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for private address

1/26/40

1

A DAY WITH THE SECRETARY OF THE TREASURY

At 6:30 in the morning my newspapers are delivered and I read them until 7:15, when I have breakfast. I leave the house at 8:15. Sometimes I walk, sometimes I ride down to the office.

My usual procedure is to see Merle Cochran, head of the Stabilization Fund, and find out what has been going on in Europe as 9 o'clock Washington time is 2 o'clock in Europe and for that reason I get a pretty good report of what has been going on in the various financial circles.

My regular day is always subject to call from the President and when that happens I have to adjust my day to that. Any schedule I make for myself is always subject to change depending upon when the President wants to see me.

At 9:30 every morning I have the Treasury staff in. I first ask Mr. Bell, the Under-Secretary, what he has. Sometimes it will be financing for the Treasury or one of the independent agencies, such as T. V. A., U. S. Housing, or Commodity Credit, who may wish to borrow money. All of

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these agencies clear their borrowings through the Treasury to make sure that there is no conflict, also that they are borrowing their money at the best rates obtainable. Or Mr. Bell may have some matter pertaining to the Comptroller of the Currency, some banking matter, some matter referring to the F.D.I.C. that may be wanting attention.

As I go around from person to person, any accumulation of work that I have from the previous day, I use this opportunity to assign it to the particular one to take care of.

Mr. Gaston comes next and has charge of Coast Guard, Secret Service and Narcotics. These agencies always have something exciting, whether it is a shipment of narcotics that we have learned about out of Marseilles or en route from the Far East.

Next is Mr. Sullivan, who has Internal Revenue. Needless to say, that covers a very wide front. It may be a state-wide investigation of graft where they failed to report it in their income tax or it may be a closing agreement with some contractor who is doing business with the War or Navy Departments under the Vinson-Trammell Act.

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Mr. Foley, the General Counsel, who has 440 lawyers. I believe that is more lawyers than there are in any other organization in the Government, even larger than the Department of Justice. Needless to say, with 440 lawyers there is plenty of trouble. It may be a case that we have pending before the Supreme Court, the Board of Tax Appeals or some important refund matter.

Next comes Mr. Norman Thompson, my Administrative Assistant, who also is Chairman of the Treasury's own Budget Committee, which means that he is responsible for the Treasury's own budget and seeing that after legislation on the Hill for our own Budget. I was surprised myself to learn, only this week, that we have over 73,000 employees in the Treasury which is in itself a job to look after. I have a rule that if any employee feels that he is being unfairly treated, he can always see me. These are often very difficult cases and take a great deal of time. Last summer when we put in a new electrical cleaning machine in the Treasury, it took months before the men who had formerly scrubbed the floors by hand could be satisfied that the machine was not driving them too hard. It was the machine that set the pace. Mr. Thompson

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see that every important new employee gets a very careful investigation as to his character and habits. In this way we keep the standard of Treasury personnel at a very high level, and also have reasonable excuses why we should not take a lot of political "hacks".

Mr. Merle Cochran, who manages the Stabilization Fund, may report on a shipment of gold or silver or some foreign exchange matter anywhere on the circumference of the world. Over his desk and to me flows a continuous stream of information as to the exchange situation of the countries. He receives all the cables from the State Department which are sent to me from the various Embassies and Legations and Consultates.

Next comes Dr. Harry White, who is in charge of the Monetary Research Division. Dr. White may be occupied in helping to draw up a new charter for a bank for North and South America or he may be working on imports and exports of a particular country. ETC., ETC.

George Haas is responsible for not only the estimates that the Treasury makes as to revenue as far in advance as 18 months, but also gives me a weekly report as to business conditions and some of the 38 more important

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companies, each one in a separate business, gives him for me in confidence their weekly orders for new business. This is one of the best methods that I have of keeping in touch with business conditions. No one sees these reports except the President.

Joe Cotton, besides being Director on the Export-Import Bank for the Treasury and in that way is interested in loans to various countries such as Finland, Norway, Sweden and China, also assists on matters pertaining particularly to South America.

Mr. Basil Harris, who is Commissioner of Customs, not only has some 10,000 employees under him in Customs, but is responsible for the patrolling of our borders and there is always some difficult case, whether it happens to be the responsible wife of a Judge who insists on smuggling or whether it is deciding whether a ship has proper clearance papers to set sail for any port in the world.

Mr. Harold Graves, who at present looks after the Procurement Division which, last year, spent several hundred millions of dollars in Government purchases, also looks after the Bureau of Engraving and Printing, where we manu-

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facture the paper money and print the stamps and Government bonds. He also looks after the Bureau of the Mint which manufactures all the coin of the realm. Last year he finished the decentralization of Internal Revenue. He's my trouble shooter.

There isn't a day passes that we don't have some particularly interesting case which takes a lot of time, sometimes a great deal more than would seem necessary, but, for example, last December we announced that anybody going to Tia Juana, Mexico, would have to stay over there 24 hours if he wanted to bring back \$100.00 worth of merchandise free. Twenty out of twenty-two Congressmen in California protested that this would hurt their tourist trade as less people would come to California if they felt they could not buy in Tia Juana. Upon investigation we found that there was one store controlled by one man who, due to the fact that Tia Juana is a free port, brought in lots of English merchandise and was able to sell it very, very much below the price that any American merchant could sell. This was unfair competition to our American laboring people and merchants. Since we put this rule in, the business in San Diego has gone ahead by leaps and bounds. Naturally, with so many of the Congressmen in California

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protesting, we wanted to make doubly sure that we were right and now that the order is in everybody seems satisfied.

Other cases that come up at times are whether a vase from Ecuador to a museum in New York is a work of art or simply obscene. We think we have very able people who pass on not only works of art, but books as we have to act as censor on all books that come in from Europe and, where before, an ignorant inspector would pass on a book or a painting, we now have the best equipped people in the United States passing on subjects of that nature.

In order not to make the same mistake that was made during the World War, any closing agreement that is made between ^amunitions maker and the Government we publicize the agreement and, therefore, if anybody should have any criticism they will have full knowledge of how the Treasury is handling these matters before we close so many contracts that we may be doing something not in the public interest.

During the last six years we have established in the minds of the public a number of things. First, as the principal tax collector we tried at all times to be

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fair. Unfortunately I cannot say that the taxpayer is always fair with us. We have impressed upon the taxpayer that he can always get a hearing himself and right in his own District due to our decentralization of the Internal Revenue, but there is no back door to the Treasury. No tax cases can be settled privately or secretly and the instructions that I gave the first week I was in the Treasury to all investigating agencies in the Treasury were to "let the chips fall where they may" and this policy has been carried out irrespective of how influential the man or woman may be or how much political influence he may have.

One of the most interesting and last cases I handled before the Public Health Service was transferred out of the Treasury was the case for the Chinese Government. The Export-Import Bank has loaned the Chinese Government \$25,000,000 to be repaid out of shipments of tung oil to this country. Last summer it was brought to my attention that the Rangoon-Burma Road where it entered China was a district where for centuries the people had suffered from a so-called fever. Our interest was to see that this tung oil could go out. Therefore, it was to our selfish interest to assist the Chinese to overcome this disease. After a great deal of difficulty I was able to get Public

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Health to send three experts to China. They have been there a short time and they have found conditions so primitive that it is unbelievable. They have also quickly diagnosed what the fever was, which is malignant malaria, and it is simply a question of applying modern Public Health sanitary methods to this situation to have them this disease under control. This simply illustrates the many complicated sort of economic affairs one gets into every day.

After our morning meeting, which we try to keep to half an hour, we then have various appointments. I always promise Mrs. Klets that I will do my mail and always find a good excuse why I don't and sometimes a day passes when I don't get an opportunity to see my mail at all.

Mondays I always lunch with the President and Friday is Cabinet day and then there are always special meetings at the White House. But with the exception of when I walk across the street to the White House, I never leave the Treasury from one day to the other and, unfortunately, I have followed this rule for six years.

The reports that I get are so voluminous and so many that I very seldom get a chance to read them during the day, which means I have to do my homework after supper.

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Besides the regular Treasury staff, I have followed the custom of calling in experts from the outside and when we have any difficult problem we often take weeks to study the problem, such as the creation of a North and South American Bank, and we will call in many people to advise me. I have found during the last six years that I get the best advice from university people as their pocketbook is not directly affected. Needless to say, an outsider always brings a fresh viewpoint.

So you see that by being Secretary of the Treasury is not the job that most people think it is, namely, that I simply am an unpleasant person who collects taxes and who sells you a lot of Government bonds. The work of the Treasury not only in one way or another is in contact with every business in the United States, but also in some way or other is in contact with practically every household. For example, before the Department of Agriculture put into effect the so-called food ticket plan we worked on it for months on the question of procedure and the whole procedure was worked out in the Treasury. We are now assisting them on procedure as to how to sell cotton goods through tickets.

January 26, 1940

(Dictated January 27th)

At lunch yesterday Mr. Farley said that he thought Roosevelt would make a great mistake if he were to run for a third term, because he was going to end his second term as the most popular President since Lincoln; that if we had peace in the world we would have all kinds of economic troubles in this country and that Roosevelt would not be able to solve them, such as unemployment, etc., and that people would quickly forget all of the good things he did during his first and second terms. (I think that this comment of Farley's is shrewd and correct.)

He volunteered that in his opinion Mr. Hull could be elected provided -- and he laid great stress on this -- Roosevelt would give him his wholehearted support. He said unless he got Roosevelt's wholehearted support he could not get elected.

Farley then went on to tell me a long involved story how back in 1933 he tried to get his brother the Job of United States Marshal and that Roosevelt promised it to him and that then Roosevelt had MacIntyre send Frank Walker over to see Farley and tell him that Roosevelt thought it was a mistake to appoint this man because he was his brother. (I think Roosevelt was right.) Since 1933 to date this position has never been filled except by an Acting United States Marshal and it evidently is a source of great rancor with Farley.

For the first time that I have seen Farley he showed considerable bitterness towards Roosevelt.

He told me that last July before he, Farley, sailed for Europe, Roosevelt told him that at the first primary he would definitely indicate that he was not going to run and Farley said, "Unless Roosevelt tells me differently, there is no reason for me to believe that he has changed his mind." Farley said, "After all, there was a Democratic party before Roosevelt was President and there will be one after he is out and in fairness to the Party he ought to declare himself."

HSM

PLAIN

London

Dated January 26, 1940

Rec'd 1:40 p. m.

Secretary of State,
Washington.

241, January 26, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

A big expansion in deposits to a new high record and a sweeping increase in money market assets are the leading features of the 1939 balance-sheets of the "big five" banks, i. e. National Provincial, Lloyds, Westminster, Barclays and Midland, completed yesterday by the issue of Lloyds report.

Total deposits for the five banks were £2,094,100,000 compared with £1,950,100,000 at end 1938 and with the previous peak figure of £2,030,100,000 for 1937. The increase on the year thus amounted to £144,000,000 or 7.4 percent which was the largest increase in any one year since 1932.

Very high deposit levels were reached during the inflation which immediately followed the last war but although comparison with that period is complicated by subsequent bank amalgamations it is probable that the present figure surpasses the peak of the 1919-20 inflation.

The

hsm -2- No. 241, January 26, 6 p. m., from London

The rise is of course wholly attributable to the war for in the first half of the year (as in the last nine months of 1938) the trend of deposits was steadily downwards in consequence of the efflux of foreign balances from London. Compared with their end-June position the "big five" deposits showed a rise of no less than £157,000,000 and the increase over the nine months from March was greater still. The abrupt reversal of the earlier trend was entirely due to the fact that the great increase in the budget deficit occasioned by war expenditure has so far been very largely financed by issues of Treasury bills. In consequence the counterpart of the rise in deposits is to be found chiefly in the banks' money market assets--in their portfolios of bills (chiefly Treasury bills) and in call money which is largely secured on bills. In this respect the balance-sheet comparison is the very opposite of that of a year ago: Then a sharp fall in deposits found its counterpart in an equally sharp contraction of money market assets--the outflow of deposits has resulted in an outflow of gold so that the exchange account had been steadily redeeming the tender Treasury bills by which the gold had been financed.

Over the year aggregate "big five" bill portfolios rose from £217,200,000 to £308,900,000 which was easily
their

ham -3- No. 241, January 26, 6 p. m., from London
their largest figure since 1932. Call money rose from
£120,700,000 to £138,600,000. Thus in the two money
market items together there was an increase of no less
than £109,800,000 or 76 per cent of the increase in
deposits.

Advances despite a steep rise in the first two
months of the war (in October they almost reached the
1929 record level) were only slightly higher on the year.
For the "big five" the aggregate was £859,400,000 or only
£14,700,000 (1.7 percent) more than at end 1938. However
the figure is the best since 1929 with its record total
of £877,700,000.

Investments are the only item which was lower on
the year. The aggregate was £500,100,000 which compares
with £519,300,000 at end 1938 and with the all-time record
of £552,700,000 at end-1936. To some extent this decline
reflected writing-down of book values but it also resulted
from the general tendency through the year to lighten
investment portfolios.

The outcome of these various changes is necessarily
a position of abnormal liquidity. Cash has not quite
kept pace with the growth of deposits (the aggregate
increase was £14,700,000) so that the cash ratio is
fractionally lower; but the ratio of liquid assets as
a whole has risen very steeply. Thus the ratio of cash

plus

hsm -4- No. 241, January 26, 6 p. m., from London

plus money market assets was 32.6 per cent against 28.6 per cent; while including balances in course of collection (these have been swollen by the extra time taken for clearing, now that the clearing house is in the provinces) the liquid ratio was almost 37 per cent compared with 32.2 per cent a year ago.

Naturally these aggregate figures conceal some noteworthy divergencies in experience as between individual banks but in the major movements--in deposits and money market assets--there has been a much higher degree of uniformity than usual.

In connection with the above the following excerpt from the speech of Edwin Fisher, the Chairman of Barclays Bank, made at its annual meeting may be of interest: "It would be unsound for Government war expenditure to continue indefinitely to be financed by increasing the floating debt through the issue of Treasury bills. Ultimately the money borrowed for the war must be obtained mainly from the savings of the people if we are to avoid the evils of inflation. The demands of the Government for borrowed money are however likely to be so large that it will assist the raising of the necessary funds if some of the increased Government expenditure is first allowed to permeate the economic system and thus influence the volume of savings prior to the actual issue of loans to the public.

The

hsm -5- No. 241, January 26, 6 p. m., from London

The financing of the war therefore will be facilitated by a resort to borrowing in the money market in the first place and subsequent appeals to the public for subscriptions to the issue of longer term securities which must follow in due course."

JOHNSON

HPD

TO THE DIRECTOR
FEB 1 1917
RECEIVED

Note:

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A copy of this has been turned over
Mr. Cochran.

MCH

January 26, 1940
11:11 a.m.

H.M.Jr: Hello

Operator: I'm ready with Mr. Matthews.

H.M.Jr: Hello

Operator: Go ahead.

H.M.Jr: Hello.

Matthews: Good afternoon, Mr. Secretary.

H.M.Jr: Hello Mr. Matthews. I'm calling you because I understand Mr. Bullitt is not there.

M: He's not in the Embassy at the moment, no sir.

H.M.Jr: Well I've got your No. 123 before me.....

M: Yes sir.

H.M.Jr:and I'm going to ask you whether you won't please stop sending me that sort of material.

M: Yes sir.

H.M.Jr: I don't expect you to do it as the Treasury representative.....

M: Yes sir.

H.M.Jr:and if you want to do that, as part of your State Department work, and direct it to Mr. Hull why, of course, that's up to you.....

M: Yes sir.

H.M.Jr:but there's nothing that I can do; they've got Mr. Purvis and Mr. Bloch*Laine here and that's their job and its not my job.

M: Yes indeed.

H.M.Jr: And putting this in a cable I think is - well its unfortunate to say the least.

M: Yes sir.

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H.M.Jr: And this constant stuff that you send me on...

M: What is that?

H.M.Jr: This constant material that you send me on non-Treasury matters...

M: Yes, sir.

H.M.Jr: ...is proving very embarrassing to me.

M: All right, sir.

H.M.Jr: And, as I say, if you want to send that, or Mr. Bullitt wants to send that to Mr. Hull, of course that's entirely up to him.

M: Yes, sir.

H.M.Jr: But, I don't know why they have Mr. Purvis and Mr. Bloch-Laine over here, ^{if} ~~yet~~ they don't want to use them.

M: I presume it's just lack of coordination, sir.

H.M.Jr: But I don't want to be used and I don't want to pay for the cables and I'm going to ask you if - on Treas--- whatever you're doing in the in--- for the Treasury, please not to do it any more.

M: Yes, sir. I shall follow that exactly, sir.

H.M.Jr: As I say, it's - it's - I can't do anything and it's very embarrassing to me.

M: Yes, sir. All right, sir, there'll be no more then.

H.M.Jr: Thank you.

M: That's all, sir.

H.M.Jr: Thank you.

M: Anything else?

H.M.Jr: No, ah -

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M: Any variety of information which you would like which I haven't sent?

H.M.Jr: No, if you just would stick to financial matters...

M: Yes, sir.

H.M.Jr: And - it's much easier.

M: Very good, sir. And it would be easier for me too, sir. (Laughingly)

H.M.Jr: All right.

M: All right, Mr. Secretary.

H.M.Jr: Thank you.

M: Not at all, sir. Goodbye.

H.M.Jr: Goodbye.



THE UNDER SECRETARY OF COMMERCE
WASHINGTON

January 26, 1940.

My dear Mr. Secretary:

Inasmuch as I will not be at the Cabinet Meeting this afternoon I am jotting down my thoughts on the subject of the employment of intermediaries by industries wishing to sell to British-French Purchasing Missions.

1. We have no facilities for checking on the rumored activities of certain persons in this field, except through our Industrial Divisions. We hesitate to make a widespread inquiry in this way, due to the past close association between the Chiefs of some of these Divisions and the persons in question.

Is it not possible that the Treasury, through some of its investigators, could handle this better than we?

2. Both the British and French Missions have stated to our New York office that they are interested only in negotiating with original sources of supply, and that one of their cardinal rules is not to deal with intermediaries. They stated early this month that consideration was being given to inserting clauses in purchase contracts that the supplier had paid no fees to an intermediary in connection with the contract between the Mission and the supplier.

3. On January 24, the New York Times carried the attached story showing that the Missions have unified their activities, and affirming their joint policy with regard to intermediaries as above.

4. Our information through New York is that representatives of the Missions are meeting once a week in Washington with Captain Collins of the Procurement Division of the Treasury, reporting all that they have purchased and what they intend to purchase.

