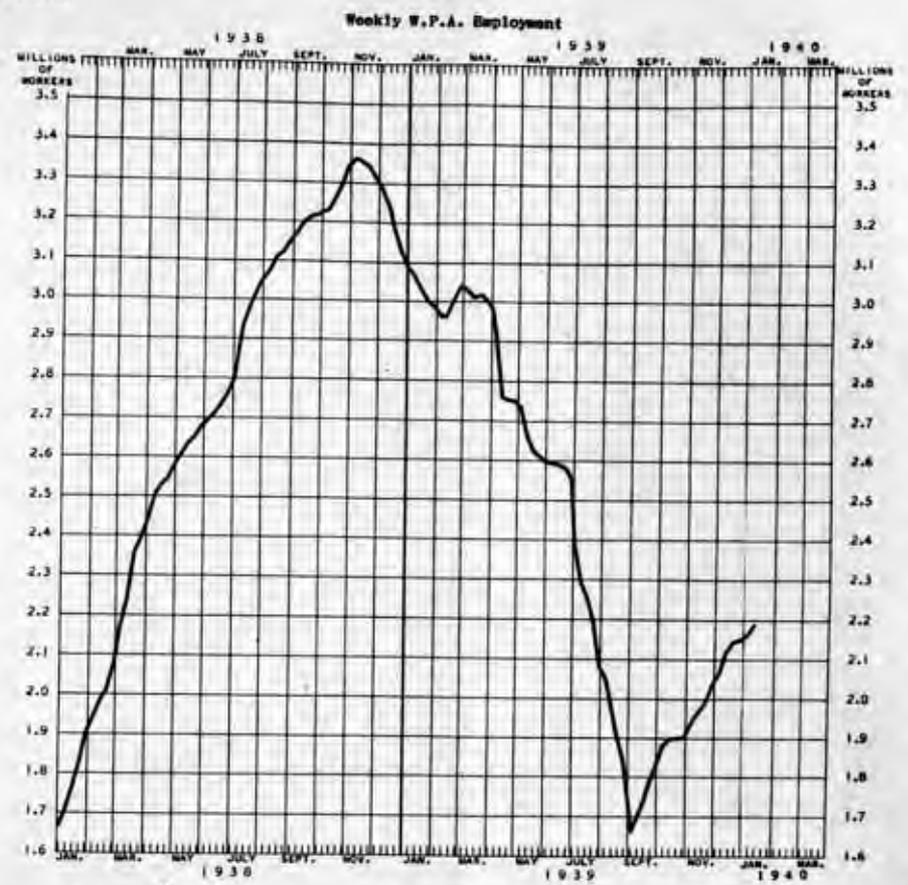
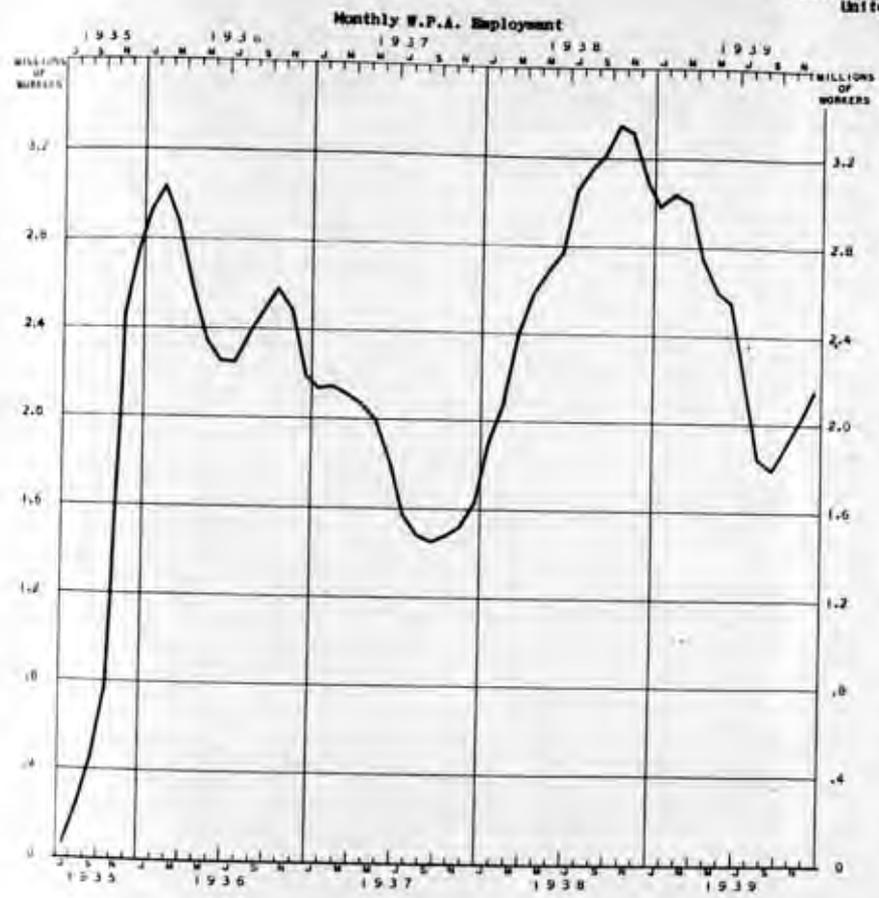
	Number of Workers (In thousands)
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,901
November	2,024
December	2,152

Source: Works Projects Administration.

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

They include certified and noncertified workers.

WORKS PROGRESS ADMINISTRATION  
Number of Workers Employed  
United States



SOURCE: WORKS PROGRESS ADMINISTRATION

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

C  
O  
P  
Y

January 22, 1940

My dear Mr. Secretary:

I have your letter of January 13, 1940, enclosing a memorandum which outlines the proposed plan for distributing cotton goods to needy persons through the normal channels of trade involving the use of stamps similar to those now in use in connection with the Food Stamp Plan. You state that the proposal has now reached such a stage which makes it desirable to discuss the matter with officials of the Treasury Department and you ask permission to carry on these discussions with representatives of this Department.

In reply, you are advised that you are at liberty to discuss this matter with such officials of the Treasury as you think might be helpful.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of Agriculture.

DWB:ce  
1/22/40ORIGINAL FORWARDED TO ADDRESSEE  
FROM OFFICE OF THE SECRETARY

By Messenger 10:15 am 1/22/40

File to Mr. Thompson

the Secretary's

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12/22/39

1:15 p.m.

his message came while I was at lunch.

Mr. Gaston -

Mr. Steve Early's office phoned that Mr. Early had just given to the Press the announcement that the President has decided to appoint John L. Sullivan of New Hampshire to be Assistant Secretary of the Treasury to succeed Mr. Bibbons, resigned.

Mr. Sullivan is now Assistant to the Commissioner of Internal Revenue and will hold his present office until the Congress has convened when the President can send up his nomination.



Cochran

January 23, 1940

Present:

Mr. Lawrence D. Bell  
Capt. Collins

Capt. Collins: Mr. Secretary, may I present Mr. Bell. He wanted to meet you and pay his respects.

HM, Jr.: How do you do. You had a very interesting looking plane over there.

Mr. Bell: Thank you, Sir. We think it is a good job. We have been working on it now for quite a while and it is doing a very satisfactory job. The Army test pilots tell us it is the best airplane they ever flew. The thing that impresses us very much was Capt. Price's statement that he believed its landing and take-off characteristics were such, in spite of the 400 miles an hour that it does, that a ten-hour cadet could fly it.

HM, Jr.: Who is Captain Price?

Mr. Bell: One of five test fliers at Wright Field. Tests all experimental planes.

HM, Jr.: Well, now, we are coming up to look you over tomorrow.

Mr. Bell: I understood that and am delighted.

HM, Jr.: You will be there?

Mr. Bell: Yes.

HM, Jr.: I thought we would go by plane.

Capt. Collins: You can get a good train out at 8 o'clock tonight.

HM, Jr.: It's O.K. I agree with you. If the weather isn't perfect, General Brett and I will postpone it a day. Do you mind flying?

Capt. Collins: Not particularly keen, in the con-

-2-

dition I am in.

HM, Jr: You go up by train tonight and the worst thing that can happen to you is a good day's rest.

Mr. Bell: That, I think, he can use.

HM, Jr: And if it is any kind of weather, I am to take off at 8:30 and Brett's plane is slower; he will take off a little earlier. Don't know what kind of a plane he can use.

Mr. Bell: I think he uses the V-18 Douglas Bomber, not very fast. One of the old ones.

Capt. Collins: That's the old one.

HM, Jr: I told him we cruise at 160.

Mr. Bell: What ship will you fly?

HM, Jr: Lockheed.

Mr. Bell: His is not quite as fast as that.

HM, Jr: That's what he said. He said he would notify you and that we would come to you first.

Capt. Collins: We will meet you at the airport first.

HM, Jr: Where shall we notify you? At your plant when we take off?

Mr. Bell: If you please. If you send me a telegram to the plant, we will meet you. If you are going up on the train this evening, we will go with you. Only thing is the train will be a little late.

HM, Jr: That's all right. They are not leaving here until 8:30.

Mr. Bell: Mr. Secretary, I would also like to invite you, if you get stuck, to stay over at my home. We have a suitable place. Delighted to have you and General Brett. He has been there several times.

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HM, Jr: That's very nice. I hope I don't get stuck, but it's nice to know where we can stay.

Let me ask you a couple of questions. This ship -- have you any Government contracts now?

Mr. Bell: Yes, sir. We have a contract for service test quantity of 13 Airacudas, which is our twin engine fighter, which you will see on the floor. First one is on the floor and the second will go out in a few days. In addition to that, last spring we got an order for 13 P-39, last summer.

HM, Jr: Curtiss?

Capt. Collins: No. P-39 -- the Airacuda.

Mr. Bell: The one you saw at the show.

HM, Jr: You mean your most recent one you have an order for 13?

Mr. Bell: That's right, and then later in the fall an order for 30, so we have an order for 93 and that ship has been, this last summer, down at Langley Field and spent six weeks in the Advisory Field and we have all the latest aeronautic data on it and we have done our flight testing and now we have made the necessary detailed changes and precautionized the job and it is now going through the tool designing and parts all on order and will start delivering military planes in June.

HM, Jr: Supposing the English or French wanted a bunch of these. What could you do?

Mr. Bell: We can do, I think, anything within reason that would be required. We gave them a schedule, Sir, of starting deliveries in 8 months and building up to 30 a month in a very modest sort of production, but if they wanted to build up to 60 or 70 or 80 a month in the 12th or 13th month we could do that.

Capt. Collins: By increasing facilities.

Mr. Bell: By increasing facilities. May I point out our plant is 200,000 feet and employs men, is part of the plant the Government bought for the Curtiss

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plant during the last war. One of the largest plants in the country, 1,000,000 square feet owned by American Radiotir. We rent 200,000 and there is 800,000 immediately adjacent to us and available for renting. Possibility of a 300% expansion without moving a spadeful of dirt. Could do it tomorrow.

HM,Jr: What would be the bottlenecks for you in doubling or tripling deliveries?

Mr. Bell: Probably engine delivery, Allison engine.

HM,Jr: This Allison engine, do they make more than one type?

Mr. Bell: They make a series of engines, but all basically the same engine. It's all 1710 engines. Some are latitude, some are level engine. Ours is drive shaft engine and the Airacuda is a drive shaft.

HM,Jr: But they are basically the same thing? And the bottleneck would be engines?

Mr. Bell: I think so.

Capt. Collins: You are not overlooking machine tools?

Mr. Bell: No.

HM,Jr: Let me get this, because, as I say -- have you met this fellow Zigler?

Mr. Bell: Yes, sir.

HM,Jr: Do you think he's telling the truth?

Mr. Bell: I think he's one of the nicest chaps I have met in any of the Attache's offices and I think he's quite an able fellow.

HM,Jr: That does not answer my question.

Mr. Bell: No. I don't know what you mean.

HM,Jr: Is he trying to scare us when they say they have not anything now that can stand up against the new Messerschmitt?

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Mr. Bell: Well, Sir, I am sure that we can prove that the P-39 is far superior to the Messerschmitt.

HM, Jr: He agrees to that as to performance. What he says is the P-36 is obsolete.

Mr. Bell: That's correct, Sir.

HM, Jr: He says the Curtiss P-40 would equal, in his opinion, the new Messerschmitt.

Mr. Bell: Just about right.

HM, Jr: But they need something better. He was talking kilometers. As I remember correctly, he said the P-36 would do 500 kilometers.

Mr. Bell: That's about right, because it's about 303 miles an hour.

HM, Jr: He said the P-40 would do 560.

Mr. Bell: Which is 350 to 360 miles.

HM, Jr: And that's what the Messerschmitt does?

Mr. Bell: That's right.

HM, Jr: What he wanted is something that would do 600 kilometers or 350 miles.

Mr. Bell: We guarantee 400 miles an hour and have within 5% an hour performance record.

HM, Jr: That's what they want.

Mr. Bell: One thing more, Sir, too. Neither the P-36 or the P-40 carries a gun and cannot carry a gun.

HM, Jr: You have a 30 mm gun?

Mr. Bell: Yes. The Messerschmitt carries a 30 mm gun.

HM, Jr: Where do you get that the Messerschmitt carries a 30 mm gun?

Mr. Bell: I was in Germany.

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HM, Jr: I saw your report.

Mr. Bell: I was there from July 15th to the first week in August, 1938, spending all my time in airplane plants, and I spent a week or so in Italy and a couple of weeks in France visiting the plants there and went over most of the plants in England for a period of two weeks.

HM, Jr: Now, to get back to the engine thing, have you any ideas how we could solve that question?

Mr. Bell: Yes, sir.

HM, Jr: How would you do it?

Mr. Bell: I think there is no question that you can get all of the engines you need for our program from the Allison Company provided you don't let engines be diverted into some airplane.

HM, Jr: What about developing another engine?