5. The only actual information we have as to activities of persons attempting to serve as intermediaries comes from Chicago and Detroit, where two ex-Navy enlisted men have been representing themselves as having special connections for securing orders from the buying Missions.

Page 2,
Honorable Henry Morgenthau, Jr.,
January 26, 1940.

6. In view of our information concerning the activities of the above-mentioned persons, it is conceivable that we might be justified in making a statement quoting the information given us direct by the buying Missions as to their policies. In view of the New York Times statement herewith, direct by the joint Missions, we question whether such a statement from us is called for. We are also frankly hesitant about making any statement which would imply our official assurance that such a buying policy will be strictly adhered to. We are not by any means sure in our own minds that an individual who, for instance, is known to have close personal relations with French Government representatives in this country would not have opportunities to influence purchases.

7. It would appear to be entirely impracticable to make a statement suggesting to American business men that they approach these Commissions through us, as all we could do would be to tell them what the stated policy of the Missions is.

8. If for any reason it is desirable to give more publicity emphasis to this matter, we suggest that it be done by inspiring a reliable newspaper man to explore the different angles of the subject; and in the process of doing this, ask the Under Secretary of Commerce for a statement of our information on, and understanding of, the procedure of these buying Missions.

9. The Department of Commerce has a very special interest in any allegations that ex-officers of the Government may be taking advantage of their political connections to procure concessions from American manufacturers. It is even more concerned about the possibility that American manufacturers may be induced to enter into binding contracts that they will, unnecessarily, pay commissions on sales they may make to the British and French missions. Such contracts might result in a general enhancement of prices on foreign sales that would react unfavorably on our domestic price situation.

Perhaps the best solution of the problem is to urge the foreign Missions to adopt and to give wide publicity to a specific policy in this matter. Provision could also be made that in the event the seller does pay any fee, whether for sales, legal, engineering, or other outside services of any kind, that disclosure be made in the contract, and for any violation thereof the Foreign Mission shall have the right to cancel the contract and in addition certain penalties might be assessed against the seller.

Page 3,
Honorable Henry Morgenthau, Jr.,
January 26, 1940.

If you wish me to come over to your office after the Cabinet Meeting to discuss the situation further I will be very glad to do so. I am leaving town this evening and will not be back until late Tuesday afternoon or Wednesday morning.

Very sincerely yours,



Edward J. Noble,
Under Secretary of Commerce.

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

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24

ALLIES FORM BOARD OF PURCHASE HERE

British and French Groups Join
as Single Unit—Seek to Avoid
Conflict With U. S. Economy

DIRECT DEALS INDICATED

Brokers and Agents Will Have
No Part in Huge Program for
Buying War Supplies

Unification of the British and French commissions for buying war supplies in the United States was consummated officially yesterday afternoon. Formation of the Anglo-French Purchasing Board was announced, joint headquarters was established at 15 Broad Street, near Wall Street, and a statement of general policy was issued which stressed an obligation to avoid conflicts with the economy of the United States and its defense program.

Allied cooperation was demonstrated even in the method adopted to publicize the new purchasing board. This was an interview in which Arthur B. Purvis, head of the British Purchasing Commission, and J. Frederick Bloch-Laine, head of the French Purchasing Commission, sat side by side to answer questions, although Mr. Purvis did most of the talking.

Buying Will Be Direct

The statement also emphasized that purchases of war materials, which are expected to involve huge quantities and many millions of dollars, would be made direct from manufacturers, and not through any intermediaries, brokers or agents. The National Association of Manufacturers has been so advised. Mr. Purvis promised to "spread the buying as far over the country as possible."

Mr. Purvis, a Yondon-born Canadian industrialist who has spent many years on the American continent, is chairman of the coordinating board. He acquired experience in his present work in 1914, when, as Britain's first purchaser to reach the United States, he made up a shortage of acetone for high explosives with a quick deal for \$25,000,000.

The vice chairman is Mr. Bloch-Laine, who is connected with the international banking house of Lazard Freres & Co. He arrived here on Nov. 3.

The completed list of the board personnel follows:

Frederick Johnson, vice president of the Bell Telephone Company of Canada, director of administration, British commission; Eugens Gentil, assistant to the director general, French commission; Edgar S. Bloom, president of the Western Electric Company, director of purchasing, British commission; Colonel Jean Francois de Curieres de Castelnaud, director of armaments mission, French commission; Sir Ashley Sparks, resident director of the Cunard Line, representative in the United States of the British Ministry of Shipping; Air Vice Marshal H. M. Cave-Brown-Cave, representative of the British Air Ministry, and Lieut. Col. Paul Jacquin, director of aviation mission, French commission; Henri de Lignaya, director of shipping, French commission.

Offices Here and in Capital

The secretary-general of the board is G. Miller Hyde of Montreal, and the secretary is André Forget, also of Montreal. Mr. Hyde will be located in a Washington office of the board at 725 Fifteenth Street, N. W., but Mr. Forget will remain in this city.

The French commission is established in the Broad Street office and the British agency expects to move in by Monday from its present office at 25 Broadway. Numbering about ninety persons, the staff of the British commission includes about forty-five Americans who are experts on American industrial organization. Preponderantly composed of Frenchmen, the French agency aggregates 170 or 175 technical experts.

Mr. Purvis said the missions would expand considerably, reminding more than a score of newspaper men who attended the interview that by the end of the World War the Allies had thousands on their inspection staff here, many of whom were Americans.

Mr. Purvis estimated that the British commission had spent \$80,000,000 to \$90,000,000 here for war supplies since repeal of the embargo on arms. Before the ban was lifted, he said, there had been indirect buying of materials.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Mexico

DATE: January 26, 1940, 7 p.m.

NO.: 23

CONFIDENTIAL.

Without prior knowledge of the telephone conversation of January 25 with Mr. Boal, Secretary Morgenthau has asked that we try to get information with regard to freight shipments made to Vladivostok from or by way of Manzanillo. The Secretary states that recently five ships sailed from the port of New York carrying cargo destined for Russia via Vladivostok. A sixth vessel is now loading cargo.

A report has been received that at Manzanillo the Russian cargo of four of these vessels will be transhipped.

A list of the ships is as follows, with the dates of sailing and destinations of the vessels -

The American vessel, SS AMERICAN ROBIN which left New York for Vladivostok on the third of January.

The Norwegian vessel M. S. GAUSDAL which left New York for Vladivostok via Los Angeles on the twenty-third of December; for bunkers only.

The American vessel SS HARPOON which left New York for Manzanillo on the twentieth of January; for transshipment.

The American vessel SS GUAYAQUIL which left New York for Manzanillo on the twenty-eighth of December; for transshipment.

The

- 2 -

The Italian vessel SS PIETRO ORSEOLO which is loading at present, destined for Manzanillo; for transshipment.

The American vessel SS BUENAVENTURA which left New York on the fourth of January for Manzanillo; for transshipment.

You are requested to make a full telegraphic report on this matter.

HULL
(FL)

EA:HF

EA:LWW

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

January 29, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information a copy of paraphrase of telegram No. 23 of January 26 to the American Embassy, Mexico.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE
11 01 PM 29 JAN 1940
RECEIVED

HF

REB

GRAY

The Hague

Dated January 26, 1940

Rec'd 3 p. m.

Secretary of State,
Washington.

30, January 26, 3 p. m.

The Government has introduced into the Second Chamber a bill to establish a loan fund (see Commercial Attache's special report No. 29, October 3, 1939, page 6). In addition to the two credits of 100,000,000 florins each mentioned in that report, 116,000,000 florins from gold stock revaluation will be allocated to the fund (see Legation's telegram No. 29, January 25, 4 p. m.), as well as the proceeds of special taxes to be specified in a bill soon to be introduced and direct Treasury contributions as determined by the national budgets.

Detailed report by the next pouch.

BENTON

RR

29

pls file

1-26-40.

30

BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

1/26/40

From DIRECTOR

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

For

The attached notes on Economic Developments,
dated January 25, 1940, are sent to you
at the request of Mr. Noble, Under Secretary
of Commerce.

James W. Young

James W. Young
Director

ECONOMIC DEVELOPMENTS

INDUSTRIAL PRODUCTION has been on a slight downgrade thus far in January. This continued the decline in the volume of operation that was perceptible in December but, perhaps, at a somewhat increased rate. The difference between the two months, however, is this: December's decline was much less than usual seasonal; January's is against customary seasonal rise. The let-up is not all-pervading as a number of industries producing highly fabricated durable goods are undoubtedly still maintaining a high level of operations on the basis of year-end backlogs, e.g., machinery, railroad equipment, electrical equipment, aircraft, etc.

EXAMPLES:

<u>Industry</u>	<u>Unit</u>	<u>Latest Week</u>	<u>Mid-December</u>
Steel	(% capacity)	82.4	90.0
Paper board	"	74	81
Paper	"	87.8	94.2
Automobiles	(thousands)	109	118
Freight loadings	"	640	655
Cotton consumption	(thous. of bales)	161	163
Electric power	(mil.kw.hrs.)	2,572	2,641

SIGNIFICANCE: The decline in activity, which appeared likely upon analysis more than two months ago, is definitely under way. January's Reserve Board index, taking account of the large seasonal factor, is estimated around 120-122 at this time, compared with the December peak of 128. Production for the month will be about a fifth above the output in the opening month of 1939.

THE NEW ORDER SITUATION is probably little changed—new business is coming in at a rate well below the level of production. Preliminary data from our monthly industry survey show the following indications of change from November to December: A decline in new business; a sustained level of shipments; a decline in unfilled orders; and an increase in inventories. New orders remained, however, substantially ahead of a year ago.

EXAMPLES: While not typical of all industry it is nevertheless significant that the rate of incoming business of the steel companies is probably no more than 50-55 percent of capacity. The production rate is in excess of 80. For industry in general, the relation of orders to production is undoubtedly better.

SIGNIFICANCE: The easing of operating rates reflects this reduced flow of business and naturally affects expectations with regard to the probable volume of spring business.

- 2 -

PRICES OF COMMODITIES have tended to ease off during the month because of (1) some improvement in the drought condition in agricultural areas, and (2) the reduced volume of industrial purchasing. Stock prices have also moved lower with the growing evidence of declining industrial activity. Industrial stock averages are now about midway between the end of August figure and the September peak.

EXAMPLES:

	<u>Unit or base</u>	<u>Jan. 24, 1940</u>	<u>Dec. 30, 1939</u>
Moody's index of sensitive commodities (Dec. 31, 1931-100)		162.8	168.8
Wheat, May future (dols. per bushel)		1.00	1.04
Cord, " " " " " "		0.57 5/8	0.58 5/8
Cotton, 10 market avg. (cents per pound)		10.38	10.76
Rubber, spot N.Y. " " "		18.75	19.25
Sugar, duty paid N.Y. " " "		2.85	2.80
Copper " " "		12.00	12.50
Tin " " "		45.25	49.25
Zinc " " "		5.09	6.11-6.39
Steel scrap, Iron Age avg. (\$ per ton)		17.54	17.67

SIGNIFICANCE: For the industrial commodities the price declines indicate the efforts being made to induce new purchasing. The movement may be expected to continue as unfilled order files are cut down.

EXPORTS OF DOMESTIC MERCHANDISE for which declarations were received through January 19, are lower than in the corresponding period of December. The comparative figures are \$138 million for January, \$169 million for December. The decline for the month is not apt to be so large as the 18 percent shown here for a part of the month since an unusually high proportion of the documents were received during the early part of December.

EXAMPLES: In view of the above comments it would not be worth while to give examples of specific commodities or countries.

SIGNIFICANCE: The partial data forecast some decline from the very high December figure of \$358 million. However, if present indications are borne out, the total in January will be relatively high—perhaps \$100 million more than a year ago, or about the October level.

- 3 -

IMPORTS FOR CONSUMPTION into the United States in December amounted to \$233,000,000 a gain of 9 percent as compared with imports of \$214,454,000 in November 1939 and of 41 percent in comparison with \$165,379,000 in December 1938. The December total was also in excess of the import value in December 1937, but not so large as the value of imports in the early months of 1937 and in December 1936.

About two-thirds of the increase over November was accounted for by large withdrawals of sugar from bonded warehouses. With the reestablishment of the quota on Cuban sugar by Presidential proclamation on December 26, it was necessary to withdraw stocks on hand from bonded warehouses so that it would not be counted as part of the 1940 quota.

EXAMPLES:**Large increases -**

Sugar
 Inedible vegetable products (mainly rubber)
 Metals

Slight increases -

Textile fibers and manufactures
 Machinery
 Chemicals

Declines -

Animal products (edible and inedible)
 Wood and paper
 Non-metallic minerals

SIGNIFICANCE: Although imports of merchandise have been advancing steadily since the middle of last year as domestic business activity has improved, they continue to lag far behind exports. Notwithstanding unusually heavy withdrawals from warehouses in December, domestic exports exceeded imports for consumption by the very large total of \$125,000,000. For the year the excess of merchandise exports over merchandise imports was about \$900 million, the largest total excepting that of 1938, since 1928.

INCOME PAYMENTS during December continued the advance that began last summer. The seasonally adjusted index of the Bureau of Foreign and Domestic Commerce rose from 88.6 (1929=100) in November to 89.8 in December. The dollar volume of income payments during the final quarter of the past year was larger than for any 3-month period since the second quarter of 1930 and 8 percent higher than in the last quarter of 1938.

- 4 -

EXAMPLES:

	<u>4th Quarter 1939</u>	<u>4th Quarter 1938</u>	<u>Percentage change</u>
	(Millions of dollars)		
Total Income Payments	18,897	17,538	+ 7.8
Salaries and Wages:			
All industries	11,580	10,945	+ 5.8
Commodity-producing	4,271	3,751	+13.9
Dividends and Interest	2,793	2,374	+17.6

SIGNIFICANCE: The major factors in the December rise were the advances in dividend payments, farm income, and income from trade and transportation. Commodity-producing industries showed little change from November to December, after the marked advance of the preceding four months. This high level of income payments is an important influence sustaining consumer purchasing at the present time.

FOREIGN TRADE NOTES

Germany: An early change in the methods of war financing is anticipated. Thus far the financing by war taxes and short-term Treasury bills and non-interest bearing Treasury certificates has been effected without serious difficulties. This has been facilitated by the liquidity of the money market due primarily to the liquidation of stocks, abandonment or postponement of normal investments, and shutting down of plants producing non-essential commodities. It is feared that the predominant short-term method of financing and the accumulation of funds in the banks may produce inflation, which will endanger the controlled price structure. It is therefore believed that the government will probably soon find it advisable to go in for long-term loans.

The financial situation of the retail trade is becoming a matter of growing concern. This is evidenced by the order of December 30, 1939, providing for refund of a portion of the rentals to retailers who are unable to pay their bills on account of diminished turnover. The retail branches most affected are those connected with servicing of automobiles and the supply of office equipment, confectionery, electrical appliances, umbrellas, household utensils, and furniture. Retailers have endeavored to economize by earlier closing hours and the closing of stores for certain hours of the day. This method has been spreading so fast that the authorities have been obliged to issue a decree that certain stores remain open for fixed hours to accommodate people who work late hours.

The delivery of household coal in Berlin is greatly hampered by transportation difficulties. Coal dealers now refuse to commit themselves to meet orders within a period shorter than two weeks or eighteen days.

According to a report from Rumania, the filling of orders for German machinery or other finished products is frequently conditioned on the supply by the Rumanian importer of certain raw materials such as rubber, copper, or other metals.

Turkey: The effect of the war on Russian Black Sea exports passing through Istanbul is shown by the fact that during November 1939 there were no shipments of grain or agricultural by-products, and that the only shipment of petroleum products consisted of 3,200 tons of asphalt for Belgium. In November 1938 the shipments of grain amounted to over 100,000 tons, and petroleum products over 75,000 tons.

The French Tobacco Monopoly has recently purchased about 100,000,000 francs worth of Turkish tobacco and the French authorities have given permits to import from Turkey 10,000 tons of raisins, 5,000 tons of figs, and 4,000 tons of shredded and unshredded filberts. These purchases are intended to offset the loss of German orders and will be sufficient to liquidate the Turkish stocks.

WEEKLY WHOLESALE PRICE INDEXES
(1926 = 100)

Group	1939			1940		Percent increase Jan. 26, 1940 over	
	Jan. 21	Aug. 28	Sept. 18	Jan. 13	Jan. 20	Jan. 21 1939	Aug. 26 1939
All commodities	76.6	74.8	79.3	79.5	79.3	3.5	6.0
Food products	66.9	61.1	69.7	69.5	69.5	3.9	13.7
Textile products	71.3	66.7	75.5	71.8	71.4	0.1	7.0
All commodities other than farm products and foods	80.4	80.4	82.4	84.3	84.1	4.6	4.6
Rubber and leather products	93.8	92.6	98.3	104.1	103.7	10.6	12.0
Textile products	65.4	67.4	71.4	78.1	77.0	17.7	14.2
Fuel and lighting materials	73.6	73.2	74.1	73.3	73.4	- 0.3	0.3
Metals and metal products	94.5	93.5	94.9	96.0	96.0	1.6	2.7
Building materials	89.1	89.7	90.7	93.2	93.1	4.5	3.8
Chemicals and drugs	76.3	74.2	77.1	77.8	77.7	1.8	4.7
House-furnishing goods	87.2	87.0	87.1	90.1	90.2	3.4	3.7
Miscellaneous	73.0	73.1	76.1	77.7	77.5	6.2	6.0
Raw materials	70.4	66.2	73.0	74.2	73.9	5.0	11.6
Semi-manufactured articles	74.8	74.4	82.0	81.9	81.9	9.5	10.1
Finished products	80.3	79.3	82.3	82.1	81.9	2.0	3.3

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

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		Jan.25	Aug.30	Sept.13	Jan.17	Jan.24
electrolytic, N.Y.	\$ per lb.	11 1/4	10 1/2	12	12 3/8	12
prompt shipment, N.Y.	do	4.75	5.05	5.50	5.50	5.50
N.Y.	do	4.84	5.14	6.64	6.14	5.89
traits, N.Y.	do	46	49 3/4	75	47	45 1/4
plantation, N.Y.	do	15 5/8	16 7/8	22 1/2	19 3/8	18 3/4
light native cows, Chicago.	do	10 1/2	11	15	14	13 3/4
3-15 denier, 78% scriplane, York	\$ per lb.	1.97	2.72	3.21	3.55	3.62
middling, av. 10 markets	\$ per lb.	8.57	8.53	9.01	10.74	10.38
cloth, 60x64, 38 1/2 inches, N.Y.	\$ per yd.	4 3/8	4 5/8	5 3/8	5 3/8	5 3/8
ops, Mar. 1940 futures, N.Y.	\$ per lb.	2/80.7	3/81.5	3/111.9	104.3	102.5
raw, 96°, duty free, N.Y.	do	2.80	2.92	3.70	2.90	2.85
Accra, N.Y.	do	4.49	4.38	6.45	5.55	5.55
Santos, No. 4, N.Y.	do	8	7 5/8	7 3/4	7 5/8	7 1/2
cash, Chicago.	do	6.70	5.65	7.75	6.07	6.07
seed oil, March 1940 futures, York	do	2/ 7.01	3/ 5.61	3/ 7.30	7.06	6.84
May 1940 futures, Chicago	\$ per bu.	4/ .70	3/87 1/4	3/ .85 3/8	1.01	1.00 1/8
good and choice, 220-240 lbs. go.	\$ per cwt.	5/ 7.68	6.88	8.13	5.55	5.28
beef, medium, 750-1,100 Chicago.	do	8.50	8.38	8.88	8.75	8.63

Annual.

cash 1939 futures.

December 1939 futures.

1939 future.

weighing 220-250 pounds.

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

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

Date	Pig Iron ^{1/}	Steel Scrap ^{2/}	Finished Steel ^{3/}
	(Dollars per gross ton)		(Cents per pound)
1939:			
January 24	20.61	15.00	2.286
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.50	2.236
November 28	22.61	18.58	2.261
1940:			
January 16	22.61	17.67	2.261
January 23	22.61	17.54	2.261

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

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

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

Sources: The Iron Age.

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Date	Motor gasoline, 65 octane	Light fuel oil, number 2	Diesel oil, ships' bunkers, "C", cargoes	Bunker oil, grade
	(Cents per gallon)		(Dollars per barrel)	
1939:				
January 25	4.50 - 4.75	3.375 - 3.625	1.55	0.675 - 0.70
August 30	4.75 - 5.00	3.375 - 3.75	1.45	0.75 - 0.80
September 13	6.25 - 6.875	3.875 - 4.00	1.45	0.825 - 1.00
1940:				
January 17	5.50 - 6.00	4.00 - 4.125	1.70	0.95 - 1.00
January 24	5.50 - 6.00	4.00 - 4.125	1.70	0.97 - 1.05

Source: Platt's Oilgram.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 26, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

In the staff meeting yesterday morning the question of shipments from New York to Vladivostok via Mexican ports, particularly Manzanillo, arose. In accordance with the Secretary's instructions, Mr. White gave me a copy of his memorandum on this subject and I prepared a draft cablegram, approved by Messrs. White and Harris, for the State Department to transmit to the appropriate Consular Officer in Mexico, seeking information.

About 5 o'clock Mr. Livesey telephoned me that he had received the memorandum earlier in the afternoon and had prepared the necessary telegram to the American Consul at Guadalajara, in whose district Manzanillo is situated. He had sent the cablegram to the Mexican section of the Department for initialing. Mr. Bursley of that section had sent back a memorandum to Mr. Livesey, reporting that on the preceding day Mr. Boal, Counselor of Embassy at Mexico City, had telephoned in regard to this very subject of transshipment of cargo brought to Manzanillo by one or two American ships. Mr. Bursley asked Boal to investigate the matter further and he, Bursley, was planning to telephone Boal again yesterday. Livesey also mentioned that the individual reported to be directing the shipments in question was a former Hamburg-American Line official in New York named Geener. When I asked Livesey if he would give me a copy of Bursley's memorandum, he said that he did not feel that he had this authority, since the matter was already under investigation by the Department of State, having been referred to "U.L." and "A.M." It was agreed, however, that the cablegram should go forward, directed to the Embassy at Mexico City rather than to the Consul at Guadalajara. The phraseology was to be changed slightly to tie the matter in with the telephone conversation above described.

After the Secretary spoke with me upon this subject this morning I called Livesey at 9:45. As far as he knew, the cablegram had gone out. I recited my understanding of the situation and he confirmed the facts as above outlined. He said that he had seen nothing more on the case since our conversation last night, but would bear in mind our interest in the matter, if anything further came to his attention. I have given Mr. White's memorandum, together with a copy of my draft cablegram, to Assistant Secretary Gaston and have told him of the Secretary's desire that instructions be given to the appropriate authority in New York today, presumably the Collector or a Customs Agent, with the view to finding out from the appropriate shipping companies in New York, or by wireless from them to the masters of their vessels, just what takes place at Manzanillo, and any other data with respect to the cargoes and their destination.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 25, 1940, 9 p.m.

RECEIVED: January 26, 1940, 4:30 p.m.

NO.: 126

The following is personal for the Secretary of the Treasury:

'Dear Henry:

I have just had dinner with P. Leven. He gave a full account of his negotiations to me. I want to tell you that beside your name I have placed five gold stars. I extend to you my thanks, best wishes and congratulations.

BULLITT.

TO THE SECRETARY
TREASURY DEPARTMENT
OFFICE OF THE

JAN 26 11 22 AM '40

RECEIVED

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

January 27, 1940.

The Secretary of State presents his compliments
to the Honorable the Secretary of the Treasury, and
encloses one copy of paraphrase of telegram No. 126
of January 25, 1940 (received January 26, 1940, 4:30 p.m.)
from the American Embassy, Paris.

*attention Mrs. King
please speak to me
W. H. C. H.*

TO THE SECRETARY OF STATE
WASHINGTON, D. C.
JAN 27 1940



January 26, 1940

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

"AMERICAN EMBASSY, PARIS

STRICTLY CONFIDENTIAL FOR MATTHEWS FROM THE SECRETARY OF THE TREASURY.

Referring to your cablegram No. 123 of January 25, 6 p.m. and to our today's conversation by telephone, I confirm that it is my desire that the cablegrams which you send to me ~~at Treasury expense~~ be limited to financial, monetary and exchange matters.

While the President has designated me to serve as his liaison officer with the American Governmental Committee established to have contact with foreign purchasing commissions, requests of foreign Governments concerning munitions, strategic materials and such other matters as are dealt with by their commissions in the United States should be submitted to the American Governmental Committee by those commissions. I do not desire that your task of reporting to me on French finance, currency and exchange be confused with negotiations of the type involved in your cablegram under acknowledgment. It is preferred that any duties you perform in this latter connection be solely those assigned to you by the Ambassador and that any reports thereon be received by the Department of State from the Ambassador in the usual course."


HMS:cmk

January 26, 1940

My dear Mr. Secretary:

I have pleasure in enclosing for your information the transcript of a conversation which I had by telephone this forenoon with Mr. Matthews, First Secretary of the Embassy at Paris, in regard to his cablegram No. 123 of January 25, 1940, 6 p.m.

I have submitted to your Department, for transmission to the Embassy at Paris, a cablegram confirming the position which I took in my conversation with Mr. Matthews. I have also asked your Department to send a cablegram in the same sense to the American Embassy at London, for the guidance of Mr. Butterworth.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Enclosure:
Transcript of conversation by
telephone with Mr. Matthews.

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

HMG/rmm
1/26/40

January 26, 1940
11:11 a.m.

L.H.Jr: Hello

Operator: I'm ready with Mr. Matthews.

L.H.Jr: Hello

Operator: Go ahead.

L.H.Jr: Hello.

Matthews: Good afternoon, Mr. Secretary.

L.H.Jr: Hello Mr. Matthews. I'm calling you because I understand Mr. Ballitt is not there.

Matthews: He's not in the Embassy at the moment, no sir.

L.H.Jr: Well I've got your No. 123 before me.....

Matthews: Yes sir.

L.H.Jr:and I'm going to ask you whether you won't please stop sending me that sort of material.

Matthews: Yes sir.

L.H.Jr: I don't expect you to do it as the Treasury representative.....

Matthews: Yes sir.

L.H.Jr:and if you want to do that, as part of your State Department work, and direct it to Mr. Hull why, of course, that's up to you.....

Matthews: Yes sir.

L.H.Jr:but there's nothing that I can do; they've got Mr. Farris and Mr. Block-Laine here and that's their job and it's not my job.

Matthews: Yes indeed.

L.H.Jr: And putting this in a cable I think is - well it's unfortunate to say the least.

Matthews: Yes sir.

L.H.Jr: And this constant stuff that you send me on...

Matthews: What is that?

L.H.Jr: This constant material that you send me on non-Treasury matters...

H: Yes, sir.

H.N.Jr: ...is proving very embarrassing to me.

H: All right, sir.

H.N.Jr: And, as I say, if you want to send that, or Mr. Ballitt wants to send that to Mr. Hall, of course that's entirely up to him.

H: Yes, sir.

H.N.Jr: But, I don't know why they have Mr. Purvis and Mr. Block-Laine over here if they don't want to use them.

H: I presume it's just lack of coordination, sir.

H.N.Jr: But I don't want to be used and I'm going to ask you please not to do it any more.

H: Yes, sir. I shall follow that exactly, sir.

H.N.Jr: As I say, it's - it's - I can't do anything and it's very embarrassing to me.

H: Yes, sir. All right, sir, there'll be no more then.

H.N.Jr: Thank you.

H: That's all, sir.

H.N.Jr: Thank you.

H: Anything else?

H.N.Jr: No -

H: Any variety of information which you would like which I haven't sent?

H.N.Jr: No, if you just would stick to financial matters...

H: Yes, sir.

H.N.Jr: And - it's much easier.

H: Very good, sir. And it would be easier for me too, sir. (Laughingly)

H.N.Jr: All right.

H: All right, Mr. Secretary.

H.N.Jr: Thank you.

H: Not at all, sir. Goodbye

H.N.Jr: Goodbye.

M

January 26, 1940

Mr. Fels

Mr. Cochran

May I ask you kindly to forward the following cablegram:

"AMERICAN EMBASSY, LONDON.

STRICTLY CONFIDENTIAL FOR BUTTERWORTH FROM THE SECRETARY OF THE TREASURY.

The President has designated me to serve as his liaison officer with the American Governmental Committee established to have contact with Foreign Purchasing Commissions sent to this country to purchase munitions, strategic materials, etc. It is my desire that requests of foreign Governments concerning such matters as are dealt with by their commissions in the United States should be submitted to the American Governmental Committee by those commissions. I do not desire that your task of reporting to me on British financial, currency and exchange matters be confused with negotiations of those purchasing commissions. It is preferred that any duties you perform in this latter connection be solely those assigned to you by the officer in charge of the Embassy and that any reports thereon be received by the Department of State from the Embassy in the usual course."

HMC/1mm
1/26/40

M

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: January 26, 1940, 6 p.m.

NO.: 60

The following is strictly confidential for Matthews.

From Secretary Morgenthau.

I refer to telegram of January 25, No. 123 from the Embassy, and to my telephone conversation with you today. I confirm that it is my wish that you limit to financial, monetary and exchange matters the telegrams which you send to me.

Although I have been designated by the President to serve as his liaison officer with the American Governmental Committee which has been established to have contact with the purchasing commissions of foreign governments, those commissions should submit to the American Governmental Committee requests of foreign governments with regard to munitions, strategic materials and such other matters as those commissions deal with in the United States. I do not want your reports to me on French finance, currency and exchange to be confused with matters pertaining to the type of negotiations involved in the telegram referred to above. Anything which you may do in the latter regard it is preferred that it be done solely on instruction from the Ambassador, and that the usual course be followed in submitting to the Department of State any reports thereon from the Ambassador.

HULL
(FL)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England.

DATE: January 26, 1940, 8 p.m.

NO.: 171

The following is strictly confidential for Mr. Butterworth.

From Secretary Morgenthau.

I have been designated by the President to serve as his liaison officer with the American Governmental Committee which has been established to have contact with the Purchasing Commissions of foreign Governments sent to this country for the purpose of purchasing munitions, strategic materials, and so on. It is my wish that foreign Governments should submit their requests on such matters as their commissions deal with in the United States to the American Governmental Committee through those commissions. I do not want your reports to me on British finance, currency and exchange to be confused with matters which those purchasing commissions will handle. Anything which you may do in the latter regard it is preferred that it be done solely on instruction from the officer who is in charge of the Embassy, and that the usual course be followed in submitting to the Department of State any reports thereon from the Embassy.

HULL
(FL)



DEPARTMENT OF STATE
WASHINGTON

January 30, 1940

My dear Mr. Secretary:

I thank you for your letter of January 26 enclosing a transcript of your conversation with Mr. Matthews at Paris, and have also noted your instructions to Mr. Matthews and Mr. Butterworth on this subject, paraphrases of which I enclose herewith.

Sincerely yours,

Enclosures:

Paraphrase, No. 60 of
January 26 to Paris

Paraphrase, No. 171 of
January 26 to London

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Department of State

BUREAU
DIVISION

EA

ENCLOSURE
TO

Letter drafted

ADDRESSED TO

TREASURY

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 26, 1940

MEMORANDUM FOR THE SECRETARY

While in Buffalo yesterday I had a conversation with Mr. Clarence M. Brobst, Assistant Vice President of the Marine Trust Company of Buffalo, who is trying to dispose of the Pierce-Arrow plant at Buffalo.

The plant consists of 44 acres of land and 15 major buildings containing 1,346,285 square feet of floor space. Of the 44 acres of land 20 are vacant and available for parking or any future construction development.

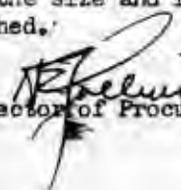
The buildings are of solid construction, capable of housing the heaviest kind of machinery. They are built of fireproof materials throughout and are completely equipped with fire sprinkling systems. There is a great variation in the design and layout of the buildings. Long stretches of floor space permit of straight-line production and assembly, and spacious areas make possible large machine-group operations. The buildings are particularly well lighted and have ample truck and carloading facilities.

The plant is served by New York Central sidings, and service between the property and other points of the Buffalo metropolitan area can be had by using the New York Central Belt Line. The buildings are completely equipped with and served by underground conduits for electricity; pipe lines for water, sewer, and gas; and special high-pressure fire lines.

There is a mortgage of \$900,000 on this property, \$450,000 of which is held by the Marine Trust Company of Buffalo, and \$450,000 by the Federal Reserve Bank. There are outstanding, in addition, \$250,000 for back taxes. The buildings are practically empty, all equipment having been sold. Land and buildings have an assessed valuation of \$1,600,000. At present there are a few tenants with leases revokable on 30 days' notice.

Mr. Brobst informed me that they are desirous of disposing of this property by sale, but that they would be equally interested in leasing the property at a rate which would cover taxes and maintenance expenses. He further stated that he would be very happy to go into this more in detail should it appear that a sufficient interest concerning such a lease should materialize. While he was not in a position to quote a rate per foot, he did say that a rental of \$40 per 1000 square feet he thought would approximately cover taxes. The property is well located, and from a cursory examination of the buildings, they appear in very good condition.

If it is desired, further details concerning the size and floor space of each of the buildings are available and can be furnished.


Director of Procurement

GROUP MEETING

January 26, 1940.
9:30 a.m.

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

H.M.Jr: Mr. Thompson?

Thompson: The Treasury appropriation bill passed the House yesterday without a change.

H.M.Jr: Yes?

Thompson: And also the deficiency bill for the Bureau of Internal Revenue tax refund.

H.M.Jr: That is all right.
Dan?

Bell: You have a letter from Jerome Frank (January 23, 1940) saying in connection with the study of life insurance companies they have found that the insurance commissioners of the States are making examinations of insurance companies outside of the States, charging for them, and some of the examination fees are being remitted back, apparently, to the executives of the companies. They want to make an examination of that and in conjunction with some help they can get from the Treasury, the Attorney General and the Post Office. Wouldn't that be a matter Mr. Gaston should handle? They want to designate a representative of the Treasury to discuss it with Mr. Gessell, special counsel for the Commission. Shouldn't Mr. Gaston be designated?

H.M.Jr: I shouldn't think it would be Gaston.

Bell: I should think it would be Secret Service or Intelligence.

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H.M.Jr: Oh, is it?

Bell: I should think so.

Foley: That is the TNEC thing. I should think Joe O'Connell should handle it for the Treasury.

Bell: Well, it is a matter of investigation.

Foley: It is first a matter of finding out what they want. He is asking somebody to confer with Gessell, isn't he?

Bell: Yes.

H.M.Jr: Would that fall to O'Connell?

Foley: Yes. That is an outgrowth of the insurance hearing O'Connell is conducting down on the Hill.

H.M.Jr: That takes care of that.

Bell and I talked over this morning and we decided we were going to postpone the TVA until after the 15th of March, until after Congress gets through with it, so we will just let it ride. They don't need any money, anyway. So we think we will just wait. Right?

Bell: O. K.

H.M.Jr: Harry?

White: Here is the report on those special accounts.

H.M.Jr: Will you be ready, Harry, to work with me sometime this morning on this little talk I am going to give?

White: Yes.

H.M.Jr: Could you be ready?

White: Yes.

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H.M.Jr: Well, it will be sometime between 10:15 and 10:30. I will telephone you.

White: All right.

Japan, the treaty having been ended, I take it it is clear that any additional duties will not apply until the President makes a finding of discriminatory practices, so they are getting the same benefits as before and even after he does, under the most favored nation agreement, I think they will get only two percent of their exports to us, so that aspect will be negligible, but - their silk prices have dropped very sharply and Japan is in considerable trouble. We will have a memo on that.

H.M.Jr: I don't know a thing about it.

White: We will have a report on it.

H.M.Jr: I don't know a thing about it.

White: They have been in very great trouble this year.

H.M.Jr: Anything else?

White: That is all.

H.M.Jr: Basil?

Harris: Nothing.

H.M.Jr: Anything new on those Red Cross supplies?

Harris: No, I didn't call him back. I was pretty well taken up yesterday afternoon.

H.M.Jr: Could you do it today?

Harris: I will do it this morning.

H.M.Jr: What do you suppose those boats that chartered to Russia stopped at Mexico for?

Harris: I don't know. I got that report when I was over in the other office yesterday. I got that

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to look into. There must be some direct line from Manzanillo to Vladivostok.

- H.M.Jr: May I suggest that the State Department get off a cable for us to that American Consul.
- Harris: Yes.
- H.M.Jr: I wish you would do that this morning and ask him what these four boats stopped there for, what business they transacted.
- Harris: Get a full report on that?
- H.M.Jr: Through the American Consul.
- Harris: Yes. It is a very strange movement. I was surprised when I heard it.
- H.M.Jr: If you would ask the State Department to get us off a cable. If you will explain to Merle what it is all about, he will take care of it.
- Harris: Fine.
- H.M.Jr: There are six boats that have left from New York - Harry dug this stuff up - to go to Russia with stuff and four of them stopped at Manzanillo and I just wondered what --
- Harris: And trans-shipped the cargo.
- H.M.Jr: Yes.
- Cochran: Do we know the flag - what nationality they were?
- H.M.Jr: He gave the names of the boats. If you can get the memorandum from Harry, then ask the State Department for that.
- Cochran: Oh, they can get that, sure.
- H.M.Jr: Especially if you tell them we will pay for it. I mean the cable.
- George?