Mr. Bell: Can't be done fast enough, Sir. Pratt-Whitney have a new H engine coming up, 24 cylinder, which we will probably use in our next year's designed type, but it also started to run here a few days ago and it would not be feasible to get it in production before the end of the year. There is a possibility this might be complicated, but our airplane would take the Rolls-Royce engine.

Capt. Collins: But they are short of that.

Mr. Bell: Probably.

Capt. Collins: On the other side.

HM, Jr: That does not help them out any.

Mr. Bell: Engine problem is the same if they go in the P39 or the P40.

Capt. Collins: Don't you think their plant could be materially expanded?

Mr. Bell: Allison is supposed to be on a production basis of 8 a day in July.

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Capt. Collins: Suppose they put an additional plant in there, move all working material out of the way, take that space for all machine tools, they ought to be able to step it up.

Mr. Bell: I am quite sure their production can be stepped up if necessary funds can be provided.

HM,Jr: You don't do any business with the Navy?

Mr. Bell: We are building an experimental airplane that will be flying in a couple of months for the Navy, of this same type modified.

HM,Jr: Who do you contact over there?

Mr. Bell: Mostly Capt. Kraus, Commander Penoyer, Commander Richardson, most of the technical people.

HM,Jr: Which crowd do you find the most advanced to new ideas? The Army or the Navy?

Mr. Bell: I believe the Army, Sir.

HM,Jr: And in the Army, who, particularly?

Mr. Bell: General Arnold is the driver. He is never satisfied and he puts us all under a lot of pressure.

HM,Jr: Is that right?

Mr. Bell: Yes, sir. General Brett is also an able man. Colonel Echols, at the Dayton field, is one of the brightest men in aviation. Awfully good man.

HM,Jr: Anything you want to ask me?

Mr. Bell: No, sir; except to tell you that we believe we can do a real job. I would like to tell you that I personally have been in military aviation since 1912. I was Vice President and General Manager of Glenn Martin for 12 years and in the same capacity with Consolidated Aircraft for 10 years. When they moved from Buffalo to San Diego, the plant that we now occupy, I stayed in Buffalo and formed my own company; took over the same company that Consolidated had managed, a plant that has put out \$20,000,000 in successful

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aircraft. We have the facilities and personnel, outstanding engineering organization, and I am sure we can convince you that we can produce airplanes in quantity at a high rate of delivery, but we can't get up to 80 a month with small orders of 13.

HM, Jr: Naturally.

Tell me about your financial set-up. What is it?

Mr. Bell: Our financial set-up -- to begin with, in 1935 we organized a small company of \$500,000 capitalization, preferred and common stock. By ringing doorbells I sold, myself, \$400,000 worth of stock with nothing ....

HM, Jr: Sold yourself?

Mr. Bell: Personally, to Buffalo people. We later secured the services of the G.M.P. Murphy Company as principal underwriter and they associated with them Hayden-Stone and Jackson Curtis, and in 1936, a year after, they refinanced and raised another \$500,000. Since that time we have sold the remainder of our stock, which was 250,000 shares, total, which is now all issued and outstanding and we have raised about \$2,100,000.

HM, Jr: If you went into a big program you would need more money.

Mr. Bell: Yes, sir. Right away.

HM, Jr: Would you have any trouble raising it if you had orders?

Mr. Bell: I don't think so, but we might want to add to our underwriters some additional houses.

HM, Jr: Got plenty of working cash now?

Mr. Bell: Right at the present moment we are at a low point due to engine delays, super-charger deliveries, borrowing some money. Borrow up to \$200,000 or \$300,000.

HM, Jr: Whom do you borrow from?

Mr. Bell: Three banks. The Marine Bank of Buffalo (and one other bank whose name I did not get) and the New York

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Trust Company, in New York.

HM, Jr: How much do they charge you interest?

Mr. Bell: 3%.

HM, Jr: For how long a period?

Mr. Bell: It is protected for a year, because short loans -- it's too dangerous in this business. We have very good banking connections and I have been invited twice to go on the Board of the two banks in Buffalo.

HM, Jr: That shows you are smart. Nothing in being a bank director.

Mr. Bell: Not certainly as a manufacturer. I have plenty of problems of my own without spreading myself any thinner, but I think we would have no difficulty providing all necessary funds through the issuance of additional securities and/or bank loans.

HM, Jr: This is the first time I have heard superchargers mentioned. Are they hard to get?

Mr. Bell: Yes, but we don't use them.

HM, Jr: But on that thing, the whole thing depends upon how many Allison engines you could get.

Mr. Bell: That's right. Mr. Secretary, I believe in view of Pratt-Whitney's condition and Tri-Aeronautics condition with the degree of sell-out that there are now in, that from this moment on you can get Allison engines faster than you can the others. I believe investigation will disclose that, Sir.

HM, Jr: Well, I am glad to have had a chance of talking with you. Weather permitting, I will be up there tomorrow.

Mr. Bell: That's fine! I hope you come.

HM, Jr: I think you take this fellow (Capt. Collins) up tonight and if we don't have good weather he can stay in bed tomorrow. Be the best thing that can happen.

oOo-oOo

January 23, 1940  
(Dictated with Mr. Gaston present)

Mr. Early called me and said he gave the President the suggested story this morning. First he had a little trouble with the President because the President wanted me to announce what my own plans were, but then the President gave him the story about how, when he was Assistant Secretary of the Navy, he did so and so and so for Woodrow Wilson and I am to do the same thing, and he said in order to keep those two boys, Woodring and Johnson, straight or try to keep them straight, at the end he said, "Whatever the President and I decided on, it would be referred to Woodring and Johnson to be carried out."

Mr. Gaston: He said he had talked to the newspaper men?

H.M., Jr.: His press conference is over and he called me right away.

After it is all over and after they have written their stories, think this one over: of your seeing them or my seeing them and saying, "Now, gentlemen, you can understand why I was so hesitant yesterday." Think it over.

oOo-oOo

Statement prepared for Steve Early. 1/25/40

The President on December 6, 1939, notified the Secretary of the Treasury, the Secretary of War and the Acting Secretary of the Navy that he had created an informal committee to represent the United States Government in its contacts with the interested foreign governments in all matters relating to the purchase of supplies, materials and equipment in the United States.

The members of the Committee are:

Capt. Harry E. Collins, Director of Procurement, Treasury Department, Chairman.

Major General Henry Gibbins, Quartermaster General of the Army.

Rear Admiral Ray Spear, Paymaster General of the Navy.

The Committee acts as the sole liaison between Departments and agencies of the United States Government and accredited representatives of foreign governments seeking to purchase supplies of any character in the United States. It is charged with the duty of protecting the interests of the United States by preventing conflict with the requirements of this country and its citizens in the American markets.

Secretary Morgenthau will accompany Captain Collins and other representatives of the Committee in an inspection trip on Wednesday of this week (January 24) to the factories of the Curtiss-Wright Corporation and the Ball Aircraft Corporation at Buffalo, N. Y.

THE WHITE HOUSE SAID THIS MORNING THAT A SPECIAL COMMITTEE HEADED BY SECRETARY MORGENTHAU HAS BEEN SET UP TO PROTECT U.S. INTERESTS IN VIEW OF THE HUGE FOREIGN WAR ORDERS THAT ARE COMING ON THE AMERICAN MARKET.

1/23--R1130A

ADD PLANE ORDERS

WHITE HOUSE SECRETARY EARLY SAID THE COMMITTEE WAS PARTICULARLY CONCERNED TO PREVENT INTERFERENCE WITH U.S. AIRCRAFT EXPANSION PROGRAMS WHICH MIGHT RESULT FROM UNCOORDINATED PLACING OF HEAVY FOREIGN ORDERS FOR AMERICAN AIRCRAFT.

"THIS COMMITTEE IS CHARGED WITH THE DUTY OF PROTECTING THE INTERESTS OF THE UNITED STATES BY PREVENTING CONFLICT WITH THE REQUIREMENTS OF THIS COUNTRY AND ITS CITIZENS IN THE AMERICAN MARKETS," A FORMAL WHITE HOUSE STATEMENT SAID.

1/23--R1133A

ADD PLANE ORDERS

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THE COMMITTEE WAS FORMALLY CONSTITUTED BY MR. ROOSEVELT LAST DEC. 6. EARLY SAID IT WILL SCRUTINIZE ALL TYPES OF FOREIGN PURCHASES IN THIS COUNTRY -- EVERYTHING FROM SHOES FOR SOLDIERS TO AIRPLANES AND COMPLICATED MACHINE TOOLS NEEDED FOR CONSTRUCTING HEAVY IMPLEMENTS OF WAR.

HE SAID THAT AIRCRAFT REPRESENTED LESS THAN 30 PER CENT OF THE TOTAL PURCHASES UNDER SCRUTINY BY THE COMMITTEE. HE SAID THE COMMITTEE WAS WATCHING EVERY PHASE OF THE SITUATION, INCLUDING PRICES, DELIVERIES, DELAYS, ETC.

MORGENTHAU WAS SELECTED TO HEAD THE COMMITTEE, SAID EARLY, BECAUSE HIS DEPARTMENT IS NOT DIRECTLY INVOLVED IN WAR MATERIALS PROCUREMENT AND YET IS EXPERIENCED IN PROCUREMENT PROBLEMS. MORGENTHAU THUS CAN WATCH THE SITUATION WITH THE DETACHMENT OF AN OUTSIDER, HE SAID.

1/23--R1144A

ADD PLANE PURCHASES

ON INSPECTION TOURS OF KEY PRODUCING PLANTS, EARLY SAID, THE INTER-DEPARTMENTAL COMMITTEE WILL TAKE ITS OWN SPECIALISTS FOR TECHNICAL ASPECTS OF THE WORK. FOR INSTANCE, HE SAID, BRIG. GEN. GEORGE H. BRETT, CHIEF OF THE MATERIAL DIVISION OF THE ARMY AIR CORPS, WILL ACCOMPANY THE COMMITTEE TOMORROW TO INSPECT THE CURTISS WRIGHT CORPORATION AND THE BELL AIRCRAFT CORPORATION AT BUFFALO, N.Y., WHERE ASSEMBLY LINES NOW ARE PRODUCING PLANES BOTH FOR FOREIGN GOVERNMENTS AND FOR THE U.S. ARMY AND NAVY.

MEMBERS OF THE GROUP IN ADDITION TO MORGENTHAU ARE CAPT. HARRY E. COLLINS, DIRECTOR OF TREASURY PROCUREMENT; MAJ. GEN. HENRY GIBBINS, QUARTERMASTER GENERAL OF THE ARMY, AND REAR ADMIRAL RAY SPEAR, PAYMASTER GENERAL OF THE NAVY.

1/23--R1155A

TO:

Miss Klutz 156-A

This was a White House  
release.

There were off hand  
statements by the  
President at press  
conferences which I  
am trying to check  
on which indicates  
President regarded  
it as the Coor-  
dinator VEG

From: MR. GASTON

FOR THE PRESS

IMMEDIATE RELEASE

JANUARY 23, 1940

The President, on December 6, 1939, notified the Secretary of the Treasury, the Secretary of War and the then Acting Secretary of the Navy that he had created an informal interdepartmental committee to represent the United States government in all matters relating to the purchase of military or naval supplies, materials and equipment purchased in the United States <sup>or by</sup> government or by foreign governments.

This committee is charged with the duty of protecting the interests of the United States by preventing conflict with the requirements of this country and its citizens in the American markets.

Members of the committee are:

Captain Harry E. Collins, Director of Procurement, Treasury Department, Chairman.

Major General Henry Gibbins, Quartermaster General of the Army

Rear Admiral Ray Spear, Paymaster General of the Navy.

Liaison between the President and the committee will be provided by the Secretary of the Treasury. Members of the committee, together with representatives of the various government departments concerned with the purchase of supplies by the government, and including the Secretary of the Treasury, will leave Washington tomorrow on an inspection trip of industrial plants and factories engaged in the manufacture of supplies and materials, military, naval and for normal peace-time consumption. The first visit of the committee will be to the Curtiss Wright Corporation and the Bell Aircraft Corporation of Buffalo, New York.

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## GROUP MEETING

January 23, 1940.  
9:30 a.m.

Present: Mr. Bell  
Mr. Gaston  
Mr. Sullivan  
Mr. Graves  
Mr. Harris  
Mr. Thompson  
Mr. Haas  
Mr. Foley  
Mr. Cochran  
Mr. Cotton

H.M.Jr: This is very good.

Gaston: It is a little bit tricky.

H.M.Jr: Well, I thought the stuff was all right this morning, thanks to Chick.

Gaston: Yes, he went down and worked with the boys on that thing.

H.M.Jr: Well, I mean Chick tipped me off that the War Department had given me the works again. ✓

Gaston: Yes.

H.M.Jr: So I got in that stuff about our domestic interests, et cetera. I wouldn't have been able to do it if Schwarz hadn't done that. I don't think that story will hurt, do you?

Sullivan: Beg pardon? No, I don't.

H.M.Jr: What do you think, Basil?

Harris: I thought it was a very good story. It gave the impression you were very much on the job, I thought.

Bell: The only thing that occurred to me, I just wondered if it was a little premature in view of what you had asked to be done.

H.M.Jr: I agree with you. All I said, Dan - this is what they built the story on - I was never under such pressure in a long time and I almost got angry and so did Sandy. All I said was, "When I am handling something for myself, I can

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control it. When I am not, I can't." But that is all I said. Then I said, "Read my testimony on the Hill last year, which took 30 days, and there is no change in what I am doing when I testified before the Committee."

Bell: And then they got the rest of it from the testimony?

H.M.Jr: Then they all rushed upstairs and got the rest of it. For the first time I was almost on the edge of losing my temper. I don't think I did. Sandy and I just barked at each other. That is tough. I am going to go ahead with this because God knows it is necessary.

You haven't heard anything about that ship that you are custodian for, have you, Basil?

Harris: I heard it was due in Baltimore either today or tomorrow.

H.M.Jr: No, I mean that Spitfire.

Harris: No, I thought you meant the City of Flint. I have heard nothing on that. We have got a couple of hot ones and I didn't know just which one you meant.

H.M.Jr: Would you do this: Wayne Taylor came over to me and we thought it was very nice, the Red Cross and others sending stuff to Finland, but they are all piled up on our docks and not getting to Finland and wasn't there something I could do to facilitate it. He was very nice, very helpful and all that, but it just doesn't leave New York. The other thing he said, they don't need food, because sending them food doesn't use the ship's space for food. Send them the supplies that the Red Cross is sending them. I think you would enjoy reading this cable here.

Cochran: I have a copy I can give him.

H.M.Jr: Well, I wanted it back. It is a very interesting cable. You can just read it and then give it to me, but I am going to leave it to you to

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follow up with the Red Cross. I think you would enjoy doing that, wouldn't you?

Harris: Yes.

H.M.Jr: Chick, how did you make out?

Schwarz: Mr. Early said that is just what he wanted. He wasn't sure whether it will be this morning or this afternoon, but he will release it.

H.M.Jr: I want to congratulate you on that story. Thanks to you tipping me off about the War Department. You saw me beat my breast on domestic economy. That was very helpful. Then Gaston said you worked with the boys downstairs.

Gaston: Yes.

Schwarz: They would like me on this, but they think we retaliated in kind.

H.M.Jr: That is too slick for me. What does that mean?

Schwarz: They felt justified to write from that record that we were helping only the Allies and I called their attention to your statements about domestic economy.

H.M.Jr: Yes. Well, most of the papers shoved that up into the head.

Schwarz: Which is a good answer to the War Department.

H.M.Jr: Right. But how do you mean, they blackmailed us?

Schwarz: You referred them to the record and apparently in the edited record there was no reference to the domestic situation at all. It had to do with the foreign situation, the record of the Senate committee, and they were going to use that as a basis and say that you were again helping only the Allies.

H.M.Jr: Oh, I see, and you pushed them into the domestic picture?

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Schwarz: I told them if they did that they would get their ears pinned back later in the week.

H.M.Jr: I see. Did Steve Early mention today's story at all?

Schwarz: I don't know if he has seen it.

H.M.Jr: And he said this was just what he wanted?

Schwarz: Yes.

H.M.Jr: Herbert?

Gaston: You asked me to bring up this request of Herbert Feis' that we attend the meeting on Wednesday on the Brazil thing.

H.M.Jr: Yes.

Gaston: I thought it was in line with our statement to him that we would give them any technical assistance and confer, but wouldn't participate in the decision in regard to the Brazil debt. He said he didn't want any decision and they didn't expect any decision. I expect the real purpose of the meeting is to permit Ed Noble and his men to talk about this McConnell plan.

H.M.Jr: Would you designate somebody to go? I wouldn't go yourself.

Gaston: You think I had better not go?

H.M.Jr: No.

Gaston: All right. Well, Harry thought that Orvis Schmidt could go over from his department, since he is the Brazil specialist and I think that is pretty good.

H.M.Jr: That is good. Incidentally, I had a chance at lunch to tell the President the whole story on Brazil and he is entirely satisfied with the position I have taken.

White: This meeting on iron is just what your inference is, because McConnell got in touch with me about

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his plan, thinking that the Treasury was going to give it consideration and that he was going to cooperate with the Treasury and I didn't want to mislead him into thinking that if he depended on us that it would get a hearing, so I advised him that he had better get in touch with the State Department directly and at once, which I take it he did, and that accounts for it.

- H.M.Jr: But I thought U. S. Steel turned that down.
- White: That was what Feis told us, so I gathered that this meeting is merely to indicate to Commerce that they are very happy to cooperate with them.
- H.M.Jr: But Steel, the finance committee of Steel, has turned it down.
- White: That is what Feis said.
- H.M.Jr: No, I have it independently.
- Cotton: McConnell has been trying to get a hearing for that for a long while.
- H.M.Jr: I have it independently from a memorandum of the Steel board, through a third party. Well, Schmidt goes?
- Gaston: Mr. Bell asked me to consider a case coming up in Illinois, the RFC has recommended the --
- H.W.Jr: Home town boy tries to make good.
- Sullivan: Makes good.
- Gaston: Since he is a home town boy, he asked me to take it over.
- H.M.Jr: Are you going to pull a Tom Smith? What do you want, a degree?
- Bell: I just want to be relieved of it.
- Gaston: It is rather a peculiar thing.

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H.M.Jr: You mean peculiar that Bell asked you?

Gaston: No, the character of the deal. The RFC has recommended a request there and Barnes, the Congressman from Jacksonville, was down yesterday strongly urging it. It concerns the capital stock and the reorganization of an insurance company. This happens to be a life insurance company and the large part of their business has been industrial insurance. That is that 25 cents a week stuff. It raises a good many questions but I have asked Heffelfinger and I am going to consult somebody in the office of the Comptroller of the Currency this morning, although it is not strictly in their line of business.

H.M.Jr: Hell, Bell has been confirmed. What has he got the jitters about?

Bell: I have got a Congressman and Senator on my neck to get this thing through and I didn't think that I ought to pass on it coming so close to my home. It is within 40 miles.

Gaston: We will make some sort of a recommendation today, but there will be a lot of heat, either way.

H.M.Jr: The next time Ham Fish brings up something, I am going to give it to Bell to handle.

All right, Herbert, use your horse sense.

Gaston: All right.

Gardner Jackson thought you would like to read Mr. Hook's speech on Dies.

H.M.Jr: All right.

Gaston: There is some interesting stuff in there.

H.M.Jr: Written by Gardner Jackson?

Gaston: I wouldn't voice any suspicions about it.

H.M.Jr: What else?

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Gaston: That is all.

H.M.Jr: Ed?

Foley: There was a nice letter in the Star last night by Kelly.

H.M.Jr: What else?

Foley: I haven't heard from Sam Clark as to whether or not he sent the Schenck case to New York. He promised me he would do it the first part of this week.

H.M.Jr: Give him a ring, will you? Anything else?

Foley: No.

H.M.Jr: John?

Sullivan: You wanted a report on the settlement of the Times Herald Dallas case.

H.M.Jr: Yes.

Sullivan: There it is.

H.M.Jr: Right. I will keep that.

Sullivan: Yes, sir. That is all.

H.M.Jr: Merle?

Cochran: I have nothing.

H.M.Jr: I want to talk to you about that letter from Butterworth.

Cochran: I thought you might.

H.M.Jr: O. K. What else? Would you ask Mr. Hull's office that the cables that I pay for, that I would like to re-check who sees them in the State Department.

Cochran: All right, sir.

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H.M.Jr: Please. Would you call up and ask them? I would like to know who sees the cables that the Treasury pays for.

Cochran: All right, sir.

H.M.Jr: Joe?  
George?

Haas: I have nothing this morning.

H.M.Jr: Basil?  
Harry?

White: I have a preliminary report on that tin and rubber.

H.M.Jr: Well, is this yours or is this from --

White: This is ours. That is the latest figures.

H.M.Jr: Do you want to do me a favor? Hold on to this and tell Mrs. Klotz when the one comes over from Noble, you take a look at it and check it and then bring it in to me, will you?

White: All right.

H.M.Jr: When the one comes from Mr. Noble. He said he would send it over.

White: You know the periodic reports - I think they are every week, I am not sure - that you get from the bank on special account "A".

H.M.Jr: Yes.

White: We have summarized them according to types of expenditures and I don't know - they are in such detail I didn't know whether you had a chance to --

H.M.Jr: No, no.

White: We will keep you supplied with a periodic summary. That is all.

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Oh, you didn't indicate whether you want us to continue that periodic comment on foreign affairs that we gave you a sample of.

H.M.Jr: Yes. I have got it right here. It is certainly worth while. There are certain things I would like to tell you which I think I am getting from another source. I will sit down with you.

White: Then you will let me know about it?

H.M.Jr: Yes. Don't wait for me. Go ahead just the same way.

White: Is it too long? If you have no special reaction, we will just continue until you do.

H.M.Jr: I have a reaction. I think it is overlapping a little bit with Puleston.

White: I will see.

H.M.Jr: He does that at least once a week. There is a little overlap there with Puleston.

White: We get out a joint --

H.M.Jr: You know the man down with Puleston?

White: Oh yes, they cooperate closely.

H.M.Jr: Why not talk with him?

White: I will see what he is getting out and we will leave it out of ours.

H.M.Jr: Or, there is the possibility of --

White: He has - could have a very definitely defined memo so it will be easier not to overlap, but I will find out what he is doing.

H.M.Jr: If you do that, that at least keeps the thing rolling, you see.

White: I will do that. This is very good.

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H.M.Jr: Now, does George get one of these?

White: No, I just gave you that one sample. I don't know whether I asked you whether you wanted to get it or not.

H.M.Jr: You get George's, don't you?

White: I will be very glad to send him one or anybody else who is interested in keeping up with foreign --

H.M.Jr: It is all right. That is the only suggestion I have for the minute.

White: Right.

H.M.Jr: And of course Merle gets one.

White: He hasn't, but I will give him one. I didn't give any to anybody. I didn't know whether you wanted it continued.

H.M.Jr: No.

Harold?

I mean, I had it right here, meaning to talk to you.

Dan?

Bell: Bob Rouse, of the Federal Reserve of New York, will be in town tomorrow and we are going to discuss the form of this TVA financing. We ought to have something for you at the end of the week.

H.M.Jr: I think you had better wait until they get their legislation.

Bell: Are they asking for legislation?

H.M.Jr: Yes. There was something that went through the committee and they cut the appropriations.

Bell: It was an attempt to cut the appropriation in two and put their auditing so it is under the

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Comptroller General, but I think they beat it.

H.M.Jr: If there is no legislation pending, O. K.

Bell: I don't believe there is. I think they are afraid to go after legislation of any kind.

H.M.Jr: Will you check that?

Bell: Yes. They will have a man here Thursday to discuss it.

H.M.Jr: I would like to see him. Want me to put a time down?

Bell: You don't have to see him if you don't want to.

H.M.Jr: I would like to.

Bell: He will be in my office about 10:00 o'clock.

H.M.Jr: Let's say 11:00.

Bell: All right.

There is about 15 million dollars available for investments in Postal Savings and FDIC. We still have about 26 million plus of that 100 million reserve on the last bond issue.

H.M.Jr: Have we reached ten?

Bell: Well, Postal only has about five. We will give them five and give ten to FDIC.

H.M.Jr: It is a good subsidy to FDIC. I don't know anybody I would rather subsidize.

Bell: No. It is all right.

H.M.Jr: Their expenses are reasonable, aren't they, FDIC?

Bell: Oh yes. They spend between two and two and a half million dollars a year.

H.M.Jr: For the whole business?

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Bell: Yes.

H.M.Jr: Isn't that reasonable?

Bell: And they go up if you have a bad situation, but - yes, very reasonable. You know we worked out a whole scheme of administration before Leo ever started out, through the Budget. We had our people go over and sell them on about two and a half million and he has stayed pretty close to that.

H.M.Jr: Anything else?

Bell: No.

Thompson: I have this clipping.

H.M.Jr: All right, thank you all.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

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January 23, 1940

MEMORANDUM FOR THE SECRETARY

There is attached hereto recapitulation of the tentative estimates submitted in connection with the program for additional planes and engines, together with a summary indicating two combinations that may be effected from the estimates submitted.

Program "A" contemplates furnishing Curtiss P-36s and Douglas Bombers with the 1830 motor. Program "B" contemplates furnishing Curtiss P-40s and Douglas Bombers with the 2600 Wright.

These alternate proposals were submitted at the request of the Allies' representatives.



Director of Procurement

atts.

	<u>BASE PRICE</u>	<u>EXPEDITING CHARGE</u>	<u>TOTAL UNIT COST</u>	<u>NUMBER</u>	<u>TOTAL COST</u>
<b>Curtiss - Pursuits</b>					
75-A-1. P&W 1830 Engines	\$ 36,731.	\$ 16,418.	\$ 53,149.	2,800	\$ 148,817,200.
81-A. Allison Engines	40,887.	17,869.	58,746.	2,800	164,488,800.
<b>Douglas - Bombers</b>					
DB-7 - 1830 P&W Engines	91,500.	65,000.	156,500.	2,800	438,200,000.
DB-7-B - 2600 Wright Engines	96,400.	65,000.	161,400.	2,800	451,920,000.
<b>Martin - Bombers</b>					
167-F-4. 2600 Wright Engines	104,500.	67,900.	172,400.	3,000	517,200,000.

ENGINES

Allison - 1710	\$ 17,500.	\$ 5,250*	\$ 22,750.	3,500	\$ 79,625,000.
Wright - 2600	16,363.	5,909.	22,272.	4,400	98,000,000.
Pratt & Whitney - 1830	14,250.***	3,560.**	17,810.	5,775	102,850,000.

\* - Estimated not to exceed 30% - 30% used.  
 \*\* - Estimated 22-1/2% to 27-1/2% - 25% used.  
 \*\*\* - Estimated on basis recent contracts.

SUMMARY

Curtiss P-36	\$ 148,817,200	
Douglas DB-7	438,200,000	
Martin 167-F-4	<u>517,200,000</u>	
Total Planes		\$ 1,104,217,200
Total Engines		<u>280,475,000</u>
TOTAL "A" PROGRAM		\$ 1,384,692,200

Curtiss P-40	\$ 164,488,800	
Douglas DB-7-B	451,920,000	
Martin 167-F-4	<u>517,200,000</u>	
Total Planes		\$ 1,133,608,800
Total Engines		<u>280,475,000</u>
TOTAL "B" PROGRAM		\$ 1,414,083,800

MEMORANDUM

January 23, 1940.

TO: The Secretary  
FROM: Mr. Sullivan  
SUBJECT: Refunding Internal Revenue Collections

This morning in company with Charles Schoeneman of the Treasury Department, Messrs. Evans, McCollum, Bliss, Sherwood, Berkshire and George Schoeneman of the Internal Revenue Bureau, attended a hearing before the Sub-committee of the House Appropriations Committee in regard to a Deficiency Appropriation for refunding Internal Revenue ~~income~~.