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Haas: Here is the regular thing (handing report to Secretary). I noticed the Canadians are selling wheat to Russia.

H.M.Jr: They are?

White: Have they sold it or - that is the big fight, isn't it? I mean, they have contracted to sell it, George, but they are stopping it.

Haas: That is right, they have tried to stop it.

White: Canada has a bill before the legislature now and they wanted it passed before the wheat leaves its shores. It started a very big fight in Cabinet and it almost ended up in a reelection.

H.M.Jr: George, I don't know whether Jewett is the man or not, but I want to know how many people are employed each month in the principal aircraft factories and aircraft engine factories, for '39, '38 and '37, by companies. The principal ones. Maybe you can get it.

Haas: Yes, sir.

H.M.Jr: You can start with Lubin. Maybe he has it. I would like it by Monday if I could.

Haas: I will see if I can get that.

H.M.Jr: Maybe you can give me a little chart for each company. And then will you do the same, George, on Lycoming that you did on Continental Motors? It is Muskegon. They are just supposed to have sold their plant in Detroit last week. Anything else, George?

Haas: That is all I have.

H.M.Jr: Chick?

Schwarz: Randy Burgess' speech last night - it appears that we might well accelerate our defensive material. It looks like it is rolling up.

H.M.Jr: Yes.

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Bell: I see he suggested we have bankers on the Federal Reserve Board.

H.M.Jr: I would like to see a copy of Burgess' speech.

Bell: I am going to write and ask him for one.

H.M.Jr: The thing that interested me was that he was talking about the gold and he thought there ought to be more control by the Federal Reserve. I would like to see his speech.

Schwarz: Well, we will get one today.

H.M.Jr: And would you get me that clipping, please? I think that if Harry could accelerate the gold stuff --

White: I will concentrate on it.

H.M.Jr: Anything else, Chick?

Schwarz: No.

H.M.Jr: Joe?

Cotton: Will we have a moment to talk about this Colombian thing this morning?

H.M.Jr: Yes. I will have to see how I get along. I will put you down. Are you going to be in the building this morning?

Cotton: Well, there is supposed to be a meeting of the Bank at 10:00 o'clock. It ought to be through in half an hour.

H.M.Jr: When you come back after that, check with McKay, will you?

Cotton: All right.

H.M.Jr: I have written it down.

Cochran: I have nothing, sir.

H.M.Jr: Ed?

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Foley: Nothing.

H.M.Jr: Dan tells me that you got the first polite cable from the Bank of America crowd (January 25, 1940) and that you now think that they are going to come into the hearing.

Foley: Well, Chester Lane said that Jim Treanor talked with the Transamerica people out on the Coast on Monday or Tuesday in connection with the distribution of the bank stock and said that he thought they would have to make an exposure of the Comptroller's hearing before that stock could be sold and Cushing was there and Cushing said that he thought that was right and he would like to have a few days to see what kind of language he could work out and submit to them, so then he asked if they were going to come into the hearing and Ferrari, the general counsel for the Bank, said no, they wouldn't want to come in, it was illegal and unconstitutional and everything else, but Cushing said he thought they might come in so they are at least getting sage advice instead of emotional advice.

H.M.Jr: Well, I am terrifically busy today, so I don't think I will be able to sit down with you and Dan until Monday. I hear Crowley is out of town anyway.

Foley: That is all right with me.

H.M.Jr: I mean, Crowley - if we decided anything today Crowley wouldn't be here anyway.

Foley: He is out in Wisconsin and won't be back until the first of the week.

H.M.Jr: Well, nothing could happen until he comes back, could it?

Foley: That is right. We have got a program any time you want to look at it.

H.M.Jr: I would have to change my whole day.

Foley: Sure. I wouldn't want you to do that.

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- H.M.Jr: Just as long as they are not waiting on us.
- Foley: Well, we are ready.
- H.M.Jr: Well, I say, I would have to rearrange my whole day. All right?
- Foley: O. K.
- H.M.Jr: O. K.
- Herbert?
- Gaston: I have a letter delivered by hand last night (January 25) from the Aeronautics Authority submitting a draft of a letter in which various Government departments tell the President that the Coast Guard and the Navy jointly should establish station ships in the Atlantic, temporarily, to furnish weather reports. This is in spite of the fact that we have told everybody concerned repeatedly that we could not furnish any ships but we would be willing to furnish officers and men. So I propose to repeat that to him in a letter. They are calling a meeting for Monday on the thing. I don't know whether we want to go to the meeting or not. That is the object of the meeting.
- H.M.Jr: That is up to you. Anything else?
- Gaston: I haven't anything else.
- H.M.Jr: Here is a telegram from Nicholson in Shanghai (January 23) which doesn't make sense to me. It is an investigative matter. I would only be interested if the man he mentioned in this thing is coming to the United States. I think we will have to cable back. If this fellow is coming to the United States, then I would be interested, but unless he is coming to the United States - if he is coming to the United States, then I would turn it over to J. Edgar Hoover.
- Cochran: When I got that, Mr. Secretary, I didn't know whether you knew anything about it and I asked it to be returned, because I was going to take

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it to Mr. Gaston and Mr. Thompson to see if they have made any inquiry.

- H.M.Jr: If this man is coming to the United States, then I think we should advise J. Edgar Hoover that he is coming and he can take care of him.
- Gaston: Yes. He says he is sending a photograph of the man and I suppose he will advise us.
- H.M.Jr: But he doesn't say he is coming to this country.
- Gaston: He says he expects to be sent to the United States and I assume that he will let us know if he does come and I suppose we had better ask him to let us know.
- H.M.Jr: Better ask him. Can I forget about him?
- Gaston: Yes, sir.
- H.M.Jr: If he is coming, I will be just curious to know.
- Gaston: Yes.
- H.M.Jr: Anybody else?
- Haas: May I ask a question?
- H.M.Jr: Sure.
- Haas: This aircraft chamber of commerce or whatever it is called might not furnish this information at a request from me but if they knew you wanted it, they probably would give me everything they have. Do you have any objection if I have to use that?
- H.M.Jr: No. Not everybody belongs to that. I understand Glenn Martin doesn't belong to that group, but I thought - no, that is all right, you can use my name, sure.
- Haas: I will try Lubin first.
- H.M.Jr: He might have it. He might be following that industry. Tell Lubin what we want and how would he get it.

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Did anybody ever use this Central Statistical Board for anything?

Haas: They are in the Budget now. I don't know just - since that transfer just how it is functioning.

Bell: They are only a coordinating agency.

H.M.Jr: Well, now --

Bell: They don't furnish statistics of any kind.

H.M.Jr: Do you ever run up against them?

Bell: No, not very much.

H.M.Jr: Do you, Harry?

White: No. Once in four years - we got the bulletin out which they went over. They didn't know much about that. I think they are more concerned with the domestic field.

Haas: It is coordinating, as Dan says. When somebody gets in the two departments - when two departments each want to put out the same type of statistics, they have to go to the Central Statistical Board laboratory.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market continued its dull tone with only a slight expansion in reported volume of sterling transactions. Prior to the New York opening, the rate for sterling exhibited some firmness in the Amsterdam market, rising to 3.98-7/8. In New York, sterling opened at 3.98-3/4 and shortly thereafter moved off to 3.98-3/8 on some small selling. It fluctuated within a narrow range for the rest of the day and closed at 3.98-1/2.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £214,000, from the following sources:

By commercial concerns.....	£ 42,000
By foreign banks (Europe and South America).....	£ 122,000
By Federal Reserve Bank of New York (for Yugoslavia)...	£ 50,000
Total....	£ 214,000

Purchases of spot sterling amounted to £281,000, as indicated below:

By commercial concerns.....	£ 164,000
By foreign banks (Far East, Europe and South America)...	£ 117,000
Total....	£ 281,000

The following reporting banks sold cotton bills totaling £66,000 to the British Control on the basis of the official rate of 4.02-1/2.

£ 21,000 by the Bank of Manhattan
20,000 by the National City Bank
19,000 by the Guaranty Trust Co.
6,000 by the Chase National Bank
£ 66,000 Total

The quotations for one-month and three-months forward sterling have improved steadily in the last few days and are currently quoted at 11/16 cents discount (2-1/16% per annum) and 3-3/8 cents discount (3-3/8% per annum) respectively.

The guilder was unable to maintain the level of .5315 to which it recovered in New York yesterday. The quotation in Amsterdam this morning declined to .5311-1/4, then eased further in the New York market to .5310 just after the opening here. It remained steady for the balance of the day and closed at .5309-1/2.

The other important currencies closed as follows:

French francs	.0225-7/8
Swiss francs	.2242-1/2
Belgas	.1692
Canadian dollars	12% discount

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

\$10,000,000 from the National Bank of Switzerland
<u>1,125,000 from the Bank of Mexico</u>
\$11,125,000 Total

The Federal Reserve Bank of New York reported that the Imperial Bank of Canada, Toronto, was shipping \$56,000 in gold to the Bank of Manhattan, New York, for sale to the U. S. Assay Office.

The London fixing prices for silver were 21-15/16d for spot delivery and 21-7/8d for forward delivery. The improvement of 1/8d in each case was attributed to small Indian buying. The U. S. equivalents were 39.38¢ and 39.07¢ respectively.

A New York bank reported that the silver and commodity markets in Bombay were closed today in sympathy with renewed representations by Mr. Gandhi for Indian independence.

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

We made four purchases of silver totaling 200,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.

B. W. S.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 26, 1940

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Wheat export sales and other market data from the Federal Surplus Commodities Corporation.

Jan. 15: Sales of Manitoba wheat to the Continent were estimated at around 250,000 to 300,000 bushels.

Following the signing of a commercial treaty last week between France and Spain, two ships loaded with 16,000 tons of wheat are expected at Barcelona at once, and three Spanish ships have sailed for Morocco to bring back wheat.

Jan. 16: Russia was reported making inquiries for several million bushels of Manitoba wheat on the Pacific Coast. Normally Russia comes into the market for supplies for its army in Siberia at this season, as the grain can be secured abroad to better advantage than it can be shipped from the western part of Russia. Export business was confirmed on 200,000 bushels of Manitoba wheat to Norway and about 200,000 in other directions.

The Department of Commerce said today that thousands of bales of cotton are awaiting export to Europe, and are accumulating on piers and in warehouses because of a shortage of cargo ships. Ports particularly affected are Galveston and Houston, Texas. In the past about one third of the cotton exports was shipped in vessels carrying the American flag. This space is not now available, since the Neutrality Act bars American ships from the war zones. Also fewer foreign-flag ships are available now to carry cotton.

Jan. 17: It was reported that Japan recently bought 7,500,000 bushels of Australian wheat; the price was reported to be three shillings per bushel. This wheat must all be transported in Japanese vessels. The Australian Wheat Board is also working on additional

Secretary Morgenthau - 2

sales to other countries. Australia has now disposed of 80,500,000 bushels of this year's surplus. This includes 56,000,000 bushels to England, plus the equivalent of 7,000,000 bushels of flour. Other foreign countries have taken 17,500,000 bushels, leaving a surplus of Australian wheat of about 40,000,000 bushels.

It was reported that four cargoes, about 1,000,000 bushels, of Manitobas had been sold to Russia for shipment to Vladivostok. Sweden was also in the market for an unknown amount of sacked wheat, believed to be for immediate shipment to Finland. About 75,000 bushels of United States wheat in store at Antwerp were reported sold to dealers in that city.

Jan. 18: Export sales of Canadian wheat were reported at 500,000 to 750,000 bushels. Finland was in the market for 400,000 bushels of Canadian rye and 5,600,000 pounds of rolled oats. Spain was reported as a buyer of Jugoslavian and Argentine wheat, and Spanish import requirements were estimated at about 36,000,000 bushels.

Confirmation was obtained on the sale of three cargoes of United States corn to the United Kingdom and one cargo to Scandinavia, bringing total sales to about 1,200,000 bushels.

Jan. 19: Export sales of Canadian wheat are estimated at 200,000 bushels in scattered lots. The United Kingdom also took 150,000 bushels of Canadian oats.

Sales of United States corn yesterday and today to the United Kingdom and Denmark totaled about 1,750,000 bushels. After the close it was reported that the United Kingdom was in the market for additional quantities of corn.

A report on the recent Canadian wheat crop released after the close today, shows a total of 489,623,000 bushels, which is an increase of 10,658,000 bushels from the November estimate. This is the second largest crop ever raised in Canada.

Secretary Morgenthau - 3

Jan. 20: Export sales of United States corn are estimated at 300,000 to 400,000 bushels.

Objection has been raised in Canada on the sale of wheat to Russia. Several prominent Canadian officials say that it is equivalent to supplying aid to the enemy. They say that while the wheat may never get any farther than Vladivostok, the port to which it is to be consigned, its shipment there would release a corresponding quantity of wheat grown in the Ukraine or adjacent territory to be exported to Germany. It has been urged that some way be found to block the sale.

January 26, 1940

COMMISSION TO CHINA

SUMMARY FROM DATE OF DEPARTURE TO PRESENT.

October 20, 1939. Commission departed from San Francisco on S. S. PRESIDENT COOLIDGE. Complete survey equipment, in 14 cases and weighing in aggregate about two tons, was carried as baggage to insure arrival with the commission. Personnel of Commission: Senior Surgeon L. L. Williams, Surgeon Hiram J. Bush, and Special Expert Bruce Mayne.

Dr. J. H. Linson, at Honolulu Quarantine, notified. Dr. J. G. Telfer, at Hong Kong notified. Dr. H. F. Smith, Chief Quarantine Officer in the Philippines, directed to proceed to Hong Kong to assist Commission en route. Dr. Balfour of Rockefeller Foundation notified at Shanghai. Chinese Government notified through Ambassador Hu Shih.

October 24. Dr. Yen of Chinese National Health Administration urged Commission fly from Hong Kong to Chungking before beginning actual survey.

October 25. Commission arrived Honolulu. Elaborate plans for entertainment completely sidestepped on account of seasickness of members and wild search for a special type of microscope to replace one in equipment that had been broken. Such a microscope finally located at University of Hawaii and purchased from it.

November 8. After conference with Dr. Balfour at Shanghai, Commission decided to proceed to Hanoi in Indo-China and go to Yunnanfu (Kunming) by rail from that point.

A letter was received from Dr. Telfer setting forth that there would be no ship from Hong Kong to Rangoon before December 8, but that one could go to Singapore and might there catch a ship to Rangoon. Also one might fly (with two tons of equipment) from Hong Kong to Rangoon.

He further told how travel by air was possible from Hanoi, but reservations were filled for several weeks, and that airships also went from Hong Kong direct to Chungking, but these had to fly over the Japanese lines.

Dr. Telfer expressed a desire to join the Commission.

November 15. Commission sailed from Hong Kong to Haiphong, Indo-China. Dr. Smith went with it. In Hong Kong, Commission conferred with Dr. R.E. Brown of the Council of Medical Mission of the

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National Christian Council of China and Dr. R. C. Robertson of the Health Section of the League of Nations, both of whom are acquainted with Southwestern China.

November 16. Commission arrived in Haiphong accompanied by Dr. H. F. Smith, who, through personal friends in the French customs service, managed to get their personal baggage cleared and later, with the help of Consul Reed at Hanoi, had rest of equipment cleared. The account of "fighting" the equipment on board the narrow-gauge train at Hanoi for the three-day trip to Kunming and the description of the near banditry among native porters, etc., makes good reading.

At the Chinese border, the Commission was met by Dr. Yen's representative, and things went smoother.

November 22. Arrived at Kunming.

November 29. Arrived at Chungking by airplane.

December 2. Returned to Kunming.

After conference with Consul Paul Meyer, Dr. Yen, and others at Kunming, the Commission flew to Chungking, met Generalissimo Chiang Kai Shek and conferred with Madame Chiang Kai Shek. All arrangements were confirmed, and the Commission returned to Kunming preparatory to starting work. A local commission was formed in Kunming, headed by a Mr. Mao, to control expenditure of 1,826,000 in Chinese National currency for malaria control in Yunnan. As a first move, Mr. Mao ordered a large amount of quinine. A tentative line of procedure with a laboratory and headquarters at Mangshih (near Burma border) was laid out. Transportation was arranged. (Only Government cars can be operated and gasoline costs \$5.00 Chinese money a gallon). Louis describes the wonderful spirit of the Chinese and tells of a laboratory they have built up from odds and ends but successfully operate.

The Commission was received cordially and was impressed that it had a most important work to do particularly since the Japanese captured Nanning about the time it reached Kunming.

(Copy of Dr. L. L. Williams' letter of November 29 is attached.)

December 6. In a personal letter of this date, Dr. Williams brought out the utter inhumanity of attempting to bring back the equipment they had so painfully carried into China. To the Chinese it was priceless, and he would not even suggest to the Chinese doctors he was training and who would carry on that it would not remain

-3-

with them. He was advised by return mail that it was hardly expected this equipment would survive the ^{rough} usage, and he should declare it unserviceable and hence not worth the cost of return transportation.

December 5. Commission reported at Siakwan, Yungping, Paoshan, Mangshih.

December 16. In a letter, Dr. Williams stated survey was under way and malaria incidence very high — 80 to 100 percent in some places. Headquarters were set up at Chefang and some control work started as a demonstration. Lack of transportation was a principal difficulty only partially met by purchase of an old truck. Dr. Bruce Mayne had not been well due to inability to readily assimilate Chinese food, but other two were in excellent health.

January 8. Survey at Mangshih reported complete and Chefang nearly completed. Seven Chinese doctors being trained.

January 11. (Latest report from the Commission). Four thousand pounds of Paris green requested. (This amount was borrowed from British sources in Burma to be returned when shipped from the United States; leaves San Francisco for Rangoon January 26.) It was necessary to purchase another truck. Dr. Williams stated he would shortly visit Rangoon.

Attached is a copy of Dr. Williams' letter of December 18, 1939.

Chungking, China
11-29-39

Dear Dr. Farran:

I have radioed you our movements and a sketch of our plans as they took shape but have refrained from writing as there was nothing definite to report. Things are somewhat clearer now.