The total amount available for the fiscal year 1940 was \$38,800,000. This amount had all been expended on January 12, 1940. The Bureau's estimate for its requirements for the remainder of the year was \$29,300,000.

I urged that a joint resolution or any other technique that would result in the speedy enactment of this deficiency appropriation legislation be adopted on the ground that a delay of one month would cost us in interest \$29,000; two months, \$87,000; three months, \$174,000; and on the further ground that a taxpayer whose right to a refund had been established should receive his refund promptly.

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The question was raised as to the propriety of our paying 6 percent interest on refunds. It was pointed out to the Committee that a similar rate of interest was charged on deficiencies.

After the hearing, it was indicated to me, off the record, that although this might not be made the subject of a joint resolution, it would probably be put into a limited deficiency bill, providing also for additional Congressional clerk hire and compensation for the widows of Members of Congress. This should insure speedy consideration of the refund deficiencies in which we are interested.

-o-  
John F. Sullivan

TO:

Mrs. Klotz

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I am returning the memorandum regarding the Indiana matter which Mr. Broguthen gave me this morning at Staff meeting. I have made a copy, as the Secretary asked, and am giving the matter my personal attention.

From: MR. GRAVES

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January 23, 1940

To: Mr. Foley  
From: Mr. Leming

An interview was had today with B. W. Shook. Shook has been associated with Otto L. Keeler in the sale of the products of the Kentucky Rock Asphalt Companies for a number of years. There is a discrepancy between the statements of Keeler and the statements of Shook as to whose employee he is, but that is an immaterial matter at the moment. One of the principal matters we wanted information about from him was the receipt and disposition of a sum of \$10,000 allegedly paid to him either by the company or by Keeler in 1936, but which could not be found in his bank accounts. Shook said that this was the first real money he had and that he put it in a tin box and kept it in the closet in his bedroom at home. Incidentally, he has about that much money in the tin box at this time according to his statement today, and some other money in a safe deposit box at the Fletcher Trust Company, totaling in all about \$17,000 in cash in the two boxes at this time. Shook's explanation of why he received the \$10,000 from Keeler in 1936 was that there had been a good many lean years and this \$10,000 was a bonus to him from Keeler to make up for the hard years when business had not been so good. Shook's statement today injected a new angle into the situation, at least so far as I am aware, concerning the activities of one Kelly at Terre Haute. According to Shook, Kelly manufactures a material which is used as a base or binder upon which the Kentucky Rock Asphalt materials are laid. Shook's bank account had disclosed the receipt by him of checks in substantial amounts from Terre Haute and Michigan City, Ind., during 1937 and 1938 and it was upon inquiry about what these checks represented that the statement concerning Kelly came out. His dealings with Kelly were fairly substantial and involved to some extent the use also of products of the Kentucky Rock Asphalt Companies in making city improvements either at Terre Haute or Michigan City. As I recall his testimony, this Kelly material is used also throughout the state. To what extent it is used is a matter of conjecture at the moment. His statement is quite lengthy and has not been transcribed.

Shook said that the Procurement Department, U. S. Treasury Department, at Indianapolis passed finally upon the purchase of rock asphalt material from the Kentucky Companies when the amount of the purchase did not exceed \$10,000; and that upon purchases in excess of \$10,000 final approval was made in Washington. According to Shook, Sam Craig, Head, of

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the Procurement Department in Indianapolis, has his own engineering department and specifications for the material and the price must be satisfactory to him before he passes a contract. This relates to material purchased for WPA jobs. Shook said that the price per ton for WPA jobs had always been \$10.00 per ton. He said the same price had always been charged counties and cities. The price on state highway jobs is \$8.00 per ton. As you have been previously informed, the commission on sales for state highways has been split three ways since Pursley's agreement with Keeler in December, 1936, - the first commissions we know of under that agreement were paid in 1937; however, on WPA jobs the Ohio Valley Rock Asphalt Company's books disclose only a two-way split on WPA jobs, namely, to Garland (Pursley) and Keeler. This seems odd in view of the fact that the total commission on highway jobs is \$2.00 a ton and on WPA jobs is \$4.00 a ton. Shook himself undertook to say today that he got a commission of from \$1.00 to \$1.50 a ton on some of the WPA jobs and probably a different commission on some of the others. The extent to which he participated at this rate on the WPA jobs is somewhat uncertain at this time, if he participated at all as he now claims. It would be helpful to further inquiries if we could have a detailed statement from the Procurement Department of all purchases of rock asphalt from the Ohio Valley Rock Asphalt Company and the Kentucky Rock Asphalt Company both of Louisville, Kentucky, for the years 1935 to 1938, inclusive. The detail ought to show the date of the purchase, the amount paid, the check number, the payee, and the contract number of the company from which the purchase may have been made. We have not approached the Procurement officer here for this information. I judge you will wish to determine whether we should call upon the local office for this information or whether it should be obtained at Washington and then made available to us here. We will take no action looking to the obtaining of the information in Indianapolis pending receipt of advice from you.

Joe Simmons has not yet returned from Florida, according to information which has been furnished Mr. Sullivan.

There are a number of matters which we wish to verify through examinations of the companies' books at Louisville and through interviews with their respective officers.

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We, that is, Mr. Schwartz and myself, Miss Dale and Revenue Agents McPherson and Cisney will go to Louisville tomorrow afternoon, leaving here at 5:26 P. M., arriving at Louisville about 9 P. M. We will be there the balance of this week at least. We will stop at the Henry Watterson Hotel

Upon returning here probably Monday or Tuesday we will then call Mr. Keeler for a final interview.

(Initialed) N. B. L.

January 23, 1940

To: Mr. Foley  
From: Mr. Leasing

An interview was had today with B. W. Shook. Shook has been associated with Otto L. Keeler in the sale of the products of the Kentucky Rock Asphalt Companies for a number of years. There is a discrepancy between the statements of Keeler and the statements of Shook as to whose employee he is, but that is an immaterial matter at the moment. One of the principal matters we wanted information about from him was the receipt and disposition of a sum of \$10,000 allegedly paid to him either by the company or by Keeler in 1936, but which could not be found in his bank accounts. Shook said that this was the first real money he had and that he put it in a tin box and kept it in the closet in his bedroom at home. Incidentally, he has about that much money in the tin box at this time according to his statement today, and some other money in a safe deposit box at the Fletcher Trust Company, totaling in all about \$17,000 in cash in the two boxes at this time. Shook's explanation of why he received the \$10,000 from Keeler in 1936 was that there had been a good many lean years and this \$10,000 was a bonus to him from Keeler to make up for the hard years when business had not been so good. Shook's statement today injected a new angle into the situation, at least so far as I am aware, concerning the activities of one Kelly at Terre Haute. According to Shook, Kelly manufactures a material which is used as a base or binder upon which the Kentucky Rock Asphalt materials are laid. Shook's bank account had disclosed the receipt by him of checks in substantial amounts from Terre Haute and Michigan City, Ind., during 1937 and 1938 and it was upon inquiry about what these checks represented that the statement concerning Kelly came out. His dealings with Kelly were fairly substantial and involved to some extent the use also of products of the Kentucky Rock Asphalt Companies in making city improvements either at Terre Haute or Michigan City. As I recall his testimony, this Kelly material is used also throughout the state. To what extent it is used is a matter of conjecture at the moment. His statement is quite lengthy and has not been transcribed.

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-3-

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(Initialed) N. B. L.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE January 23, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

Following the instructions given me by the Secretary in this morning's staff meeting, I have telephoned the office of Secretary Hull at 10:10 A.M. Mr. Gray was out of town so I talked with Mr. Stone. I told him that we should like to have a list of those people in the State Department who see the cablegrams for which the Treasury pays. Mr. Stone told me that these messages were routed only to the Secretary, the Under Secretary and Dr. Feis. I asked him to check further and see whether, irrespective of this limited routing, other people in the Department might see them.

When Mr. Stone called me back at 11:30 he confirmed that the routing of the messages was restricted to the Secretary, the Under Secretary and Dr. Feis. The three men in the Secretary's outer office, Messrs. Gray, Stone and Renchard (or Brown) handle these messages in their administrative routine for the Secretary and necessarily see them. These are all Foreign Service Officers. Mr. Stone remarked that Mr. Hull might, of course, discuss one of these messages with some one of his assistants whom he might have with him or call in, but that the Secretary made no distribution of these messages. He stated further that Mr. Welles did not pass the messages on to anyone. Mr. Livesey sees all of the cablegrams when Dr. Feis is absent, but does not see the strictly confidential ones when Feis is present. I told Stone that I was aware that Livesey saw the messages, and I mentioned to him that at rare intervals Livesey has occasionally asked our specific authority to permit someone in the European or Legal Division to see all or part of one of the Treasury messages which contained something pertinent to State Department policy in the protection of American interests etc., and that we have naturally conceded this privilege in the special instances.

Stone added that all copies of cablegrams coming to the Secretary of State, including messages for the Treasury except those of a purely routine character, are forwarded to the President. He thought no one but the President saw these messages in the White House.

I told Mr. Stone that since Mr. Heath has not been indicating in his messages that they are for the Treasury and from him, I had suggested that he take this matter up informally with Dr. Feis to see if the practice at Berlin could not be made uniform with that followed at Paris and London. I told Stone that I had insisted to Heath that this matter should not be brought up as any sort of an issue, but that it would facilitate handling and accounting if the practice were generalized. Stone immediately agreed that this was desirable, stating that the exceptional treatment which the

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State Department desires to give to Mr. Morgenthau's cablegrams could not be assured in the case of those emanating from Heath unless they are clearly designated as coming from him, or indicated in the opening sentence that they are for the Treasury.

As of interest in connection with the foregoing, I append a copy of a memorandum which I had made for my own use under date of November 15, 1939.



STRICTLY CONFIDENTIAL

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MEMORANDUM

November 15, 1939

At 4:30 this afternoon Mr. Livesey telephoned me from the Department of State. He said that someone in the Department had seen Ambassador Bullitt's cablegram #2742 which referred to a cablegram for the Treasury, #2736, and sought our permission to see the earlier message. In answer to my inquiry, Mr. Livesey stated that Dr. Leo Pasvolaky, Special Assistant to Secretary Hull, was the individual asking for the cablegram. In answer to my further inquiry, I was told that Dr. Pasvolaky did not see straight Treasury cablegrams from the field and had been informed when on duty previously in the State Department that his request to see these cablegrams could only be acted upon after a request by Secretary Hull to Secretary Morgenthau. Mr. Livesey understood that no such request had ever been made. I stressed to Mr. Livesey the degree to which we are keeping our messages strictly confidential, and I expressed the personal opinion that we should not relax now. If some official in the State Department needs to see one or more of our messages to assist him in making administrative decisions, we are anxious to be of assistance, but to make these messages available as a source of general information to an economist who is only temporarily in the Department of State and who writes books on economic and financial matters when outside Government service, seems to me dangerous. It was understood that Mr. Livesey would endeavor to keep the circulation of our telegrams quite restricted in the Department of State and would seek to have all requests for wider dissemination referred to him. If and when such requests arise, Mr. Livesey has promised to communicate with me.

*B. M. R.*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE January 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was quiet today. Sterling opened at 3.96-1/2, and advanced by mid-afternoon to a high of 3.97-3/8. It closed at 3.97-1/4.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £289,000, from the following sources:

By commercial concerns.....	£ 137,000
By foreign banks (Far East and Europe).....	£ 102,000
By Federal Reserve Bank of New York (for Yugoslavia).....	£ 50,000
Total.....	£ 289,000

Purchases of spot sterling amounted to £283,000, as indicated below:

By commercial concerns.....	£ 210,000
By foreign banks (Europe and South America).....	£ 73,000
Total.....	£ 283,000

The following reporting banks sold cotton bills totaling £42,000 to the British Control on the basis of the official rate of 4.02-1/2.

£ 32,000 by the Guaranty Trust Co.
10,000 by the National City Bank
£ 42,000 Total

The discount on the Cuban peso widened slightly in the last few days and today it was quoted at 10% discount. The rate for the Mexican peso has remained steady since January 3, at the current low of .1672.

The other important currencies closed as follows:

French francs	.0225-1/8
Guilders	.5315
Swiss francs	.2242-1/2
Belgas	.1683
Canadian dollars	11-3/4% discount

In addition to the sale of £50,000 for the National Bank of Yugoslavia, as shown above, the Federal Reserve Bank also sold 500,000 Swiss francs for that

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bank. It purchased 10,000,000 French francs for the National Bank of Rumania and 20,000 guilders for the Bank of Latvia. The Rumanian order to purchase French francs was received last Friday but its execution was deferred pending advice of the correct test number of the cable.

We purchased \$25,000,000 in gold from the earmarked account of the Bank of Sweden. Today's purchase raises the total amount of gold sold to us by the Bank of Sweden since August 30 to \$108,300,000. The Swedish Bank's gold and dollar balances held at the Federal Reserve Bank have declined \$75,000,000 and \$45,000,000 respectively during the same period.

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

The Federal Reserve Bank of New York received cables from the B.I.S. and the Netherlands Bank 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 Netherlands Bank at the Federal Reserve Bank of New York. B.I.S. Account #2 is gold owned by that institution. The Treasury granted permission to the Federal to make this transfer.

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

\$3,283,000	from the Netherlands, shipped by the Netherlands Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.
3,130,000	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.
725,000	from Mexico, shipped by the Bank of Mexico to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of Mexico.
280,000	from England, shipped by Samuel Montagu & Co. to the Chase National Bank of New York for account of the Twentsche Bank, Amsterdam, for sale to the U. S. Assay Office.
<u>\$7,418,000</u>	Total

The State Department forwarded to us a cable stating that the following gold shipments would be made from England:

\$2,151,000	representing two shipments from Samuel Montagu & Co. to the Bankers Trust Company of New York, for sale to the U. S. Assay Office.
631,000	shipped by Samuel Montagu & Co. to the Chase National Bank of New York, for sale to the U. S. Assay Office.
<u>\$2,782,000</u>	Total

On the report of January 17, 1940 received from the Federal Reserve Bank of New York, giving the foreign exchange position of banks and bankers in its district, the total position in all currencies was short the equivalent of \$21,064,000, a

**CONFIDENTIAL**

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decrease of \$429,000 in the short position. The net changes in positions are as follows:

<u>COUNTRY</u>	<u>SHORT POSITION</u> <u>JANUARY 10</u>	<u>SHORT POSITION</u> <u>JANUARY 17</u>	<u>DECREASE IN</u> <u>SHORT POSITION</u>
England	\$ 9,758,000	\$ 9,914,000	\$156,000 (Increase)
Europe	8,520,000	7,567,000	953,000
Canada	197,000	84,000	113,000
Latin America	430,000	377,000	53,000
Japan *	2,206,000	2,553,000	347,000 (Increase)
Other Asia	403,000	564,000	161,000 (Increase)
All Others	21,000 (Long)	5,000	26,000 (Increase)
Total	\$21,493,000	\$21,064,000	\$429,000

\*Includes Korea and Manchuria.

The London spot and forward fixing prices for silver were again unchanged at 22d. The U. S. equivalents were 39.28¢ and 39.08¢.

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

We made five purchases of silver totaling 375,000 ounces under the Silver Purchase Act. Of this amount 200,000 ounces represented a sale from inventory by one of the refining companies, and the remaining 175,000 ounces consisted of new production silver from foreign countries, for forward delivery.

We also purchased 150,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

*J. M. R.*

**CONFIDENTIAL**

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

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## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 23, 1940

TO Secretary Morgenthau  
 FROM Mr. Haas *HA.*  
 Subject: Developments in the High-Grade Security Markets

## Summary

- (1) Treasury bonds have recovered about half of the losses suffered early last week. Corporate bonds also rallied in the week ended yesterday (Chart I). Municipal bonds, after a sustained rise of several months, declined in price last week.

New issues last week were small. The question of competitive bidding has again arisen in connection with a proposed issue of the Dayton Power and Light Company.

- (2) Weekly reporting member banks in New York City purchased \$123 millions of Treasury bonds in the week ended January 17 (Chart II). Banks outside of New York sold \$46 millions.

Data released at the annual meetings of nine New York banks show considerable diversity in the proportions of long and short maturities in their Government security portfolios (Chart III).

- (3) Data just compiled on the allotments of cash subscriptions to the latest cash offerings of Government securities (the Treasury bonds of 1948-50 and the November RFC notes) again confirm the preference of banks for short maturities and of insurance companies for longer maturities.
- (4) The \$200 millions cash portion of the Canadian War Loan was oversubscribed by 60 percent. Probably half of the issue will be allotted to subscribers for \$5,000 or less. Since the loan was announced the market has tended to move into line with the yield on the new issue (Chart IV).
- (5) British consols reached a new high since the autumn of 1938 on Monday (Chart V). The British Government has announced the forthcoming conversion of the 4-1/2 percent bonds of 1940-44 into a new 2 percent obligation callable in 1943 and maturing in 1945.

### I. Domestic High-Grade Securities Markets

Long-term United States Government securities, which declined sharply in price early last week, had recovered about half of their losses by Monday, January 22. The average yield on long-term Treasury bonds, which increased 5 basis points to 2.77 percent on Monday and Tuesday of last week, had decreased again to 2.30 percent at the close yesterday (Chart I). Medium-term and long-term Treasury bonds, which experienced the greatest price declines on January 15, had regained a large part of their losses by the close yesterday.

High-grade corporate bonds improved on net balance during the past week. The average yield of high-grade corporates decreased from 2.82 percent on Monday, January 15, to 2.80 percent at the close yesterday (Chart I). Municipal bonds, after rising steadily in price for several months, turned down last week.

The volume of new security issues last week was small. The largest corporate issue was \$11 millions of 4 percent bonds of Libby, McNeill and Libby, offered January 17 at par. About \$9.2 millions of this issue will be used to retire outstanding 5 percent bonds. The issue went well, the subscription books being closed early in the afternoon of the offering date, and was quoted at a small premium according to latest reports. Municipal issues included an offering of \$5.5 millions of Los Angeles Water Revenue bonds maturing serially from 1943 to 1959, offered Thursday at prices to yield from 1.25 percent to 3.00 percent according to maturity. An issue of \$32 millions of bonds of the Kentucky Utilities Company, expected during the week, has been temporarily postponed.

The question of competitive bidding has been raised again in connection with the forthcoming bond offering of \$25 millions by the Dayton Power and Light Company. Non-competitive sale has been advocated by an official of the company as being in the best interests of both the company and the public. The Ohio State Utilities Commission has declined to institute a rule requiring competitive bidding and has authorized the sale without competitive bids. Morgan, Stanley and Company, the principal underwriter, is expected to offer to allow the SEC to impound its underwriting fee as was done in the case of the Consumers Power Company issue. The SEC has scheduled a hearing on the proposed issue for January 24.

## II. Bank Holdings of Government Securities

In the week ended Wednesday, January 17, weekly reporting member banks in New York City increased their holdings of direct and guaranteed Government obligations by \$127 millions, of which \$123 millions consisted of Treasury bonds (Chart II). This is one of the largest amounts of bonds bought in the market by New York banks in any single week since the data first became available in the early part of 1939, and brings the Treasury bond holdings of these banks to a new high of \$2,430 millions. Most of the buying was reported to be confined to short and intermediate maturities, but one bank was reported to have been a substantial purchaser of long-term bonds.

There was no change in the open market portfolios of Federal Reserve banks during the week ended January 17. Sales by other holders were occasioned by profit-taking and by rumors of an impending German invasion of Belgium. The largest single source of bonds coming on the market was weekly reporting banks outside of New York and Chicago which reduced their holdings by \$46 millions. (Chicago banks increased their holdings of bonds by \$3 millions.)

Weekly reporting member banks in Chicago again increased their holdings of Treasury bills during the week ended January 17. The inflow of \$72 millions, mainly for purposes of tax avoidance, brought the total increase since December 6 to \$313 millions.

Some interesting information concerning Government security holdings has been made public at the annual meetings of several New York City banks. Chart III shows the amounts of United States Government securities held by each of nine banks and the percentages of these holdings maturing in less than five years and in over five years, together with comparable figures for all reporting member banks in New York City. These nine banks account for nearly four-fifths of the \$4,603 millions of Governments held by New York reporting banks at the end of 1939.

There is considerable diversity in the proportions of long and short maturities held. The Chase National Bank, with 68 percent of its portfolio maturing within five years, had the largest proportion of short securities. At the other extreme, the Chemical National Bank held only 4 percent of its Government portfolio in obligations maturing within five years.

III. Analysis of Cash Subscriptions to the  
2 Percent Treasury Bond of 1948-50, and the RFC Note

Data have just been compiled by the Federal Reserve banks analyzing the allotments of cash subscriptions to the new 2 percent Treasury bonds of 1948-50, and the 1 percent RFC notes due July 1, 1942. Comparison of allotments on account of subscriptions to the RFC note and the Treasury bond offers further confirmation of the preference of banks for the issues of shorter maturity. The following table shows the percentages of total allotments of each issue made respectively to banks, insurance companies, individuals, and all other purchasers.

Classification of Allotments of Cash Subscriptions  
to Treasury Bond and RFC Note

(Percent of total)

	: Treasury : Bond :	: RFC : Note
Banks . . . . .	46	64
Insurance companies . . .	19	8
Individuals . . . . .	8	3
All other . . . . .	27	25

It will be noted that the percentage allotment to banks of RFC notes was about one-third greater than the proportion of Treasury bonds taken by the banks. Insurance companies, on the other hand, took only 8 percent of the notes as against 19 percent of the bonds. Individual investors, although they subscribed for relatively small proportions of the two issues, likewise showed a distinct preference for the longer maturity, purchasing 3 percent of the notes as compared with 8 percent of the bonds.

This distribution is in line with previous experience. Banks have absorbed about 70 percent of cash offerings of notes since the beginning of 1936, as compared with about 47 percent of the cash offerings of bonds in the same period. The proportion of the latest RFC offering allotted to banks, however, represents a sharp drop from the levels prevailing until about a year ago.

Secretary Morgenthau - 5

The proportion of the 2 percent bonds of 1948-50 allotted to insurance companies was the third largest taken by these institutions in bond offerings of the past four years. Insurance companies also took a larger proportion of both the 300 note offered in August 1939 and the new RFC note than they have in the case of any note offering since June 1937.

It is to be noted that individuals take a relatively small proportion of Treasury direct and guaranteed issues. Their 3 percent share in the latest RFC offering compares with a 5 percent share in the Treasury notes offered in March 1936, the largest share taken of any note offering in the past four years. Since the beginning of 1936 the largest proportion of a Treasury bond issue allotted to individuals was 19 percent in September 1936, for the 2-3/4's of 1956-59. The 8 percent share of individuals in the latest public cash offering represents only a slight increase over their shares in the two cash offerings of 1938, notwithstanding the allotment in full (subject to delayed delivery) to subscribers for \$5,000 or less.

#### IV. Canadian War Loan

Although the \$200 millions cash portion of the 3-1/4 percent Canadian war loan was oversubscribed by 25 percent by the close on Tuesday, the second day of offering, subscription books were kept open until Friday in order to give individuals in remote districts, and those desiring small amounts, opportunity to subscribe. By that time the oversubscription amounted to \$21 millions or 60 percent.

Latest dispatches indicate that about half of the issue will be allotted to subscribers for \$5,000 or less. The large volume of small individual subscriptions is probably due in part to the extensive publicity employed.

The largest single subscription reported was \$7.5 millions from the Sun Life Assurance Company of Canada. It was also reported that 45 Canadian mining companies had subscribed for \$45 millions of the loan, and that branches of United States concerns in Canada had applied for substantial amounts.

It was pointed out last week that the rate of 3-1/4 percent on the new loan is somewhat below the market yields on existing Canadian securities of comparable maturity. It is interesting to note that since the announcement of the war loan the market has tended to move into line with the new issue. The yield on Canadian 3-1/4's of 1956-66 declined from 3.41 percent on January 9 to 3.37 percent on the 19th (Chart IV).

Secretary Morgenthau - 6

#### V. Foreign Securities Markets

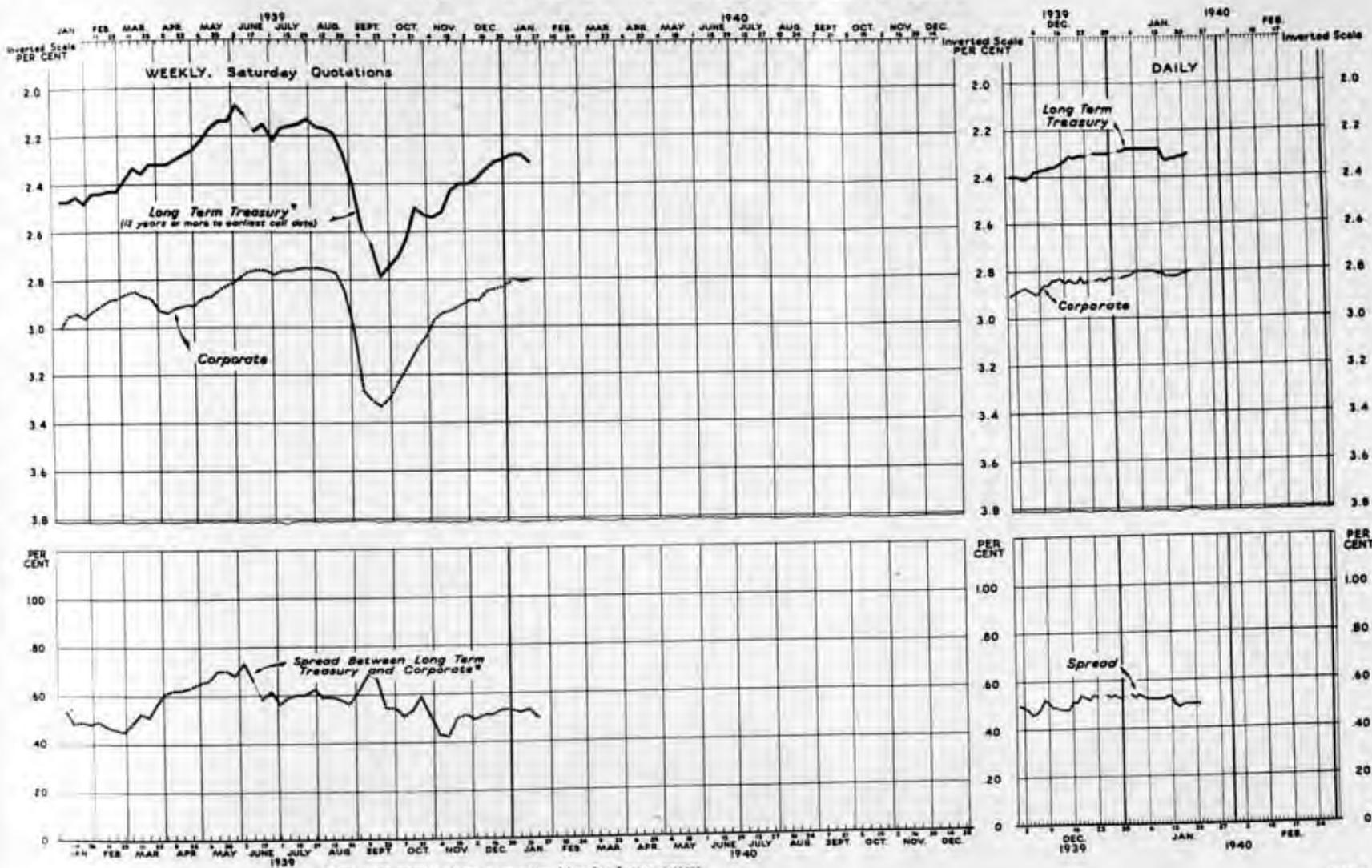
Foreign government securities markets also participated in the sharp decline early last week. British 2-1/2 percent consols, which fell 1-1/8 points to 70-1/4 on Monday, January 15, recovered rapidly late in the week and closed yesterday at 73-7/8, to yield 7.43 percent, the highest price since the autumn of 1938 (Chart V). French 3 percent rentes closed at 74.00 to yield 4.05 percent on Monday, January 22, as compared with 75.35 on Friday, January 12, and 73.70 on Tuesday of last week when their price reached the bottom of the break caused by fears of a German invasion of Belgium.