Our greatest difficulty was in getting the equipment into Kunning. And equipment here is unbelievably scarce. Howard Smith met us at Hongkong and his advice was valuable. Information there from the Consul General, Mr. Southard, indicated that much difficulty could be expected from the French Colonials in Indo China. This the French Consul also indicated. Therefore I suggested that Howard come as far as Hanoi as he had a number of contacts there and it was not known that Mr. Reed (our Consular representative in Saigon) had established a Hanoi office. We were fortunate in having Howard as our troubles began when the boat docked at Hoiphong. Howard found a friend who cleared our personal baggage and got the equipment safely into customs. We went to Hanoi (the capitol) and found Mr. Reed who cleared us with the customs - and it took two more days to get news of this clearance down through the multitudinous officials until the goods actually were freed. It then developed that the train from Hanoi connected (15 minutes) with that from Hoiphong and we must wedge nearly a ton on board as baggage! So I trucked it to Hanoi late at night and fought it on board in the morning. And it was a fight. Their system is to charge it all as excess baggage (except our bags 1st class) on 4th class, but one must find a gang of coolies and do it oneself. Also, they are not responsible and baggage must be guarded, unloaded each of two night, stored, reloaded in the morning and watched through 241 tunnels. It is a recognized custom to grab duffel and heave it out a window near the end of a tunnel to a confederate at a strategic point - and the cars are not lighted. So I contracted with the China Travel Bureau to get it and us through, and it was a rare experience.

Once we reached China at Ho Kow we were met by Dr. Yen's representative and things were smoother. In Kunning Dr. Yen met us as did Drs. Robertson and Dorrelle of the League of Nations and Mr. Paul Meyer, the Consul General for the United States. During the next week we met and discussed plans with the Governor of the Province, General Ling and all of his department heads and here in Chungking with the Premier and Chief of Finance, Dr. Kung, as well as a brief presentation and greeting by the Generalissimo. The most profitable discussion here was with Madam Chiang Kai-shek, who has a quick and keen mind and who is very interested. Of course Dr. Yen is heart and soul with us, but is (as Balfour told me in Shanghai) just commencing to get malaria business under way. He has formed an Anti-Malaria

11-30-39

Question in Tsumu composed of 5 Tsumu and 4 Central Government. The Chairman is a very intelligent industrialist, Mr. Mao (personal name) as he calls) who has developed a great interest in malaria control for the entire province. He is the strong man and his presence means well for the general program.

In Tsumu the extent of malaria and the western (A. sinensis, A. A. byrsonus sinensis, A. culicifacies, and A. lindesayii) are rather well known and it is estimated that 500,000 people in the south and western portions of the Province are seriously affected. Neither Mifour nor Ten have defined the method of attack except the general provisions of the 5 year program which includes a research bureau (5 days by chair from any point of access - Mifour is concerned -), a number of health stations, and a large quantity of quinine.

\$1,856,000 in National currency has been appropriated but cannot be spent until Mr. Mao approves. He is to some extent enthusiastic but he's a banker and isn't going to spend funds until he knows what is to come of it. I therefore pointed out to him that the problem on the road was an emergency which should be met immediately and fully by mosquito control at the strategic towns and labor camps - for in the wet season multiple land slides close the road. But, that the general provincial problem was a threefold one of death rate, epidemics, and lastly, a general malarial rate which was retarding the development of the people and industry. The first problem can be met only with quinine, not stored in Fanning, but made available to those who were actively sick. Mao has undertaken to set up distribution centers through the 60 cooperatives he has organized among the more industrial centers (for other purposes) and through them into the rural areas and he's this week ordered the first 1-1/2 ton of quinine. After meeting the death rate problem it is proposed that the research organization shall define the epidemic centers and attempt their control through treatment, screening, and some mosquito control and let general mosquito control be a later development. The main thing is that they have started and are now under way. It is interesting to note that the Dutch in Java have today agreed to let the Chinese Government and the Tsumu Provincial Government have quinine at a rate well below the market on the grounds that, if sold, it would not be at a profit. Dr. Ten took part in discussions of the above program and it is his program Mifour came through day before yesterday and seemed well pleased with the way things shaped up.

Dr. Ten has apparently used our coming as a lever to press an extra appropriation designed to defray the physical cost of our transportation, housing and employment of young doctors to learn malarial control and then go into his department and the Provincial

Department as malaria control workers. These men will be our interpreters. Later other members of the force will join us for training, expenses to be borne by Dr. Yen's appropriation. This releases a considerable sum from our allotment and I propose to utilize it in initiating Anopheles control at at least one point on the western end of the Burman Highway. I should like to do this for two primary reasons: 1st, to leave any real good behind us, actual control must be under way; 2nd, to train young men it is necessary to have a control job under way. In addition, I believe the best method of research is to commence a job and find out if the proposed methods will work in any new locality.

Hongshih (near Burma) has been suggested and if it strikes us as a good place we'll set up the field laboratory there and perhaps do the control work there also. In this tentative plan I've suggested that their research laboratory be also set up in conjunction with ours as a temporary location but centralized there for 2 years till the Railroad is operating at the proposed place now 5 days from nowhere. This is stewing with some signs that it may bear fruit.

In addition to the above, Dr. Yen has secured permission from General Ling, to detach the Provincial Health Officer for 3 months and have him accompany us and learn malaria control. He is Dr. H. Y. Yao, a D.P.H. from Hopkins and a very capable young man. He is now organizing the expedition, adding whatever seems necessary to our equipment and getting the car and trucks. The latter can be done only through government for it is almost impossible for a private citizen to own a car as all gas must come through arrangement with government. After a 50 gallon drum of gas lands at Hoiphong it costs \$100 to get it to Kunming and only government does it.

Their spirit here is fine. Medical schools have been bombed out of existence further east, so they moved to Kunming (10 of them) set up and thatch halls and dormitories, and are busily engaged in enthusiastically carrying on. Dr. F. P. Tsing had to move the National Epidemic Bureau to Kunming. This Bureau makes nearly all of the Army's and all China's typhoid inoculation, smallpox vaccine, cholera serum, anti-meningococcus serum and toxin antitoxin. His equipment, except culture, are all held up en route and have been for months. He's set up a laboratory with old kerosene tins, beer bottles, reused agar, and an old automatic boiler and is turning out a clean product day and night in most amazing fashion. I think even Dick Harrison would license him. My hat is off to these people for their wonderful spirit.

We've been received with great cordiality and have been made to feel that our coming is really appreciated and that full advantage is to be taken of it. Also, the Burma Road is assuming greater significance as the Japs last week took Haining and thus cut the only motor road from Indo China and may cause discontinuance of the Hanoi Haining R. R. This would leave only the Burma Road and the long road from Russia.

Please express to the Department of State our appreciation of the helpfulness of Mr. Southard in Hongkong and Mr. Reed in Hanoi; and particularly for the very material and enthusiastic help from Mr. Paul Meyer, our Consul General at Hanking. He smoothed our path in many ways and has managed a financial set up so that we can draw funds in the field yet keep all moneys in U. S. funds and thus not risk the losses of a constantly changing rate of exchange. All of us are in good health and will be on the road on December 3rd or 4th. We go with the cars rather than fly. Gasoline is too expensive to permit an extra round trip of a car, therefore we will omit flying to Lashio. From Leping I'll run down to Hangoon and see what our British friends are doing on their section of road and also report to our Consul there.

If you approve the general plan I've outlined, I should appreciate a radio from you to that effect. I suggest that lacking a later address you send it to the consulate at Hanking - they will forward all letters and cables and charge our account if necessary.

With best regards to you and my friends in the Bureau, I am

Sincerely,

Louis L. Williams, Jr. (signed)

Senior Surgeon

COPY

Rec'd
11/12/40
200

75

Lashio, Burma.

Dec. 18, 1939.

Dear Dr. Parran:

Chefang is the most malarious place on the road and is most convenient to Mangshih on the east (48 kilometers), and Wan Ting (pronounced "One Ding") on the border; Wan Ting is not far from Loi Wing where the Central Aircraft Manufacturing Corporation (U.S. Co.) is building planes for the Chinese Government and where the malaria rate approaches 100%. We can advise the company easily and they will carry out our recommendations at their own expense. Wan Ting is a border checking station which is to be used as a stopping place as is Mangshih. The best spot for both a laboratory and a control demonstration is Chefang so I've set up headquarters there. You can radio me best c/o Provincial Health Administration, Kunming, who can forward cables; and write c/o Dr. S. T. Ting and Dr. C. Jung Sun, Southwest Transportation Co., Clinic, Lashio, N.S.S., Burma.

Arrangements have just been made there for forwarding mail but not cables as the Southwest Trans. Co. (a governmental agency for trucking over the road) is in Burma thru courtesy and have no private wire; from Kunming they have with a station at Chefang thru which I've just radioed you. You can radio the Provincial Health Office thru the American Consul who can be reached via the gun boat (via Naval radio) at Chungking and they airmail the message or, if urgent, radio it commercial. I've arranged an account for such service with the Consulate - Mr. Meyer has been most helpful and very kind.

Dr. Yen has (thru Yunnan's Governor) sent the Provincial Health Officer (Dr. H. Y. Yao) and three doctors and an entomologist and a technician with us. Three interns have been added and another parasitologist for training. Dr. Seagrave (head of a Baptist Hospital across the line in Nankhan) is sending two assistants for training and I'm led to believe some five or six more will come along to learn the game. The local ruler (Mr. To, pronounced "Doah") has cleared out a compound for our combined use and we are busy setting up the laboratory. While I and Dr. Yao do that, Dr. Mayne and Dr. Bush with the young men are completing the survey in Mangshih and join me late this week. We then go to Loi Wing (Christmas with the American Colony) and finish the survey there (2 days) and return to Chefang and complete the main and largest survey. It is hoped (and expected by me) that our laboratory at Chefang will prove to be the nucleus of the combined National and Provincial Malaria Research Laboratory. If that is done, I'm sure the work will continue in good fashion.

- 2 -

The road is even more important to the Chinese since Manning fell. It's an amazing piece of work. Nearly 1000 kilometers (725 miles) from Kunming to Nan Ting - over 7 or 8 mountain ranges, up nearly 10,000 feet and down to 2200 (Salwen River) completed by hand labor in 9 months! And I've nearly ruined a used Ford Coupe on every bump they left.

When Manning fell, no autos came to Southwest China - all having come over that road from Hanoi (or over the Burma Road and it ruined them if not heavy trucks). It upset our (the Chinese) plans for transportation and we were reduced to borrowed cars and a 1/2 ton truck. So I bought a car in Kunming - a used coupe (Ford) as it was the only car on sale and without it, the job would be too difficult. Am here in Lashio checking on needed anti-malaria equipment and return to Chefang tomorrow (arrived today). After Christmas will return here and then run down to Rangoon and find out if any new wrinkles have developed in malaria control in Burma. Also to see the work here which resumes shortly.

The plague report petered out. Stopped in Hsenui and found only 2 cases had occurred, last one in November; but, the rats are infected. This is true of Nankham (a few kilometers off the road) and plague is always present in Mandalay - which I think you know. This, however, does not affect the road as freight and munitions come by train to Lashio where Southwest Transport picks it up in their trucks (2,000 of them) and sends it to Chefang with Burmese drivers; there their own pick up the cars and go thru Kunming and on to Chungking. Reason - their drivers are unused to malaria. So Chefang is used and it's worse than any Burma town! The Superintendent here, Mr. J. Shaw, tells me (as does Dr. Seagrave) that the last three plague outbreaks here have been quickly checked among the people with Hoffkins vaccine - but it's in the rats as their anti-rat campaigns are short lived.

When the laborator. is functioning and the surveys completed, I shall send another progress report. My health and Dr. Bush's is excellent. Dr. Mayne does not do well on Chinese food and the physical hardships of the travel have not helped him. We now have a good cook, used to European food; much tinned stuff; and will be in settled, comfortable quarters inside of a week and he should improve. Is on his feet and working but thin.

Sincerely,

(Signed) Louis L. Williams, Jr.
Sen. Surg.

P.S. Please excuse this scrawl but can't reach typewriter till next week.
L.L.W., Jr.

January 26, 1940.

My dear Mr. Harrison:

The Secretary has asked me to thank you for your letter of January 23rd, which enclosed a copy of a confidential communication you received from Governor Roeth of Sveriges Riksbank and your reply to the Governor of this Swedish Bank. Mr. Mergenthau was much interested in seeing this correspondence.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. George L. Harrison,
President, Federal Reserve Bank
of New York,
New York, New York.

GMP:dbb

FEDERAL RESERVE BANK
OF NEW YORK

January 23, 1940.

Dear Mr. Secretary:

I enclose for your information copy of a personal and strictly confidential letter dated December 27, 1939 received by me from Governor Rooth of Sveriges Riksbank and of my reply of January 19, 1940.

I thought you might be interested in reading this correspondence.

Sincerely yours,


George L. Harrison,
President.

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

Encs.

SVENSKA RIKSBANKEN

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Stockholm, 27th December, 1939.

PERSONAL & STRICTLY CONFIDENTIAL

Mr. George L. Harrison,
President,
Federal Reserve Bank of New York,
New York, N. Y.

Dear Mr. President,

The Swedish Minister Mr. Bostrom informed me to-day over the 'phone that in your absence he had delivered to Mr. Sproul and Mr. Knoke a telegram, a copy of which you will find enclosed.

I heard from Mr. Bostrom that Mr. Sproul would submit our question to your Board, refer the matter to Washington and then give us an answer.

Our assets in America amounted yesterday to about 80 million dollars part of which is, however, earmarked for commercial credits. You are also aware of our having gold earmarked with your Bank for a little more than 50 million dollars. We are sending you gold from South Africa and from Norway.

As the political situation in our part of Europe might deteriorate we have made up our minds to increase our dollar funds. One way is the question we have made to you. We also asked Mr. Bostrom to try to find out whether a short Swedish Government loan could be issued on the American market and whether it was likely that the Sveriges Riksbank could get

an overdraft with American Banks. We have been told that the answer in both cases is in the negative.

On the other hand we have through our Minister heard that the Swedish Government might get a credit from the Export-Import Bank when Congress have increased the funds of that bank. Our authorities will probably instruct our Minister to make an application for such a credit.

If our purchases abroad should continue on a large scale or if for political reasons we should consider it wise to send a more substantial part of our gold reserves abroad we might at a future date find that the regulations in the law regarding the Riksbank are embarrassing. Upon our suggestion Parliament has therefore passed a law which permits the Government in case of need to suspend the law as far as it regards our note issue, our banking activity and our publicity. This emergency law is valid only until March 31st, 1940.

The Swedish Banks have made a gentlemen's agreement not to sell foreign exchange to Swedish subjects except for commercial payments. Foreigners are still permitted to get dollars for their Swedish deposits.

I have proposed the Government to reduce the importation into Sweden and I hope that some regulations of this sort will be passed in the near future.

The other day I sent Mr. Knoke some papers regarding the special pound arrangement which we have made lately.

I beg to thank you very much for your letter of November 14 which I have received to-day.

Yours sincerely, (signed) Ivar Rooth

5 ex.

Hemlig

Telegram den 21 december 1939

SVENSKA LEGATIONEN
WASHINGTON

GODHETSFULLT VIDAREBEFORDRA DETTA TILL HARRISON
FEDERAL RESERVE BANK NEWYORK STOP CAN YOUR BANK CONTEMPLATE
CREDIT TO RIKSBANKEN FOR ONE YEAR OF SAY TEN MILLION DOLLARS
AGAINST EITHER NINETY DAYS SWEDISH COMMERCIAL PAPERS DEPO-
SITED OSLO OR GOLD earmarked FOR YOU WITH NORGES BANK OSLO
STOP IF SUCH CREDIT POSSIBLE PLEASE CABLE CONDITIONS STOP
NO URGENT NEED PROPOSAL MADE ONLY AS PRECAUTIONARY MEASURE

ROOTH

PERSONAL AND STRICTLY CONFIDENTIAL

January 19, 1940.

Dear Mr. Governor:

Thank you for your letter of December 27 last, explaining the circumstances which prompted you to inquire (through the Swedish Minister at Washington) regarding the possibility of a credit to the Sveriges Riksbank by the Federal Reserve Bank of New York. You mention the possible deterioration of the political situation in your part of Europe as the factor which prompts you to build up your dollar funds. That, of course, is also the principal circumstance which prompted my telegram of January 3 in which I explained that the only way in which we could possibly accommodate you at this time was through a loan against gold held in the United States, a possibility which you said, in your reply of January 5, is not of interest to you, at least for the time being.

I have noted with interest that the emergency legislation of which you advised me in your letter of December 16 last has been finally passed by your parliament, valid until March 31, 1940; also, that you have proposed to your Government measures aiming at a reduction in the volume of Sweden's imports and, of course, the amelioration of the Swedish balance of

1/12/40.

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payments.

Mr. Sævre tells me that he has not as yet received the papers regarding the special sterling arrangement recently concluded by you - which is not surprising, in view of current delays in the ocean mails.

Yours faithfully,

GEORGE L. HARRISON

George L. Harrison,
President.

Mr. Ivar Booth, Governor,
Sveriges Riksbank,
Stockholm, Sweden.

COPY

MEMORANDUM FOR THE SECRETARY:

January 26, 1940.

Shipping Situation

There has been a decided decline in the demand for cargo space to the United Kingdom, France, Holland and Belgium.

This falling off is reflected in the drop in net form charter rates from 35¢ to 30¢ per cubic foot; likewise by the fact that outside non-Conference operators have been compelled to take cargo at Conference rates in contrast with their practice several weeks ago of exacting premiums.

Some of the non-Conference operators who had vessels lined up to sail to Liverpool have switched these to Havre as the demand for space to France at the moment is stronger than that to the United Kingdom, although this is likewise on the down grade. The French Line are loading for the French government, at the Port of New York alone, seven ships. They are not taking anything but French government priority freight.

Indicating the extent of the slump, a line utilizing foreign chartered tonnage was recently offered a vessel with the privilege of sending it to the United Kingdom, France or Holland and Belgium. After surveying the prospects in the United Kingdom and French markets, it was determined that because of the higher rates prevailing the best chances of coming out even were Antwerp and Rotterdam. This operator is now taking the smallest capacity ships he can obtain rather than the largest, as was the practice the early part of this month. The outlook is so uncertain that no commitments are being made beyond February.

In the French trade a distinct disadvantage is the practice of the French government preempting from forty to fifty percent of the space in any ship loading for France, regardless of its operator or nationality. The operators are required to load such cargo as the

-2-

French Maritime Commission designates and right now Copper, Asbestos and Motor Trucks top the list.

While there have been a number of outside ships put on the Havre berth, receivers in France are resisting the use of these vessels because the marine insurance rate is \$1.50 per \$100.00 compared with not over 25¢ per \$100.00 on regular liners.