Sir John Simon, British Chancellor of the Exchequer announced on Wednesday, January 17, the Government's intention soon to call the 4-1/2 percent bonds of 1940-44, of which £350 millions are outstanding. Holders will be offered an opportunity to convert their bonds into a new 2 percent issue callable in 1943 and maturing in 1945. Holders who have not applied for payment in cash or for conversion by February 8 will be assumed to have elected to convert their holdings into the new securities. This device, mildly coercive in character, was, it will be remembered, previously employed by the British in connection with the great war loan conversion of 1952.

No new money offering is expected at the present time because income tax receipts are now providing the British Government with adequate cash. The approach to par of the 3-1/2 percent war loan, which closed Monday at 98-1/16 as compared with the minimum price of 88-1/2 at the outbreak of war, opens the possibility that a cash offering can soon be made on a 3-1/2 percent basis.

Chart I

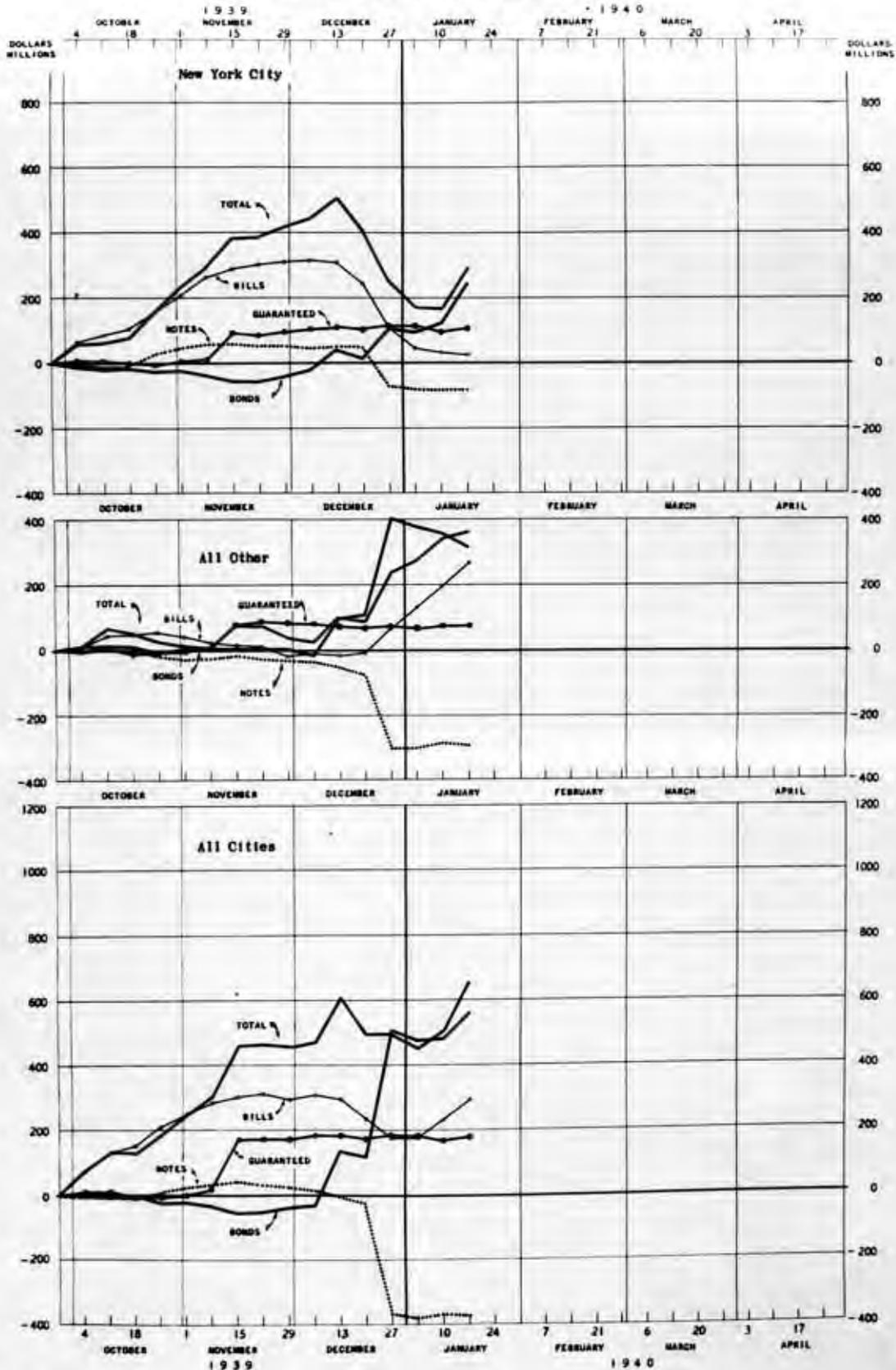
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



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

Chart II

U. S. GOVERNMENT SECURITY HOLDINGS, WEEKLY REPORTING MEMBER BANKS  
 Cumulative Net Change from September 27, 1939



NEW YORK CITY BANK HOLDINGS OF U.S. GOVERNMENT SECURITIES  
December 31, 1939

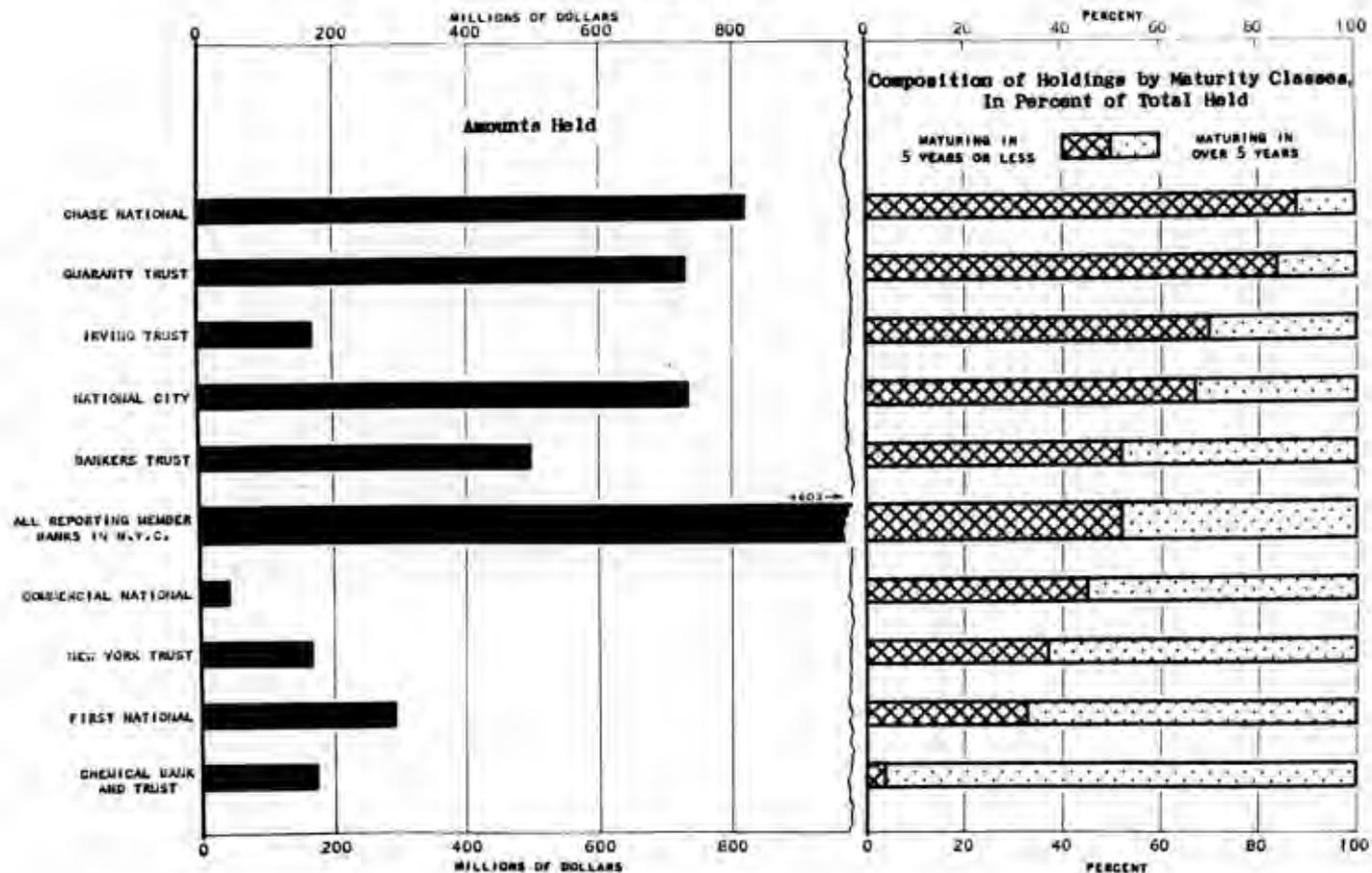
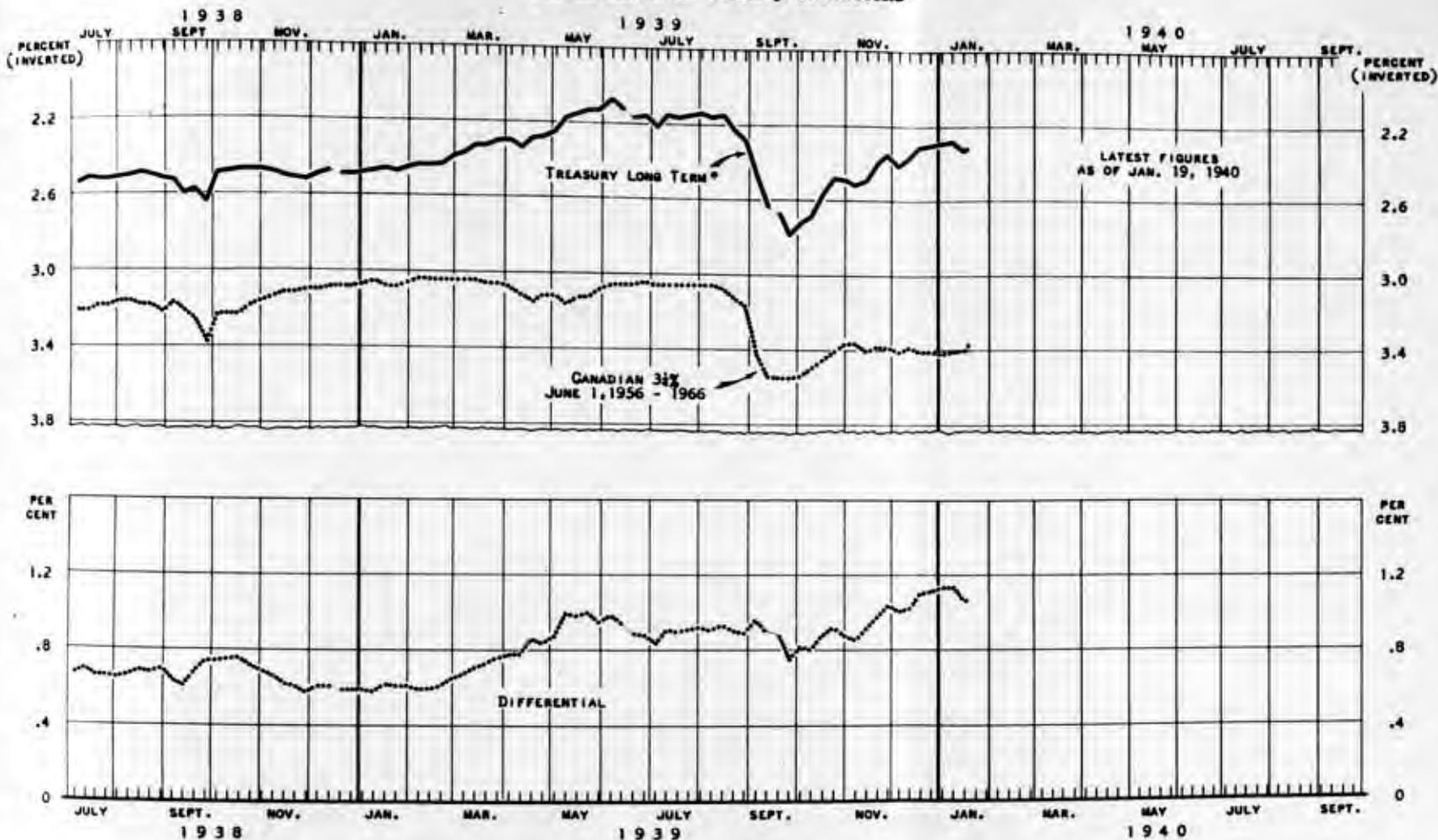


Chart IV

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG-TERM U.S. TREASURY BONDS  
AND CANADIAN GOVERNMENT 3½% BONDS OF 1956-'66

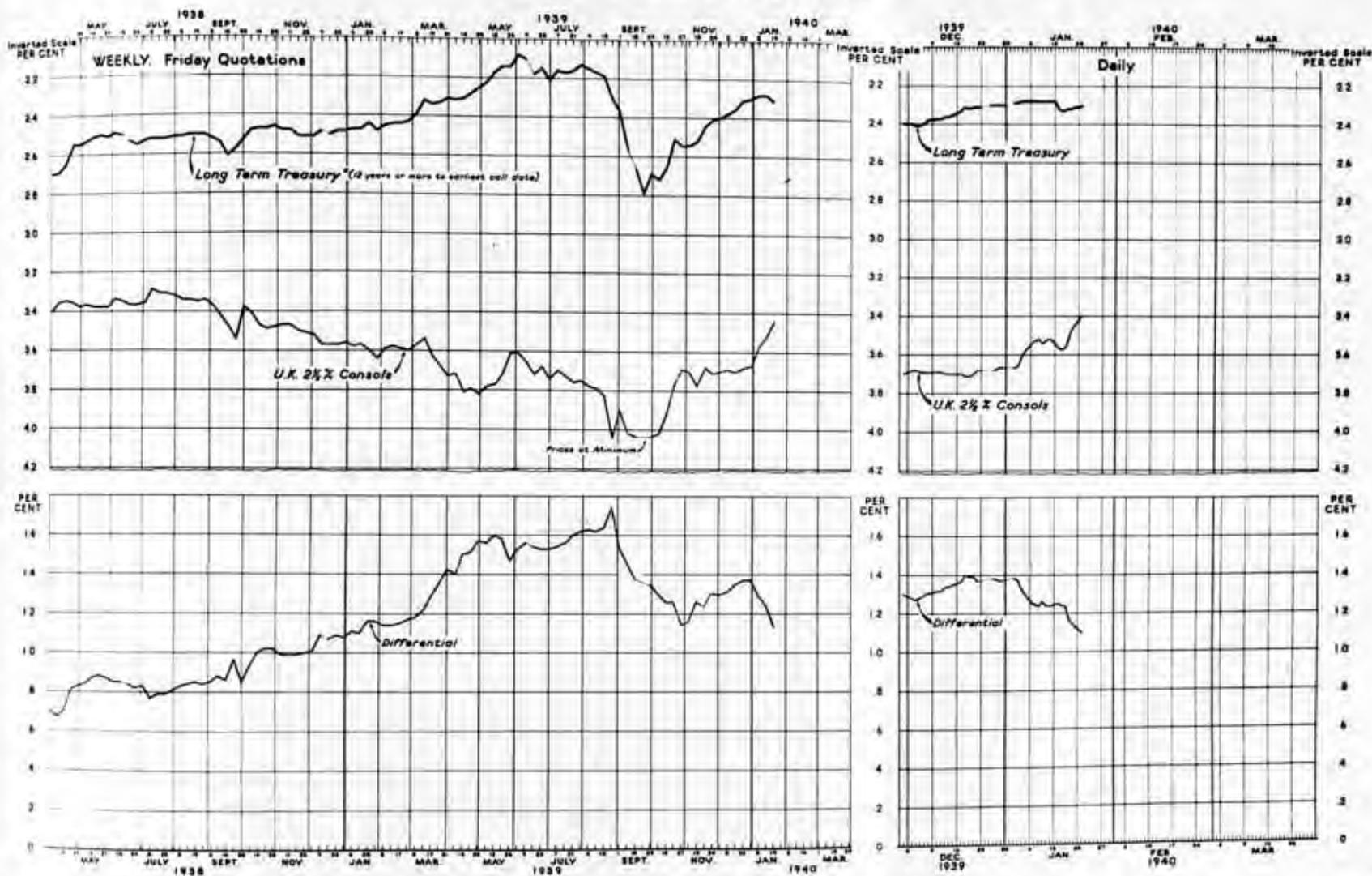
Yields Based on Tuesday Quotations



\* BREAK IN LINE INDICATES CHANGE IN COMPOSITION OF LONG TERM TREASURY AVERAGE

Chart V

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY  
BONDS AND U.K. 2½% CONSOLS



Return to Room 235

January 23, 1940

Dear Mr. Keeshin:

Let me acknowledge your letter of January 18th, which forwards copies of memoranda and letters addressed to various officials of China and of Chinese corporations by Mr. H. H. Sheahan.

We are glad to add this material to the documents already being studied in this office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Mr. J. L. Keeshin, President,  
Keeshin Freight Lines, Inc.,  
221 West Roosevelt Road,  
Chicago, Illinois.

GHF:lmf

200

Mr. Forthright:  
Another one for adv. files  
—

## KEESHIN FREIGHT LINES, INC.

J. L. KEESHIN  
PRESIDENT

221 WEST ROOSEVELT ROAD  
CHICAGO

January 18, 1940

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

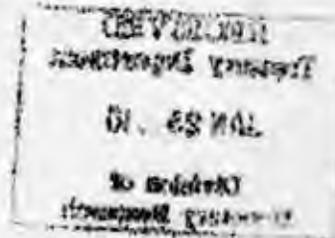
My dear Secretary:

I am forwarding to you, herewith enclosed, copies of the following: three memorandums addressed to H. E. Minister Chang Kia-Ngau by Mr. M. E. Sheahan, under dates of December 21, and December 22, 1939; three agreements between the Ministry of Communications of the National Government of the Republic of China, and the China Transport Corporation, and between Foo Shing Trading Corporation and the China Transport Corporation, letters Mr. Sheahan addressed to the H. E. Minister Chang Kia-Ngau under date of December 21, 1939, Mr. C. A. Blum, under date of December 23, 1939, H. E. Dr. H. H. Kung, under date of December 20, 1939, Dr. Francis K. Pan, under date of December 20, 1939 and to Mr. K. P. Chen under dates of December 20, and December 23, 1939.

Very truly yours,

*J. L. Keeshin*  
J. L. Keeshin

JLK:LR  
Encs. (11)



To

H. E. MINISTER CHANG KIA-NGAU

Mr. K. P. Chen has asked to what extent our recommendations concerning the building of truck cabs and bodies to manufacturers specifications have been adhered to in the work of building bodies and cabs on the 1433 units at Haiphong. Am not in possession of this information and am wondering whether or not your files disclose the answer to Mr. Chen's query.

Mr. Chen also asks if the suggestions contained in our letter of November 6th to him, copy to you, concerning the building of cabs has been transmitted to the Ministry of War. In view of the fact that we have incorporated the same suggestions in ours of December 12th, to Mr. Chen, and this letter contains our complete detailed specifications for trucks in free China, it is my suggestion that a copy of these latest specifications be supplied to the Ministry of War.

(Signed ) M. E. Sheahan

Chungking

Dec. 21, 1939

To

H. E. MINISTER CHANG KIA-NGAU

Mr. Van Patter recently reviewed the Ministry technical school together with your Mr. C. C. Lee and offers the following suggestions:

1. If it is still necessary to train diesel technicians, a separate Class should be established for this purpose, instead of confusing the student by giving him an extensive course in so limited a time. This method of training will also give the student of both diesel and gasoline propelled vehicles a better chance to specialize in their respective subjects.
2. Both drivers and mechanics after the first month of attending school, be separated, so that ideas derived from their respective training will not lead to their cramming their minds with unnecessary knowledge.
3. The number of students trained in each course should be kept to a minimum. Only train as many men as the facilities will permit. Perfected training can only be achieved by giving the student the correct tools to practice with. The Class must be small enough to permit instructors to give the necessary information as to why they are performing given operations in accordance with blue prints or text books. It appears that instructors are endeavoring to train too many technicians, considering present facilities.
4. The special Ford V8 tools should be removed from their boxes in the stockroom and displayed on a board, so that they can be taken to the model room, for the instructors use in explaining how to use these tools to the best advantage.
5. Due to the shortage of equipment and tools a careful survey of this school should be made to determine just what is necessary to properly train students.

(Signed) M. E. Sheahan

Chungking

Dec. 21, 1939

H. E. Minister Chang Kia-NGau

At yesterday's meeting of the Organization Committee of the China Transport Corporation, reports were rendered outlining the progress made by the Committee. In listening to these reports, it was quite evident to me, that the various members of the Committee have diligently applied themselves to the task of establishing the C.T.C. upon a sound businesslike basis. The personnel problem mentioned by Mr. Y.C. Chen, has undoubtedly received serious consideration, and this careful pre-selection of "key" personnel should definitely assure eventual success. I was most impressed by the fact, that budget estimates have been based upon the best available information covering two months past experience, with a 60% efficiency improvement as the immediate goal. This careful review of past experience, and selection of personnel, in my opinion will prove most useful as a guide to future general policies of the Corporation.

Dr. W. L. Hsieh in reporting on traffic matters spoke of communication difficulties, and the necessity for Inspectors visiting various terminals to assure proper compliance with the new system. A staff of Traveling Auditors from the Controller's Department should be considered in connection with this work, although Traveling Inspectors are also essential. I mention the Traveling Auditors staff for the reason that, the Inspectors thus relieved from the necessity of policing accounts, and other reports, could also act as supervisors for the Transportation Department. Have also wondered, if operating districts have been outlined, with a view to assignment of Traveling Supervisors and if so, a similar grouping might be of advantage to the Controller's Department in assigning Traveling Auditors.

Mr. S. N. Fan in reporting on Maintenance Department procedure, spoke of the necessity of Assistant Superintendents.

Undoubtedly Assistant Superintendents or assistants to the Superintendent will be necessary in the Maintenance Department, as well as other departments. Due to the scope of operations, and the functional allocation of authority and responsibility, department heads of necessity, must spend the greater portion of their time traveling. In this way and visiting all shops, garages and plants, the department heads can assure uniformity of practices, as well as compliance with Rules and Regulations of the Corporation. With respect to record keeping, we reiterate our original recommendations to the effect that, record keeping be prescribed by the Controller. This is necessary, in our opinion, to permit full utilization of the records of every department. We also recommend that all forms desired by any department, be submitted to the Controller for approval prior to printing, in fact, we recommended the complete control of stationery forms and methods under the Controller. Unit repair costs and other maintenance information should, in the interest of good organization and functional assignment of authority, be the responsibility of the Controller. Preparation and payment of payrolls is of course the function of the Controller's Department. As the Controller is charged with the responsibility of informing Management and Directors with respect to current conditions of the accounts and affairs of the Corporation, he must control all record keeping, even to the more intimate records of the various departments. As an example of economies that may be effected through the general adoption of this practice of passing all report forms through the Controller, there is the performance reports suggested for submission to the Superintendent of Maintenance by the various shops, garages and plants. This information, if properly collated in the Controller's Department, may serve as a convenient guide to Management in the selection of replacement equipment, as defects in existing equipment would be readily noted. Similarly, it is essential that the books of the Corporation at all times, record the proper values at each

location. The perfection of the Controller's records can be attained through current knowledge of the exchange or machine parts, for example. Road calls, properly analysed, can be a source of valuable information to Management, and tire control is essential in the prevention of thefts, and continued acquisition of improper materials, as well as definitely pointing to deficiencies in maintenance.

Mr. Pan is commenting on material and supplies, suggested that shops, garages and plants be permitted to purchase locally, materials to the value of CN\$200. at any one time, with a maximum limit of CN\$2,000. per location. It was our recommendation, that local purchases be confined to minimum requirements in cases of extreme emergency only, payment and control of such local disbursements to be through Petty Cash funds, established after careful review of the necessity therefore by the Controller. Inasmuch as purchases and stores, we understand, will be concentrated in Foo Shing, purchasing agents will not be necessary in C.T.C. On the contrary, requisitions for material and supplies should be carefully reviewed in the Maintenance Department, and with the limits of expenditures outlined in the proposed Rules and Regulations of C.T.C. in mind, approved by the Superintendent of Maintenance's superiors in ratio to the amounts involved. The assembling of complete requisitions from all shops, garages and plants for a consolidated requisition to Foo Shing is a clerical task only. Foo Shing in turn would combine C.T.C.'s material and supplies requisitions with the requisitions of other branches and agencies of the National Government, and make a single requisition to U.T.C., which agency in turn becomes the purchasing agent. Foo Shing would of necessity, be required to maintain a purchasing department for the acquisition of material and supplies of other than American manufacture, and it might be necessary for C.T.C. to have a purchasing agent for a limited amount of local purchases. The many small items constituting

material and supplies in highway operations suggest the valuation method of inventory control as suggested by Mr. Pan, as contrasted with the perpetual inventory method, that requires extensive personnel and records to maintain. Where large items such as are maintained in railroads, steamships and other utilities are concerned, perpetual inventories are essential. As a means of establishing the valuation method of control, suggest that the component elements of automotive equipment be divided as between, the electrical system, chassis, body and cab, motor, transmission and rear axle, and other natural divisions, as more fully outlined in the various maintenance specimen forms submitted. With a proper receiving record and charge out slip to the vehicles and jobs, as well as transfer between stock rooms, current "on hand" values, segregated as between classes of material and supplies, can be quickly determined by locations. Frequent inventories by Traveling Auditors under the direction of the Controller's Department should assure accuracy, and as each inventory is made, the books of the Corporation should be brought into line with each verified inventory by locations. Where fluctuations in values may indicate dishonesty, detailed examination should be made.

Dr. Felton Chow's report covering the Controller's Department included, submission of a translation of the U.S. Interstate Commerce Commission's system of accounts for motor carriers. He also reported that all report forms had been compiled. I should appreciate the opportunity of reviewing in detail these forms of reports as well as the system of accounts with Dr. Chow.

In each of the reports it was noted with satisfaction, that no fixed sub-divisions under the "key" men have been made. Believe you will find that sub-divisions, automatically established by local practices and customs, will prove more advantageous than any preconceived plan that might be devised.

Mr. Y. C. Chen in reviewing methods of commencing the new Organization, suggested the temporary leasing of the properties coming into C.T.C. from the Ministry of Communications and

with an impartial three man appraisal of such properties to follow. Such appraisal being necessary to establish the cash values and determination of Capital Stock issues. He further suggested that the three man appraisal board be comprised of, one man selected by the Ministry, one by Foo Shing and the third from amongst the Advisory group. In so far as automotive, and machinery equipment and tools and spare parts are concerned, a member of our group could probably be of assistance, but as pointed out, we are not familiar with the values of real estate, land and buildings.