Cargo originating in Canada, which had been moving through New York in heavy volume, has slowed down considerably.

The British government has put into effect restrictions that will severely curtail the importation from the United States of Hams and Bacon. This will be reflected in the demand for refrigerated space unless the volume of purchases from Canada should exceed the refrigerated cargo capacity of the vessels sailing from Canadian ports.

There are approximately six and one-half million bushels of Grain at New York awaiting shipment.

Shippers and freight forwarders report no difficulty in obtaining ship's space, except in the case of low rated commodities such as Starch. The situation here has improved to some extent as this commodity has been placed on the British priority list and an allotment of 6000 tons of ship's space monthly provided. Despite the low rate on Starch, some of the outside operators have taken it at the Conference rate.

Isbrandtsen-Moller is reported to be availing himself of the cancellation privilege on some vessels taken weeks ago at the then prevailing rates and unless the charter market declines further, the number of his sailings to all ports will be reduced. The charter rates have weakened to such an extent that the owners will give the charterer the privilege of two loading ports, whereas heretofore the rate covered

-3-

ne loading and one discharging port. Isbrandtsen in one instance is sending a vessel originally scheduled for Liverpool only, to Dublin, Liverpool and Manchester.

Chairman Sinclair of the United Kingdom Conference, states that there has been allocated all but a small portion of the Steel scheduled for February movement. Up to this time this low-rated commodity was one of the most difficult problems confronting the regular lines.

Despite the precipitate drop in the demand for forward space, the current volume has remained at a comparatively high level. The Association of American Railroads report that in the first twenty days of January they lightered each day 708 cars of export freight, compared with 686 in December and 590 per day in November.

Export grain business is dormant and the nominal rate to Antwerp/Rotterdam is a weak 55¢ per 100 lbs. versus a recent top of 75¢.

The degree of control being exercised by the belligerent governments is indicated by the requirement that the vessels of British registry operating from Gulf ports to the United Kingdom are, beginning February 1st, allowed to carry only such cargo as authorized by the British Ministry of Shipping. The British Ministry of Shipping has ordered the discontinuance of the payment of freight brokerage on authorized cargo.

Basil Harris

Supreme Court of the United States
Washington, D. C.

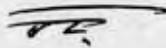
CHAMBERS OF
JUSTICE FELIX FRANKFURTER

January 26, 1940

Dear Henry:

In your modest way you've never told me so, but I have long suspected that you had a perfectly natural curiosity to know how busy people spend their days - you finding time so heavy on your hands that you have to fly all around the country to keep going. And so I thought that the enclosed communications will give you a glimpse into the lives of busy people.

Ever yours,



Hon. Henry Morgenthau

San Francisco

Jan 9th, 1940

Dear Justice Frankfurter,

I cannot leave this country without at least sending you a brief note of farewell. I understand and respect the reasons why it has not this time been possible to reestablish more than a purely human contact. You will not, I hope, consider my feeling of its continued existence presumptuous - since, I am afraid, there is now no more opportunity left to confirm it.

With my kindest regards to Mrs. Frankfurter, I remain

Yours faithfully,

Adam v Trott

THE WHITE HOUSE

Washington

January 17, 1940

MEMORANDUM FOR

F.F.

For Heaven's sake! Surely you did not let your Trott friend get trotted out of the country without having him searched by Edgar Hoover. Think of the battleship plans and other secrets he may be carrying back. This is the height of indiscretion and carelessness on your part!

F.D.R.

January 23, 1940

Dear Mr. President:

So little of the news of the world manages to enter these narrow, impervious confines that I learnt for the first time from your memorandum of the 17th that the responsibility for the administration of the F.B.I. has impliedly been transferred to me. Here I have been laboring under the foolish notion that somebody else is Edgar Hoover's boss! That he is under my authority opens up a vista of possibilities that I had not heretofore suspected in this job. And so I say, life begins after fifty.

Faithfully yours,

The President

W. RANDOLPH BURGESS
55 WALL STREET
NEW YORK

January 26, 1940.

Dear Henry:

I hoped to be able to send you ahead of time a copy of my last night's speech at New Haven, but it was not ready in time. I am enclosing now a press copy which is subject to a few minor changes.

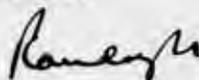
There will be some things about it with which you won't agree, but they are expressions of my very deep convictions after many years of reflection.

But the main point, of course, is that these are very important questions which should now be discussed very fully in public as an aid to the formation of public opinion. I am particularly interested to know your reaction to my suggestions for the reorganization of the Board of Governors of the Federal Reserve System.

Gordon tells me about the grand job that you are doing in another field.

With best wishes,

Sincerely yours,



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

WRB.H
encl.

RELEASE FOR PUBLICATION

MORNING NEWSPAPERS, FRIDAY, JANUARY 26, 1940

WHAT ABOUT MONEY
MANAGEMENT?

by

W. Randolph Burgess, Vice Chairman of the Board

of

The National City Bank of New York

An address before the
CONNECTICUT BANKERS ASSOCIATION
New Haven, Connecticut
Thursday Evening—January 25, 1940

WHAT ABOUT MONEY MANAGEMENT?

WITHIN the past few weeks there have appeared two discussions of this country's long term monetary problems which are of great importance both by reason of their source and their content. Mr. Winthrop Aldrich has proposed that we should return to a full gold standard, and Mr. Russell Leffingwell has reviewed a span of 22 years of monetary policy and reached the conclusion that we should be better off with less management. I am sure that these proposals are put forward only after mature deliberation. They deal with questions bearing not alone upon business and finance, but upon the welfare of all the people. The discussion should be carried forward until the main points at issue are publicly understood. In these days when we are so much and so rightly concerned about more immediate problems, such as how to put idle money to work, these more basic problems may seem academic. But in reality they are necessary parts of any reemployment program, for confidence in money is the basis of our system of free enterprise.

It is within this general area of longer term monetary policies that I propose to make some comments. I shall not discuss except incidentally New Deal silver and gold policies, unbalanced budgets, or deficit financing, or such other fascinating and important questions as the long term effects of present low money rates, or the effects of war. But, like Mr. Leffingwell, I want to think not on a 24 hour basis, but in terms of a long span of years. While he mentioned 22 years I have been thinking of 25 as a significant number because the Federal Reserve System has just celebrated its 25th birthday. For any conclusions about monetary management shorter periods are misleading. We thought we were managing money pretty well in the

middle twenties, but Mr. Leffingwell comes to the conclusion that we were sowing then the seeds of our later discontent. It may well be said of monetary policies that "the sins of the fathers are visited upon the children."

In dealing with so large a topic so briefly I shall necessarily omit many qualifications, and run the risk of appearing dogmatic.

MONEY, BUSINESS AND EMPLOYMENT

First a few words should be said as to the relation between money and business and employment, even at the risk of being a little theoretical. The central facts as I see them may be summarized as follows.

In the history of this and other countries business activity tends to move in waves, from prosperity to depression and back again. The changing psychology of these periods is their outstanding characteristic. At one time business men and individuals are optimistic and conduct their affairs with an eye to the long future. At another they plan only a few weeks ahead. These periods tend to be cumulative and lead on the one hand to over-enthusiasm and speculation, and on the other to undue pessimism and despair. The problem of achieving greater stability of business and employment is largely one of checking the periods of optimism or pessimism before they go too far and carry the country either into over-speculation or depression. One of the most important conclusions which now appears to be justified is that control, while more unpopular, is more effective on the up-side than on the down-side. For, once over-expansion and over-speculation have gone too far and finally crashed, a compensatory period of readjustment and depression is almost impossible to avoid.

A recently published study by Col. Leonard Ayres, which goes on the list of required reading, demonstrates more positively than heretofore the influence of monetary forces at the turning points of the cycle. The relationship indicated in these studies, covering a long period of this country's economic history, is that the fluctuations in

business respond to conditions in the security markets and in particular to the supply of funds made available to business through the public sale of stocks and bonds. This in its turn is linked with changes in the money supply and its price. The nature and timing of the cycle are of course influenced by many other factors, but none appear so consistently present at the turn of the cycle as this money factor.

THE TWENTY-FIVE YEAR RECORD

Against this general background I suggest that we take aerial observations of the record of the past twenty-five years of business since the Federal Reserve System was established. For with the Federal Reserve we adopted a form of money management which might be hoped to operate towards stability. What are the facts. They are readily available in a number of measures of production, employment, and of various other aspects of business. The facts as shown by these measures are that the fluctuations in business have been greater in the past twenty-five years since the Federal Reserve System was established, than heretofore. The depression of 1921 while not unusual in duration was more severe than any of its predecessors; business activity dropped further; unemployment was greater both in numbers and percentages. Then the depression of the thirties made 21 look like a pigmy; it has been far and away the worst both in extent and duration.

It would, of course, be foolish to leap to the conclusion that the Federal Reserve System was really responsible for the extent of these depressions. One can think of a good many reasons why the depressions have been worse in this twenty-five year period.

The first is, of course, that this has been a very difficult period. It has reflected the economic dislocations of the world war. These depressions are properly called the primary and secondary post war depressions. Unstable currencies and vast gold movements have reflected world-wide economic disorder.

A second reason arises curiously enough from our very prosperity and high standard of living. When a large part of a country's pro-

duction consists of luxury goods, the possibilities of postponement of purchases are multiplied. When a cloud appears in the sky and people postpone buying, it may cut production 25 to 50 per cent, and the cut is cumulative, for every man thrown out of work in turn decreases purchasing. Another corollary of the high standard of living is that more people live in cities, and fewer on farms. In more primitive periods men out of work went back to the farm. Today that door is less open and hence the economy is less elastic to take up the shock of depression.

But even when allowance has been made for these causes of instability I want to raise the question whether there is not in addition a change in the monetary mechanism which has tended to encourage bigger booms and deeper depressions than formerly.

CHANGES IN THE MECHANISM

Let me remind you of a change in the operation of the business cycle due to the establishment of the Reserve System. As basis for the comparison suppose we examine first what happened in 1907. The story briefly is this. 1905 and 1906 and the first half of 1907 constituted a period of great prosperity. Industrial production was active. Workers were well employed. Stock prices were rising and reached, in fact, the highest level for many decades. The amount of new capital issues was large. It was a period when the dangers of over-speculation and over-production of one sort or another were imminent. What happened to bring it to a close? There seems general agreement that the primary check to further expansion was that the supply of money ran out. The expansion of business and of prices had brought with it an expansion of the amount of currency in circulation. That, together with the expansion of bank credit, used up the available supply of funds, and bank reserves began to show deficits. There existed at that time no ready means by which the supply of money could be increased and given elasticity. As a result there was a brief money panic. It was difficult to obtain currency. As a consequence industrial production promptly declined. Stock

prices went down. Capital issues diminished and business and finance went through a period of rapid readjustment.

Comparing this sequence with more recent periods the surprising thing is how rapid the period of readjustment really was. The decline occupied only a few months, and by the middle of 1908 business was well started on another upward swing, but with the situation readjusted so that a number of weak business and financial institutions had been liquidated and over-speculation had been pretty well squeezed out.

It may be noted that the process of readjustment in 1907 and 1908 was painful, but that the pain did not last very long. It was painful enough, in fact, so that the experience was vividly in the minds of the legislators who devised the Federal Reserve System.

Turning to the more recent period, and ignoring other differences, we may ask ourselves what are the principal differences in the monetary mechanism, which distinguish it from the sequence of events in 1907.

First, as to 1920 and 1921. The conclusion of the war at the end of 1918 found this country's credit structure greatly expanded. There was every expectation that the war would be followed immediately by depression, but there was, among other influences, a new money element in the situation. Whereas in 1907 the money supply was limited, in 1918, 1919, and 1920 it had elasticity through the mechanism of the Federal Reserve System. Even though credit and currency were over-expanded, money could still be obtained at the Reserve banks through the rediscounting process; and that is what happened. Thus, without the restraint of any definitive limitation upon money, bank credit continued to expand through 1919 and the early part of 1920; prices continued to rise, and with favoring money rates the Treasury was able to take care of its final bond issues for the war. It was only after the expansion of money and prices had gone to an extreme point that the Federal Reserve authorities, delayed by Treasury influence, finally used their powers vigorously to check the expansion.

The important difference between the two periods, as far as money

mechanism is concerned, was that in 1907 the check to over-expansion was automatic, the supply of money ran out, whereas in 1920 there was no automatic check. The reserve reservoirs of the banking system were open until the authorities made a decision about closing them. In other words, money management was substituted for automatic limitation. It also seems clear that the extreme depth of the 1921 depression is largely accounted for by the extent of the over-expansion in 1919 and 1920. If the expansion had been checked earlier the depression in all probability would have been less severe.

The story of the late 20's is somewhat similar with reference to the monetary mechanics. The business boom was kept going with the use of Federal Reserve facilities. In 1924 and in 1927 incipient depressions were checked by expansive action on the part of the Federal Reserve System. In 1928 and 1929 at the height of the boom there was no automatic limitation on expansion, and restraining action in the form of discount rate increases and open market operations proved ineffective, partly because they were regarded as artificial and money was still readily obtainable. The movement was checked only after decisive increases in discount rates in August, 1929. Here again it seems a reasonable conclusion that if the expansion had been checked earlier the succeeding depression would have been less severe.

This is, of course, presenting the case in very bald outline and leaving out all mention of a great many complicating factors such as the world monetary position, the longer term influence of the war, increased mechanization of industry, etc., etc.; but none of these qualifications seems to me sufficient to offset the central core of evidence that since we have had elasticity of credit and currency, so that a money shortage no longer acts as automatic check, and restraint is dependent on money management, the mechanism tends to be less effective in checking over-expansion.

In this connection it is interesting to recall that when the Federal Reserve Act was under discussion Senator Elihu Root made a speech in which he foresaw something of this difficulty and said that the proposed new banking legislation would launch the country "on a

career of inflation." Events in 1919 and 1920 and in the late twenties lent some support to this proposition.

HANDICAPS OF MANAGEMENT

Even aside from the extraordinary economic confusion of the recent period money management has encountered grave difficulties. The first was a general failure to recognize the responsibilities of management inevitably involved in the notion of elasticity. The Reserve Act quite failed to define the problem: discount rates were to be fixed simply "with a view of accommodating commerce and business," not as an influence toward stabilizing the economy or avoiding inflation and deflation. It took almost ten years of operation of the System before its true and unavoidable function was recognized.

The second problem was to know how and when to act in a very complicated economic situation. Take early 1937 for example, was that the beginning of a real inflation that should be nipped in the bud, or merely a fluctuation that could safely be allowed to run its course? We don't know yet. Every policy decision is in reality a prediction of the economic future; the lack of success in such predictions even by the ablest is notorious. Even after the fact, you can never prove that the dangers you feared, and acted to prevent, would really have occurred.

The third handicap is pressure, political and otherwise, on those who have to make the decisions. Both businessmen and politicians love expansion and don't want it stopped. When the job is to stop expansion before it goes too far, the whole environment is in opposition. Witness 1929. In Washington the Reserve Board remembered the violent attack in Congress on the so-called "deflation policy of 1920" which had in fact unseated Governor Harding. In New York State a speculator even brought suit against the New York Reserve Bank for raising its discount rate. The money manager who does his job is the world's champion kill-joy.

Perhaps under these handicaps it is a wonder that the System has done so well. And it should be added that at all times both in

Washington and in the Reserve Banks the decisions have been made by earnest conscientious men seeking to do their duty as they saw it.

Even after making these allowances the facts in themselves go far to support Mr. Leffingwell's indictment of managed money. The results so far have been unsatisfactory.

WHAT CAN BE DONE?

The next question is, "What's to be done about it?" One is tempted to suggest that we turn the hands of the clock back, abolish all powers of monetary control, and leave the Reserve System simply as a service station for the banks and Treasury, to handle money and checks and other semi-mechanical service. That would mean no re-discounting, no open market operations, no changes in reserve requirements; for all of these are the mechanisms of money management, make no mistake about that.

To spell the proposal out is to answer the question. It can't be done. Politically it is impossible. Once the people have taken over money management they are going to keep it, partly for fear that if they don't, private interests will in fact manage money for private gain.

I doubt if we as bankers think we should be better off with a return to an automatic mechanism. Without the Reserve System, financing our part in the World War would have been harder; the gold flow afterwards would much more surely have inflated us; and any depression comparable with the recent one would have brought us management in different and perhaps worse form. It is hard to conceive any method of bringing our present gold hoard and tremendous gold movements within the framework of any effective automatic mechanism.

No, we cannot, if we would, turn back to the simpler monetary system of the past, and I doubt if seriously we would. The alternative seems to me to explore the possible means by which the management we have might be safe-guarded and improved.

Let me suggest very briefly some of the more promising avenues for exploration.

1. *Limit and Simplify Management.* First, we should consider ways in which the problem of management may be simplified both by narrowing the area within which decisions must be made and embodying in the mechanism such checks and limitations upon unsound practices as are feasible.

The first and most obvious move in this direction is to repeal some of the legislation for dealing with emergency conditions now past, which now have the double effect of confusing and complicating the problem of monetary management and of impeding the restoration of confidence. Since a number of these laws provide for administration by the Treasury they divide authority for monetary policy between different arms of the government, with almost inevitable resulting confusion. There is clearly no longer need for the provision authorizing the issuance of unsecured greenbacks, and there never was any sound economic reason for the silver legislation.

With respect to the power to devalue gold and to deal in gold or buy securities with the stabilization fund, there is more room for difference of opinion, especially in view of the continued unsettlement of world finance. It must be recognized, however, that as long as these powers exist in the Treasury the responsibility for monetary policy is divided. The return to a fixed gold parity, supported by free movements of gold, would simplify this problem, and would be something of a safeguard and restraint in that it would make over-expansion, the use of inflationary devices, or long continuance of unbalanced budgets less easy. For policies of these sorts tend to result in gold movements. The gold standard is a little like a fever thermometer. It sometimes frightens you unduly and at the wrong time, but it is usually helpful, and smashing the thermometer is a dangerous way to deal with a fever. I am inclined to agree with Mr. Aldrich in advocating going the whole way and putting gold in circulation as a means towards restoring confidence in money and of making still more difficult in the future changes in its gold value. In the long term history of money such changes have been made more frequently for political than for sound economic reasons. With our present strong gold position we can afford to lead the way. I see

no important advantage in delay. In those areas of the world where trade is still possible we shall be in a much stronger position to advocate and assist in achieving that currency stability which is essential to trade if our own position is definitely assured. Such action is a logical part of any program for lowering trade barriers.

We should, however, have no illusions that the restoration of the gold standard would eliminate management. With our present huge gold supply we must still have management, but the area for management would be somewhat narrowed, and responsibility would be less divided.

As to the more permanent establishment, question might be raised as to limiting and simplifying certain powers of the Reserve System. As a protection against possible abuse, there is much to be said for a limitation, such as is in force in a number of other countries, on the amount of government securities the system can hold. The power over reserve requirements needs much study. In the face of enormous excess reserves the power to increase reserve requirements should probably be continued and enlarged. On the other hand the power to reduce them once they are raised is a horse of another color. Changes in reserve requirements are a method of adjusting to a new gold situation, and clearly should not be used as a current operating mechanism.

2. *Improve management.* The prime essential is to improve over a period of years the experience and capacity of the people who exercise powers of money management. To some extent this will take place naturally: the managers are to-day more experienced, more aware of their function than they were a few years ago. But there are serious faults in the set-up. The best way to bring this out is perhaps to compare our money management board with the Supreme Court. The Reserve Board exercises powers no less important for the well-being of the people than the Supreme Court, but the provisions for getting the best personnel are far less good. As to salary, Supreme Court justices receive \$20,000, which is too little, appointment for life, and may retire on full pay. A Reserve Board member receives

\$15,000, with no retirement allowance, and must retire on completion of his 14 year term. That is a serious block to getting the best men. There is no legal geographical limitation on Supreme Court justices, but good men have often been unavailable for the Reserve Board because not more than one may come from any Federal Reserve District. Every member of the Supreme Court is a lawyer, with years of legal experience behind him; but membership in the Federal Reserve Board must by law provide for representation of the financial, agricultural, industrial, and commercial interests. It is not required that every Reserve Board member shall have had experience in finance. These rules have meant that in many cases the best men in the country could not be appointed, and even when very good men were appointed many of them did not have the particular training or capacity to fit them for one of the most exacting and important responsibilities in the country. I have long thought that the System might be strengthened by a provision under which a number of the members of the Board would be presidents of Reserve Banks, serving in rotation, receiving their salaries as presidents and continuing on the pension system. It would assure a body of practical experience on the Board, would be valuable training for the presidents and make their work more interesting, and would improve the relations between the Board and the Reserve Banks. Federal Reserve Banks have provided an effective mechanism for the training of men in central banking, which is different from commercial banking, not subject to the same limitations as the Board. By a curious perversity the tendency of recent legislation has been to make less, rather than more, effective use of this personnel.

Of course we must all recognize that this question of the organization of the Reserve System is a political as well as a monetary question, and it is mainly for that reason that the suggestions I have just made are very hard to carry out. Central banking is so vital to the public interest that there must be assurance that no private interests and no section of the country can control it. Its action moreover is so related to the whole economic program of the government that com-

plete independence from the executive is difficult, especially in periods of emergency. And yet the political atmosphere is not one in which central banking does well. For as we have said the decisions to be made are hard and often have painful immediate consequences, especially when the job to be done is to check over-expansion. Politics does not like to make that kind of decision, or to take the consequences. Thus the central banking system has the double responsibility of cooperating with other agencies of government, while at the same time preserving a certain freedom and independence of action. It is a tight-rope kind of job. This again calls for the finest personnel, equipped for the task by both experience and tradition, whose opinions will command the respect of both the political authorities and the public. With our new understanding of the nature of the work to be done it seems to me clear that the present provisions of the Federal Reserve Act bearing on the organization and personnel of the top control of the System need overhauling.

3. *Support Management.* Up to this point we have been exploring very frankly ways in which other people might do their jobs better. Before concluding we might well ask the question what our own responsibility as bankers may be in these matters. One principle seems clear from the foregoing. It is that monetary management deals with a constantly changing problem in public psychology, and its success will depend upon public understanding of its objectives. The only way the law and organization of money management can be changed is with the support of public opinion. That is where our job comes in, and we shall get as good monetary management in this country as the bankers really want badly enough to work for. Our first task is to understand the problem ourselves. We are doing something about that through the American Institute of Banking, the Graduate School of Banking, and the research programs of the American Bankers Association, and the Reserve City Bankers. Our second task is to furnish leadership for public opinion on these financial questions, and on this task I fear we should all admit we

have not made much progress. We have been busy with some very pressing problems of our own, and, moreover, the public has not exactly been clamoring for our views. Time is gradually changing that situation. The public is more ready to listen when we have something to say. From here out it looks as though the future of our profession would be largely up to us.

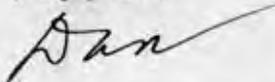
January 26, 1940.

Dear Launch:

For the Secretary I acknowledge your further letter of January 12, 1940, regarding the possibility of the repurchase of shares of the Federal Savings and Loan Associations from the Treasury by the Associations. It was not necessary to have a legal opinion on the point which you raise as the law seems quite clear. I quote below that section of the law pertaining to the repurchase of these shares:

"No request for the repurchase of the full paid income shares purchased by the Secretary of the Treasury shall be made for a period of five years from the date of such purchase, and thereafter requests by the Secretary of the Treasury for the repurchase of such shares by such associations shall be made at the discretion of the Board; but no such association shall be requested to repurchase any such shares in any one year in an amount in excess of 10 per centum of the total amount invested in such shares by the Secretary of the Treasury. Such repurchases shall be made in accordance with the rules and regulations prescribed by the Board for such associations."

Very truly yours,



Under Secretary of the Treasury.

Mr. Launchlin Currie
Administrative Assistant to the President
The White House
Washington, D. C.

WTF
DUB:ew

1-27-41

106

FROM: MR. GASTON'S OFFICE

The Secretary

TO:

conversation with Berle yesterday in
 and I had discussed the matter with you
 last before I made an appointment for a
 at 11 o'clock
 in my office this morning on Pan-American
 with the 700 people. Berle is to come himself
 with Messrs. and Gardner. I have asked the
 to call his board together to get
 ready. They will of course be
 with Berle's presence as an observer.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

107

DATE January 27, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

In a very inactive foreign exchange market, the rate for sterling advanced from an opening of 3.98-5/8 to a high of 3.98-7/8 on small commercial buying. The closing quotation was also 3.98-7/8.

Sales of spot sterling by the four reporting banks totaled £75,000, from the following sources:

By commercial concerns.....	£ 50,000
By foreign banks (Far East).....	£ 25,000
Total....	£ 75,000

Purchases of spot sterling amounted to £126,000, as indicated below:

By commercial concerns.....	£ 106,000
By foreign banks (Far East).....	£ 20,000
Total....	£ 126,000

The following reporting banks sold cotton bills totaling £11,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 9,000 by the National City Bank
2,000 by the Guaranty Trust Company
£11,000 Total

The other important currencies closed as follows:

French francs	.0226-1/8
Guilders	.5310
Swiss francs	.2242-1/2
Belgas	.1694
Canadian dollars	11-7/8% discount

We sold \$60,000 in gold to the National Bank of Belgium, to be added to its earmarked account. Although the amount is small, this transaction is noteworthy since it represents the first sale of gold to the Belgian Bank in more than four months.

The Federal Reserve Bank of New York reported that the Royal Bank of Canada, Montreal, was shipping \$487,000 in gold to its New York agency for sale to the U. S. Assay Office.

The State Department forwarded to us a cable stating that the following shipments of gold would be made from England by Samuel Montagu & Co.:

\$ 1,179,000 representing two shipments to the Bankers
Trust Co., New York.
352,000 to the Chase National Bank, New York
140,000 to the New York Trust Company, New York
\$ 1,671,000 Total

The above shipments will be sold to the U. S. Assay Office at New York.

In a report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on January 24, such deposits totaled \$37,135,000, a decrease of \$82,000 since the last report on January 17. Of this amount, \$25,110,000 represented deposits with the Yokohama Specie Bank by their branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was \$72,519,000, a decrease of \$507,000 since January 17.



CONFIDENTIAL

NAVY DEPARTMENT
Office of the Chief of Naval Operations
Washington

27 January 1940

MEMORANDUM

For

Admiral Land

Admiral Weesche

The within copy of memorandum confirms my telephone call as of this date.

I am assuming that Admiral Land and Admiral Weesche will get together on their end of it and that Admiral Weesche will get together with the Weather Bureau on his end of it.

Also Navy Department will obligate itself to furnish suitable radio for the Maritime Commission ships. Early information from the Coast Guard on the requirements will be appreciated.

Unless further called upon by one of you I will assume nothing further is necessary from the Navy Department until we are informed with regard to the radio.

/s/ H. R. STARK.

Copy to Bu. Eng.

THE WHITE HOUSE
WASHINGTON

January 25, 1940.

MEMORANDUM FOR

THE PRESIDENT

Subject: Ships for Atlantic Weather Observation.

Pursuant to the President's memorandum to me, Admiral Stark, Admiral Land and Admiral Waesche have conferred on the matter of availability of ships for the Atlantic Weather patrol. As a result of this conference, the following is recommended:

- (a) That Coast Guard cutters be withdrawn from the Grand Banks Patrol and established on the weather patrol duty. This would be a temporary measure until vessels are available which could be permanently assigned to this duty.
- (b) Appropriations for Maritime Commission are presently being considered by Congress as part of the Independent Offices Bill. Should the funds be provided in this bill as asked by the Maritime Commission, Admiral Land will then be in position to undertake the recommissioning of the four vessels for purpose of establishing a more permanent weather patrol, operated by the Coast Guard.
- (c) If funds under (b) are reduced so that money will not be available for recommissioning, the question of additional legislation for this purpose will be taken up.

Does the President desire that (a), above, be carried out and that the work of recommissioning be undertaken if funds become available as outlined in (b), above?

Respectfully,

/s/ D. J. CALLAGHAN.

Yes
FDR



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 27, 1940

MEMORANDUM FOR THE SECRETARY

The Bell Aircraft Corporation has at present two contracts for the Army, one for 13 Alracudas at approximately \$3,213,000, and one for 93 P-39s at approximately \$3,906,000, deliveries on which are to start in June, 1940, and be completed by June, 1941. A reservation has been made based on an estimate of the Army Air Corps for the construction of 500 P-39s when 1941 money becomes available. This contract, if awarded, would utilize all of the existing facilities of the Bell Aircraft Corporation. Any appreciable number of planes in excess of this will entail additional space, as well as additional facilities, tools and equipment, the amount of each dependent upon the size of any additional contract that might be awarded.

The existing plant occupies 200,000 square feet located in a building of approximately 1,000,000 square feet, of which 400,000 additional square feet can be had on a rental basis. The question of additional construction, therefore, does not exist. Mr. Bell has estimated that additional machine tools and equipment could be acquired at a rate which would permit of the delivery of the first ships under any new order within eight months from the date of the contract. The number of ships in such a contract would determine the monthly rate at which deliveries might be made.

The labor situation does not present any difficulties as there is apparently more than a sufficient supply in the Buffalo metropolitan area. In addition to this, labor can be readily drawn from as far west as Detroit and as far south as Pittsburgh.

The company has at present, according to the Balance Sheet, \$431,157 worth of machinery and equipment. Most of this is comparatively new, modern in every respect and of the latest type. The equipment as a whole is well balanced to cover all of the many diversified types of manufacture incident to airplane plants. The plant also has equipment for heat-treating both steel and dural. The layout of tools and equipment has been particularly well made.

A P-39 has been tested to destruction in accordance with Air Corps practices, and the reports in connection with this static test indicate that the airplane meets all the structural requirements for pursuit ships prescribed by the U.S. Army Air Corps. In addition, the experimental P-39 was completely tested in the full-scale wind tunnel at Langley Field by the National Advisory Committee for Aeronautics, and the results of these tests were satisfactory.

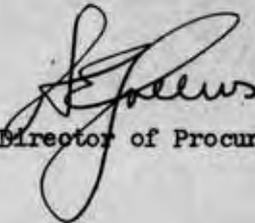
On an order for 200 P-39s delivery would start in eight months and reach a maximum of 30 per month in the thirteenth month. It is estimated that the additional facilities required for an order of this size would amount to approximately \$750,000. On

an order for 500 P-39s a delivery rate of 60 per month could be reached in fifteen to eighteen months, and the additional facilities involved would cost approximately \$1,500,000. On an order for 1000 airplanes it is estimated that an expenditure of approximately \$2,000,000 for additional equipment would be required and that a delivery rate of 100 per month would be reached in fifteen to eighteen months.

Mr. Bell, the President of this corporation, has had 27 years' experience in the production of airplanes. He was General Manager in Charge of Production for Glenn L. Martin for 12 years and occupied the same position for 6 years with Consolidated Aircraft Corporation. For the past 5 years he has operated his own company. His reputation as a production man is very high in the aviation industry. His executive organization appears to be very well balanced and most efficient. There are presently employed in the plant 1,166 people. This force could be rapidly increased to meet any additional workload that might be placed upon it as the result of a contract of appreciable size.

There is attached hereto a tentative Balance Sheet as of December 31, 1939.

There is also attached hereto a memorandum indicating performance and characteristics of the P-39.


Director of Procurement

atts.

BELL AIRCRAFT CORPORATION
2050 Elmwood Avenue
Buffalo, New York

BALANCE SHEET (Tentative)DECEMBER 31, 1939ASSETSCurrent Assets

Cash in Banks and on hand			\$ 213,069.47
Accounts receivable -			
Customers	\$ 13,543.86		
Miscellaneous	<u>1,983.53</u>		15,527.39
Cash surrender value of life insurance			<u>4,643.60</u>
Inventories -			
Materials and supplies, at cost	\$ 220,734.80		
Contracts in progress, at cost (including proportionate part of general and administrative expenses of approximately (\$170,000.00) or sales value whichever is the lower			
Contracts in progress on which partial payments have been received	\$2,907,554.65		
Less: - Partial payments	<u>2,130,870.60</u>		
	\$ 776,684.05		
Other contracts in progress	<u>260,549.00</u>	<u>1,037,233.05</u>	<u>1,257,967.85</u>
			<u>\$1,491,208.31</u>
<u>Fixed Assets, at cost</u>			
Airport land and hangars	\$ 125,000.00		
Machinery, equipment, etc.	<u>431,157.43</u>		
	\$ 556,157.43		
Less - Reserve for depreciation			<u>462,993.87</u>
			1.00
<u>Patent Design Rights and Drawings</u>			
<u>Accrued Charges:</u>			
Experimental and development expenses	\$ 418,003.15		
Household improvements, less amortization	21,089.42		
Supplies and perishable tools	41,401.06		
Unpaid insurance, taxes, etc.	<u>32,890.58</u>		<u>513,384.21</u>
			\$2,467,587.39

BELL AIRCRAFT CORPORATION
2050 Elmwood Avenue
Buffalo, New York

BALANCE SHEET (Tentative)

DECEMBER 31, 1939

LIABILITIES

Current Liabilities:

Notes Payable - banks	\$ 100,000.00	
Accounts payable	42,056.22	
Accrued wages, taxes, etc.	67,101.70	
Provision for Federal income taxes	<u>1,707.29</u>	\$ 210,865.21

Capital Stock:

Common stock - \$1.00 par value per share Authorized, issued and outstanding - 250,000 shares		250,000.00
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Retained Surplus

Balance, December 31, 1938	\$1,021,972.44	
Added - Excess of cash received from sale of common stock over par value thereof	<u>917,821.00</u>	
	\$1,939,793.44	
Less - Expenses incurred in connection with the sale of common stock	<u>57,202.97</u>	
Balance, December 31, 1939		1,882,590.47

Accumulated Surplus:

Balance, December 31, 1938	\$ 114,928.45	
Net profit for the year ending December 31, 1939 (statement attached)	<u>9,203.26</u>	
Balance, December 31, 1939		124,131.71
		<u>\$2,467,587.39</u>

BELL AIRCRAFT CORPORATION
2050 Elmwood Avenue
Buffalo, New York

STATEMENT OF PROFIT AND LOSS (Tentative)

FOR THE YEAR ENDING DECEMBER 31, 1939

(includes only goods actually delivered)		\$450,438.55
of Goods Sold:		
Inventory of contracts in progress at January 1, 1939	\$ 847,727.41	
Manufacturing costs, contract direct expense and experimental and develop- ment costs	2,866,950.32	
Experimental and development expenses deferred at December 31, 1938, now transferred to costs of contracts in progress	128,052.77	
General and administrative expenses	142,616.27	
Provision for depreciation	41,384.84	
	<u>\$4,026,731.61</u>	
Assets -		
Inventory of contracts in progress at December 31, 1939	\$3,168,103.55	
Experimental and development expenses deferred at December 31, 1939	418,003.15	
	<u>\$3,586,106.80</u>	
Cost of goods sold		<u>440,624.81</u>
Operating profit		\$ 9,813.74
Income, net		<u>4,341.29</u>
		\$ 14,155.03
Operation of airport, after providing 250.04 for depreciation		<u>3,401.77</u>
Profit before provision for Federal income tax		\$ 10,753.26
Provision for Federal income tax		<u>1,550.00</u>
Net profit for the year ending December 31, 1939		<u>\$ 9,203.26</u>

PERFORMANCE

High speed at critical altitude (15,000 ft)	400 mph - 644 km/hr.
Stalling speed (sea level)	77.6 mph - 125 km/hr.

Time of climb:

4,000 m. (13,120 ft.)	- 3.30 minutes
5,000 m. (16,400 ft.)	- 4.30 "
6,000 m. (19,680 ft.)	- 6.10 "
7,000 m. (22,960 ft.)	- 7.50 "

Service ceiling	34,000 ft. - 10,370 metres
Cruising range @ 250 mph at 15,000 ft.	1,250 miles - 2,011 km.

NOTE: Foregoing performances guaranteed within 5%.

CHARACTERISTICS

Power plant - Allison V-1710, 1150 hp engine

*Weights:

Normal weight empty	- 4,524 lbs.	- 2,052 kg
Normal useful load	- 1,456.5 "	- 660.6 kg
Normal gross weight	- 5,980.5 "	- 2,712.7 kg

*Depending upon equipment specified.

Weight Tolerance - 5%

Wing span	- 34 ft.	- 10.36 m.
Wing area	- 213 sq. ft.	- 19.76 sq. m.
Wing loading	- 28.1 lbs-sq. ft.	- 137.1 kg-sq. m.
Power loading	- 5.2 lbs-bhp	- 2.36 kg-byp
Design load factor	- (U.S. analysis methods)	- 12.0

All positive angles of attack based on normal gross weight.

Landing load factor	- 7.0
---------------------	-------

Provisions are made for installation of following armament:

- 1 - 37 mm cannon (or smaller) firing through propeller shaft
- 2 - .50 cal. synchronized machine guns
- 2 - .30 cal. synchronized machine guns

Additional .30 cal. machine guns may be installed in wings.