Dr. Pan mentioned three principles to be followed in effecting the merger;

- (1) The setting of the effective date and proper notice by existing management to their respective personnel with respect to continuing in their present capacities. C.T.C. to similarly bulletin all personnel with respect to their continued employment by C.T.C.
- (2) The necessity of appraising all property in connection with issuance of C.T.C. Capital Stock.
- (3) Immediate reorganization of certain departments, in order that operations will not be disrupted upon the effective date of the merger.

In connection with the foregoing, we believe that "key" personnel must be definitely decided upon at once, if the effective date of the merger is to be January 1st, 1940, as suggested. Further, a limited period of thirty to sixty days should be set for the accomplishing of the change over from the present system to the functional division of authority and responsibility, as contemplated in the new organization. Construction work in process, should be continued by the Ministry or Foo Shing as the case may be, until the unfinished projects are completed. The completed projects even though coming into C.T.C. at a later date, to be included in the appraisal at cost.

In view of present uncertainties and the probable cost of transferring employees, we concur in the suggestion that, Chungking be considered as headquarters of C.T.C. for the present at least. As developments warrant, we suggest that consideration be given to a more central location.

While available stocks of fuel and spare parts of both Foo Shing and the Ministry will probably carry C.T.C. through its first month, the matter of assuring adequate fuel and material and supplies is of extreme importance. This problem is definitely tied in with the allotment of tonnage on the French Indo-China Railway, and we understand it is your intent to go into these matters more fully at an early date.

(signed) M. E. Sheahan

Chungking

Dec. 22, 1939

AGREEMENT, entered into in triplicate the.....day of.....  
between the Ministry of Communications of the National Government of  
the Republic of China, (hereinafter called "Communications",) and the  
China Transport Corporation, a Chinese Corporation, (hereinafter called  
the "Transport Corporation")

WITNESSETH THAT

WHEREAS, the Transport Corporation is desirous of acquiring from  
Communications, the properties of Communications, used in conducting  
transportation, and consisting of, a fleet of automotive equipment,  
leaseholds, land and buildings and appurtenances thereto belonging,  
together with machinery and tools, and all materials and supplies  
presently on hand or under order to be used in connection with the  
operation of the properties; a descriptive list and agreed values of  
which is attached hereto and identified as Exhibit "A", and

WHEREAS, Communications represents and by these presents, confirms  
its ownership in fee simple of the properties included in Exhibit "A",  
and

WHEREAS, in furtherance of a general plan to aid the National Government  
of the Republic of China, in having the benefit of a more economical  
conduct of transportation, and in order that necessary and essential  
exports to foreign nations may be made beyond the present capacity of  
Communications, and for the general welfare of the Nation, Communica-  
tions agrees to turn over to the Transport Corporation, all of its  
properties enumerated in Exhibit "A" hereof, and

WHEREAS, the values of the properties set forth in Exhibit "A" are  
agreed to between the parties as correctly representing the value  
thereof, and

WHEREAS, it is the desire of the parties, that the Transport Corpora-  
tion shall operate the properties enumerated in Exhibit "A", amongst  
others, maintaining such properties in good mechanical repair,  
ordinary wear and tear excepted, now

THEREFORE, First, as a condition of such transfer of properties by Communications to the Transport Corporation, Communications reserves the right, within sixty (60) days from due notice given the Transport Corporation, so to do, to withdraw from this arrangement by returning the Capital Stock issued as herein contemplated, or such portion thereof as represents the values of properties withdrawn, more clearly identifiable as set forth in Exhibit "A" hereof, ordinary wear and tear excepted; provided further that, should any dispute arise between the parties with respect to such withdrawal or, in connection with any action under any part of this Agreement, such dispute shall be referred to an Arbitration Committee, comprised of five members, two of which members shall be selected by Communications, and two by the Transport Corporation, the fifth member to be selected by the four members so selected. In the event that, the four members, so selected are unable to decide upon the fifth member, such fifth member shall be selected by the President of the Executive Yuan of the National Government of the Republic of China. The decision of the Arbitration Committee shall be final and binding upon the Parties hereto;

Second, Communications agrees to utilize the facilities of the Transport Corporation, for the transportation of its own or controlled cargo's;

Third, as payment in full to Communications by the Transport Corporation, for the properties enumerated in Exhibit "A", the Transport Corporation shall issue shares of its Capital Stock to Communications, of a value equivalent to the agreed value of the property as set forth in Exhibit "A" hereof, provided further, that the issuance of shares of Capital Stock of the Transport Corporation, to other parties shall be on a similar agreed, or replacement value, or fair marketable basis, for property and cash essential to the satisfactory and economical conduct of transportation by the Transport Corporation;

Fourth, upon receipt of such Capital Stock, of the Transport Corporation, issued to Communications, as herein contemplated, Communications shall by a separate instrument, transfer and convey unto the Transport Corporation, all its rights, titles, and interest in the property so transferred, and as set forth in Exhibit "A" hereof;

Fifth, in pursuance of Article 2, of the Articles of Incorporation, Communications agrees that the Transport Corporation, in recognition of public convenience and necessity shall have the right to operate its vehicles or service via the highways, roadways, paths, via air, rail or water, throughout the whole of the Republic of China, unless and until by Legislative action or manifesto by the National Government of the Republic of China, such right to operate shall be otherwise restricted,

IN WITNESS WHEREOF, the parties hereto have caused these presents to be executed by their duly authorized representatives in the City of Chungking, Province of Szechwan, in the Republic of China, as of the.....day of.....19.....

Attest

\_\_\_\_\_  
Secretary

Seal

\_\_\_\_\_  
Ministry of Communications of  
the National Government of the  
Republic of China

\_\_\_\_\_  
Secretary

Seal

\_\_\_\_\_  
China Transport Corporation

Chungking

Dec. 15, 1939

AGREEMENT, entered into in triplicate the.....day of.....  
 .....between Foo Shing Trading Corporation, a Chinese  
 Corporation (hereinafter called "Foo Shing") and the China Transport  
 Corporation, a Chinese Corporation (hereinafter called the "Transport  
 Corporation")

WITNESSETH THAT

WHEREAS, Foo Shing has entered into an Agreement (hereinafter called  
 the "Universal--FooShing Contract") with the Universal Trading  
 Corporation, a New York Corporation, Articles 9 and 10 of which  
 Agreement is pertinent and is attached hereto, marked "Exhibit A"  
 and made a part hereof, providing amongst other things, for the  
 acquisition, replacement, continuous operation and maintenance in  
 good working order and condition of a fleet of not less than One  
 Thousand (1,000) American motor trucks capable of carrying a payload  
 of not less than two-and-half ( $2\frac{1}{2}$ ) tons each, and use such fleet  
 continuously and exclusively for transportation of wood oil purchased  
 and sold pursuant to the Universal--Foo Shing Contract, from the  
 interior of China to railheads or shipping ports for export; and  
 WHEREAS, in furtherance of a general plan to aid the National  
 Government of the Republic of China, in having the benefit of a more  
 economical conduct of transportation, and in furtherance of the  
 Government's foreign trade, and for the general welfare of the  
 Nation, the Transport Corporation undertakes to supply the transpor-  
 tation needs of Foo Shing, amongst others; and  
 WHEREAS, Foo Shing has heretofore entered into an agreement with the  
 Transport Corporation, embracing the operation by the Transport  
 Corporation, of automotive and other equipment; and  
 WHEREAS, Foo Shing is obligated by that certain agreement, articles  
 9 and 10, of which, is concerned herewith, and marked "Exhibit A",  
 hereof; and

WHEREAS, it is the desire of the Parties hereto, and mutually agreed between them, that the obligation of Foo Shing to the Universal Trading Corporation, as set forth in the Universal--Foo Shing Contract and particularly Articles 9 and 10 thereof, included in "Exhibit A" attached hereto, be assumed and guaranteed by the Transport Corporation;  
now

THEREFORE, the Transport Corporation represents and agrees to guarantee to Foo Shing, that, it will at all times make available for the transportation requirements of Foo Shing, including, the transportation of wood oil purchased and sold pursuant to the Universal-Foo Shing Contract, and at all reasonable times, and at such points, and over such routes, as can be traversed with reasonable safety, and when notified sufficiently in advance to permit the economical adjustment of the balance of its traffic, trucks, (including in the term "trucks", truck-tractors and semi-trailers, or truck-tractors and full trailers, or any combination thereof,) of an equivalent capacity to the one thousand (1,000) two and one half ( $2\frac{1}{2}$ ) ton capacity truck commitment of Foo Shing, as set forth in "Exhibit A" attached, and the Transport Corporation further agrees, to at all times own and operate a minimum of one thousand (1,000) trucks of American Manufacture, and of a minimum of two and one half ( $2\frac{1}{2}$ ) tons capacity each.

This Agreement shall become effective on the date of its execution, and shall remain in effect until December 31, 1943, and shall continue thereafter until Foo Shing and the Universal Trading Corporation shall have discharged their obligation under the Universal-Foo Shing Contract, an excerpt of which is included in "Exhibit A" attached.

IN WITNESS WHEREOF, the Parties hereto have caused these presents to be executed by their duly authorized representatives, in the City of

Chungking, Province of Szechwan, in the Republic of China, as of  
the.....day of.....19..

Attest

\_\_\_\_\_  
Secretary

Seal \_\_\_\_\_  
Foo Shing Trading Corporation

\_\_\_\_\_  
Secretary

Seal \_\_\_\_\_  
China Transport Corporation

Chungking

Dec. 15, 1939

Exhibit A9. INLAND TRANSPORTATION REPRESENTATIONS.

As an inducement to the Buyer to make arrangements for financing the purchases to be made for the account of the Seller as provided in this Contract, and as a condition of this Contract, the Seller represents to and agrees with the Buyer that it will:

- (a) Forthwith acquire by purchase in the United States through the Buyer as its purchasing agent,
- (b) From time to time replace and
- (c) At all times during the terms of this Contract maintain at the Seller's expense, in good working order and condition, a fleet of not less than one thousand (1000) American motor trucks capable of carrying a pay load of not less than two and one half (2½) tons each and use such fleet continuously and exclusively for Transportation of wood oil purchased and sold pursuant to this Contract from the interior of China to railheads or shipping ports for export.

The above Agreement with respect to the exclusive use of motor trucks shall not be deemed to limit the use of such trucks on return trips from railheads or shipping ports for such transportation as Seller may elect provided that such use does not cause a substantial deviation from the direct route of or cause substantial delay in effecting such return trip.

10. TERM OF CONTRACT.

The term of this Contract shall be for a period of five (5) years from January 1, 1939 to December 31, 1943, and shall continue thereafter until the Buyer and the Seller shall have satisfied and discharged their obligations hereunder.

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AGREEMENT, entered into in triplicate the.....day of.....  
between Foo Shing Trading Corporation, a Chinese Corporation, (herein-  
after called "Foo Shing",) and the China Transport Corporation, a  
Chinese Corporation, (hereinafter called the "Transport Corporation")

WITNESSETH THAT

WHEREAS, the Transport Corporation is desirous of acquiring from  
Foo Shing, the properties of Foo Shing, used in conducting transpor-  
tation, and consisting of, a fleet of automotive equipment, leaseholds,  
land and buildings and appurtenances thereto belonging, together with  
machinery and tools, and all materials and supplies presently on  
hand or under order to be used in connection with the operation of  
the properties; a descriptive list and agreed values of which, is  
attached hereto and identified as Exhibit "A", and

WHEREAS, Foo Shing represents and by these presents, confirms the  
ownership in fee simple of the properties included in Exhibit "A",  
and

WHEREAS, in furtherance of a general plan to aid the National  
Government of the Republic of China, in having the benefit of a  
more economical conduct of transportation, and in order that necessary  
and essential exports to foreign nations may be made beyond the  
present capacity of Foo Shing, and for the general welfare of the  
Nation, Foo Shing agrees to turn over to the Transport Corporation,  
all of its properties enumerated in Exhibit "A" hereof, and

WHEREAS, the values of the properties set forth in Exhibit "A" are  
agreed to between the parties as correctly representing the value  
thereof, and

WHEREAS, it is the desire of the parties, that the Transport  
Corporation shall operate the properties enumerated in Exhibit "A",  
amongst others, maintaining such properties in good mechanical  
repair, ordinary wear and tear excepted, now

THEREFORE, First, as a condition of such transfer of properties by Foo Shing to the Transport Corporation, Foo Shing reserves the right within sixty (60) days from due notice given the Transport Corporation, so to do, to withdraw from this arrangement by returning the Capital Stock issued as herein contemplated, or such portion thereof as represents the values of properties withdrawn, more clearly identifiable as set forth in Exhibit "A" hereof, ordinary wear and tear excepted; provided further that, should any dispute arise between the parties with respect to such withdrawal or, in connection with any action under any part of this Agreement, such dispute shall be referred to an Arbitration Committee, comprised of five members, two of which members shall be selected by Foo Shing, and two by the Transport Corporation, the fifth member to be selected by the four members so selected. In the event that, the four members so selected, are unable to decide upon the fifth member, such fifth member shall be selected by the President of the Executive Yuan of the National Government of the Republic of China. The decision of the Arbitration Committee shall be final and binding upon the Parties hereto;

Second, Foo Shing agrees to utilize the facilities of the Transport Corporation, for the transportation of its own or controlled cargoes;

Third, as payment in full to Foo Shing by the Transport Corporation, for the properties enumerated in Exhibit "A", the Transport Corporation shall issue shares of its Capital Stock to Foo Shing, of a value equivalent to the agreed value of the property as set forth in Exhibit "A" hereof, provided further, that the issuance of shares of Capital Stock of the Transport Corporation, to other parties shall be on a similar agreed, or replacement value, or fair marketable basis, for property and cash essential to the satisfactory and economical conduct of transportation by the Transport Corporation;