This advanced design incorporates the following distinctive features:

Retractable tricycle landing gear with tread and wheelbase of approximately 11 feet, a safety feature for pilots of limited training.

Searching and fighting vision superior to that of any other fighter.

Superior maneuverability due to concentration of weights around center of gravity, and relatively low wing loading.

Pilot protection from gunfire from below and rear, and against flames from fire in engine compartment.

Superior facilities for pilot's emergency exit in flight.

Excellent flying, handling, landing and take-off characteristics as reported by Air Corps test pilots.

The Bell P-39 combines the greatest degrees of speed, maneuverability, fire-power, vision and safety ever incorporated in a single-engine fighter.



1300 FEET

900 FT

Capacity of the building is approximately 200,000
square feet. The building is approximately 1300 feet
long and 900 feet wide.

200,000
400,000
600,000



TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

January 27, 1940

MEMORANDUM FOR THE SECRETARY

The Menasco Engine plant, located in Los Angeles, has a floor space of approximately 43,000 square feet and a personnel of 205, 170 of whom are productive employees, with a maximum limit of 275 employees.

This company manufactures 125 HP, 150 HP, and 260 HP engines. They have on hand at present orders for 101 engines with a maximum output of 130 per month. Their engines are of 4 and 6 cylinder in-line air-cooled types. At present their orders include 32 engines for domestic use, 54 for China, and 12 for Latvia.

It was not considered by the Naval representative who made the inspection as being available in the production of engines of a type presently used in the military service.

Director of Procurement



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 27, 1940

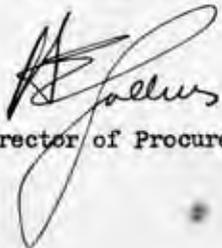
MEMORANDUM FOR THE SECRETARY

The Kinner Company of Los Angeles which manufactures Kinner engines is located in a plant with approximately 40,000 square feet. They have a total personnel of 70, 55 of whom are productive employees. The possible maximum force with the present space and equipment is estimated at 300.

They manufacture 5 cylinder radial engines of 160 HP size and have at the present time orders for 90 of these engines, with a maximum output estimated at 100 per month. They also have Civil Aeronautic Authority's approval for the manufacture of 300 and 350 HP 7 cylinder engines, neither of which, however, is at present in production. It is reported that they have prospective business for 1940 of about 700 engines. This figure is based on prospective contracts now in negotiation and, it is understood, soon to be signed.

The equipment in their plant is not elaborate but is ample for the type of engine which they are building. It is not considered suitable, however, to the types of engines at present being used in military planes.

The Naval representative who inspected this plant states that it can be considered as little more than a good size machine shop, and not too good a one at that.


Director of Procurement



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

January 27, 1940

MEMORANDUM FOR THE SECRETARY

The Curtiss plant at Buffalo consists of 600,000 square feet, all of which, together with the machines and facilities installed in it, are being used in connection with existing contracts. Should any additional work in connection with the proposed foreign contract be awarded, it will be necessary to provide additional plant buildings, facilities and machine tools which it is proposed to locate at Buffalo.

Based on information recently furnished them concerning the number of additional planes that might be ordered, a survey has been completed and a descriptive list of all additional tools that would be required has been prepared.

There are presently employed in this plant a total of 5,000 people which is being increased to 7,000 at the rate of 800 per month. Approximately 15% of their present output is acquired under subcontract work. Under the enlarged program this percentage would be increased to approximately 36%. In both of these percentages, however, is included the work being done at the Robinson plant of the Curtiss Company at Robinson, Missouri.

To care for the requirements of the Army and Navy in connection with the 1941 program ample reserves have been set up. Also, capacity has been reserved for contracts from South America and China.

It is estimated that the program such as that recently discussed in Washington would require an additional expenditure of \$7,800,000, consisting of \$3,600,000 for buildings; \$1,000,000 for tools, jigs, and fixtures; and \$3,200,000 for machinery for the plant extension, as well as some which might have to be furnished to subcontractors. This amount is estimated to be a top figure and will be reduced in any way possible.

From conversation carried on at this plant it is evident that a definite and conscientious effort is being made to reduce costs, to increase efficiency, and to meet all delivery dates.


Director of Procurement

January 27, 1940
10:12 a.m.

122

Robert Jackson: Hello.

Operator: Just a minute, please.

HMJr: Hello.

J: Hello. This is Bob.

HMJr: Hello, Bob.

J: Your question that you asked me yesterday.....

HMJr: Yes.

J:as to the date.

HMJr: Yes.

J: We've called Chicago and tried to find out and we don't get a satisfactory answer. The Judge is on a vacation and until he gets back we can't -- we can't get him tagged.

HMJr: I see.

J: Also, I suppose you know that he was very mad at this Department because of an interview that was given out here fixing a date.

HMJr: No, I didn't know that.

J: Well, He called Camp -- Campbell and wanted to know who in the hell was running his court. That the statement was made here that that case must be tried by the -- go to trial by the 15th of January. And informed them in no uncertain terms that he wanted no help from here as to how he'd run his court. That was after a call from here had been made to him apologizing for a previous statement in the press. The relations with Wilkinson are not the best.

HMJr: Well, Bob, may I make a suggestion?

J: Yes, surely.

- 2 -

HMJr: For the Administration's sake.

J: Yes.

HMJr: If something could be gotten out that -- publicly -- that -- which would be satisfactory to Judge Wilkinson explaining that we are waiting on his pleasure.

J: Yes. Well.....

HMJr: And the delay of not -- has nothing to do with you.

J: I think that what we could say is that the Department is ready to go to trial and is awaiting an early opportunity but that the arrangements of the court will have to be suited -- that is, we can't -- we've got to be very careful in making any statement that Wilkinson doesn't think we're passing the buck to him.

HMJr: Well, I'll leave that to you, but I think -- somehow get it in the public's mind that the Department of Justice is ready to go when their turn comes on the calendar.

J: Yes.

HMJr: And it's not you personally that's holding it.

J: They've been asking here if I had seen Kirkland. It seems there's some story that he is supposed to come here. I haven't seen him and I'm not going to.

HMJr: Well, of course, that's a change. He always -- they always sat down and talked things over.

J: Well, there -- there isn't going to be -- I'm not going to see him at all.

HMJr: Well, you understand my interest.

J: Yes, I do, and don't hesitate to call me any time about it.

HMJr: Righto.

J: All right. Thanks a lot.

January 27, 1940

My dear Mr. President:

I thought you would be interested in the inclosed item.

Yours sincerely,

The President,
The White House.

January 27, 1940

My dear Mr. President:

I thought you would be interested in the inclosed item.

Yours sincerely,

The President,
The White House.

January 27, 1940

My dear Mr. President:

I thought you would be interested in the inclosed item.

Yours sincerely,

The President,
The White House.

January 26, 1940

Dr. Fein

Mr. Cochran

Will you kindly send to the American Consul in Mexico in whose district Manzanillo is situated a cablegram along the following lines:

"Please telegraph at Treasury expense such information as you may be able to procure concerning freight shipments made from or by way of Manzanillo to Vladivostok. Five ships have recently sailed from New York carrying cargo destined for Russia via Vladivostok and a sixth is now loading.

It is reported that the Russian cargo of four of these vessels will be transhipped at Manzanillo.

The following are the ships, with indication as to sailing dates and destinations:

M. S. Gausdal (Norwegian) left N. Y. Dec. 23 for Vladivostok via Los Angeles (for bunkers only);

S. S. Guayaquil (American) left N. Y. Dec. 26 for Manzanillo for transshipment;

S. S. American Robin (American) left N. Y. Jan. 3 for Vladivostok;

S. S. Bonaventura (American) left N. Y. Jan. 4 for Manzanillo for transshipment;

S. S. Harpoon (American) left N. Y. Jan. 20 for Manzanillo for transshipment;

S. S. Pietro Orscole (Italian) now loading for Manzanillo for transshipment."

Note: Before sending this draft to the State Department, it was read by me to Mr. White and Mr. Harris, both of whom approved.
H.M.C.

HMC:cmk

Section this
Burn

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 27, 1940, 4 p.m.

NO.: 135

STRICTLY CONFIDENTIAL.

This morning the Munister of Armament, D'Autry, called on me to discuss the matters to which reference was made in telegram No. 123 of January 25 from Matthews, and in telegram No. 60 of January 26 from Secretary Morgenthau.

Both these questions and all similar questions, I explained to D'Autry, should be taken up through the purchasing agents of France and Great Britain in the United States, and not through this mission.

BULLITT.

TO THE DIRECTOR
TECHNICAL ASSISTANT
OFFICE OF THE

640 744 50 11 10 22

RECEIVED

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

January 29, 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. 135 of January 27 from the American Embassy, Paris.

TO THE SECRETARY
OF THE DEPARTMENT
OF STATE
WASHINGTON, D. C.

1940 JAN 30 10 23

THE SECRETARY OF STATE
RECEIVED

(COPY:FE:HJN)

AMERICAN CONSULATE

No. 23

Yunnanfu, China, January 27, 1940.

Air Mail

Subject: Traffic Conditions on the Yunnan Railway.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my despatch no. 17 of January 17, 1940, on the above subject and to state that conferences in regard to railway transportation and protection have been proceeding in Yunnanfu during the past week between the Chinese and French officials concerned.

Mr. Chang Chia-ngau, Minister of Communications, arrived in Yunnanfu on January 16; the Director General and the Operations Manager of the Yunnan-Indochina Railway arrived here from Hanoi on January 22. It is believed that Minister Chang's visit to Yunnanfu at this time was primarily in connection with the present railway transportation problem, although discussions have also taken place concerning highways and the Chinese railways now being built in Yunnan Province. The Consulate understands that as a result of conferences between representatives of the Central Government, the Yunnan Provincial Government and the railway, some measure of agreement has been reached for positive action in keeping the railway in operation and for its future defense. French officials appear

to

- 2 -

to have recovered from their initial dismay at the bombing of the line and express gratification at concrete evidence of Chinese interest, particularly in the matter of railway defense.

The Director General of the railway told me on January 23 that "at least a month" would be necessary for necessary repairs to the railway. It has been observed, however, that the reports of railway officials as to the date of resumption of normal traffic have been continuously optimistic. Traffic is still limited to passenger service by ordinary train and light freight below the maximum of 40 kilogram per piece. A temporary wooden bridge now being erected at Hsiaolungtan, the major break in the line, is expected to be completed shortly, and at that time much larger quantities of cargo can be handled than is possible by the present portage system.

During a recent call at this office following a trip over the line with railway officials, Mr. M. E. Sheahan, transport adviser to the Chinese Ministry of Communications, stated that it is calculated that about 200 tons of cargo can be handled daily over the line under temporary arrangements. He stated further that the Chinese Government was attempting, through the medium of Chinese Chambers of Commerce, to persuade private importers and traders to limit their cargo demands so that the Central Government will be allotted as nearly as possible the maximum amount of freight that can be carried.

Mr. Sheahan is optimistic as to the possibility of operation of the line in the face of attacks, through defense measures to protect bridges and cuts near tunnels, and by the use of by-passes and cut-offs.

Extensive

- 3 -

Extensive use can be made of coolie and pony cartage in transferring across temporary breaks. At one or two of the larger spans across gorges, an aerial tramway system is feasible. Such measures will, of course, entail a considerable degree of cooperation between the Chinese and French.

In connection with conditions at Haiphong, Mr. Sheahan advocates clearing that port of cargo so far as possible, in view of his belief that the port is a definite danger not only to the Chinese but to the French as well. Transshipment of much of the government cargo would be made to Rangoon. He stated that there is at present in Haiphong less than 9,000 gallons of Chinese Government-owned gasoline imported under the Universal Trading Corporation contract, which, as it is in drums, would be transhipped to Rangoon. Approximately 17,000 tins of gasoline now in Hong Kong, destined for the Chinese Government, will be shipped to Haiphong for transportation by rail, as tins can be handled conveniently in transfers across breaks in the line.

Respectfully yours,

TROY L. PERKINS,
American Vice Consul.

In quintuplicate.

Original to Department by air mail.

Copy to Embassy, Chungking.

Copy to Embassy, Peiping.

Copy to Consul, Hanoi.

877
TLP:SAM

(COPY:FE:HES)

AIR MAIL

No. 48

AMERICAN CONSULATE GENERAL

American Foreign Service, Hanoi, Indochina,
January 28, 1940

SUBJECT: Foo Shing Trading Corporation
to control Wood Oil Shipments.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to refer to my despatch no. 39 of January 8, 1940, in regard to shipments of wood oil from Haiphong, and to report that I have been informed by Mr. C. H. Liu, of the Foo Shing Trading Corporation at Haiphong, that that company is endeavoring to obtain control of all exportations from Indochina of wood oil transitted from China, thus more fully implementing the wood oil monopoly.

During the last 6 months of 1939, this company exported approximately 11,700 tons of wood oil of Chinese origin. Mr. Liu estimated that, in addition to the exportations of his company, approximately 4,500 tons of wood oil of Chinese origin were exported from Indochina during the same period. It is to get control of this wood oil that the new arrangements have been made, functioning chiefly at those places on the frontier where smuggling has been prevalent in the past.

The Assistant Director of the Indochina Customs, in the course of a recent conversation, stated that the quantity of wood oil of Chinese origin passing through Indochina but not handled by the Foo Shing Trading Corporation amounted to

- 2 -

over 5,000 tons during the 6 months period. He doubted somewhat the ability of the company to control effectively this additional amount, partly because of the lack of cooperation between the Chinese themselves. He informed me that exports of wood oil of Indochina origin amounted to approximately 302 tons during the second half of 1939 (866 tons during the year).

Mr. Liu remarked that his company had requested permission to install a tank lighterage system at Haiphong and to pump directly from these lighters to the deep tanks of vessels sailing for Hongkong, where there is a wood oil cleaning plant, or to the tanks of vessels sailing for the United States, if a cleaning plant is established at Haiphong. The Indochina Customs refused permission on the ground of inadequate personnel to supervise operations. This I know to be a fact as many Customs employees have been mobilized.

Mr. Liu stated that the plan to transfer the wood oil arriving in leaky containers to drums imported from Hongkong, mentioned in despatch no. 39, is still being considered by the Customs.

Respectfully yours,

For the Consul at Saigon,

(Signed) Charles S. Reed II
CHARLES S. REED II,
American Consul.

In duplicate to Department (Original by air mail)
Copies to Embassy, Chungking and Peiping
Copies to Consulates General, Hongkong and Shanghai
Copies to Consulates, Kunming and Saigon

815.4

CSR:car

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

135



DATE Jan. 29, 1940

TO Secretary Morgenthau
FROM Mr. Haas 

Attached is a brief memorandum on the Continental Motors Corporation.

Continental Motors Corporation

1. The Continental Motors Corporation is an old company, with a long history in the manufacture of motors and parts. The company has been diversifying its products in recent years as its formerly extensive automobile engine business has dwindled. The corporation is now using only its Muskegon, Michigan, plant. Its Detroit plant was put up at auction last week.

2. Sales of the corporation during the ten months ended August 31, 1939, were divided as follows:

	:(Millions of: : dollars) : (Percent)	
Agricultural engines and parts	2.0	31
Truck and commercial engines and parts	1.1	17
Passenger automobile engines and parts	.9	15
Aircraft engines and parts	.8	12
Machine products and service parts	.6	9
Marine and industrial engines and parts	.4	7
Other products	<u>.5</u>	<u>9</u>
Total	6.3	100.0

3. Latest reports indicate that the company's airplane motor business has been mainly in small motors (less than 75 horsepower), although the airplane line has been expanded to include motors up to 1,000 horsepower. The company has been the leading producer of small airplane motors. In 1938, for example, it produced about 90 percent of the engines for small planes requiring less than 75 horsepower delivered in the United States.

4. Continental has lost money every year but one (1937) since 1929. Business of the corporation at the present time, however, is good. Unfilled orders on hand October 31 totaled \$5.9 millions, the largest for several years. It was announced in November that the company had received a \$249 thousand War Department contract for engines to be installed in Stearman primary training planes, and a \$1 million order for tank engines and parts. In December it was announced that the airplane engine division was working two full shifts and was expected to go on a three shift basis.

- 2 -

5. The capital of the company consists of a \$1.2 millions loan held by the RFC and 3.0 millions of shares of common stock (listed on the New York Stock Exchange). In the last year the company has sold 550,000 shares of stock. The current price of the stock is 4 (January 26) and the 1939-40 price range is 1-5/8 to 5-1/2.

6. The attached statements list the subsidiaries of the corporation, and the executive officers and directors.

Attachments

Subsidiaries of Continental Motors Corporation

- (1) British Continental Motors, Ltd. (holding company for British patents)
- (2) Continental Oil and Gas Co. (owning and operating oil and gas wells near Muskegon, Michigan--gas is used in manufacturing activities of the Corporation)
- (3) Continental Motor Sales & Service Co. (licensed to transact business in Texas)

Company also owns 35,125 shares (about 8 percent) of Lakey Foundry & Machine Co., and two officers of the corporation are directors of Lakey. The latter company which is also in Muskegon, Michigan, manufactures motor blocks and castings. Continental also owns 5,124 shares (about 2½ percent) of Brockway Motor Co., Inc., a manufacturer of trucks and busses.

Executive Officers and Directors of
Continental Motors Corporation

President and General Manager--Clarence Reese,
Muskegon, Michigan

Executive Vice-President and Secretary--B. F. Tobin, Jr.,
Muskegon, Michigan

Vice-President (Manufacturing and Engineering)--L. P. Kalb,
Muskegon, Michigan

Vice-President--James H. Ferry, Muskegon, Michigan

Treasurer--H. W. Vandeven, Muskegon, Michigan

Purchasing Agent--George E. Winters, Muskegon, Michigan

Accountants Certifying Statements--Ernst & Ernst, Detroit

Directors:

James H. Ferry, Muskegon, Michigan
B. F. Tobin, Jr., Muskegon, Michigan
Clarence Reese, Muskegon, Michigan
L. P. Kalb, Muskegon, Michigan
L. L. Vivian, 67 Broad Street, New York City

Source: Poor's Register of Directors & Executives, 1940,
page 569.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE Jan. 29, 1940.

TO Secretary Morgenthau

FROM Mr. Haas *HAAS*

As indicated on the attached tables and chart, there was an increase of 33,000 in the number of persons employed by the Works Projects Administration, from 2,189,000 during the week ended January 10, 1940, to 2,222,000 during the week ended January 17, 1940.

Attachments

WORKS PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week Ending	Number of Workers (In thousands)
1939-40	
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
January 17	2,222

Source: Works Projects Administration

WORKS PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

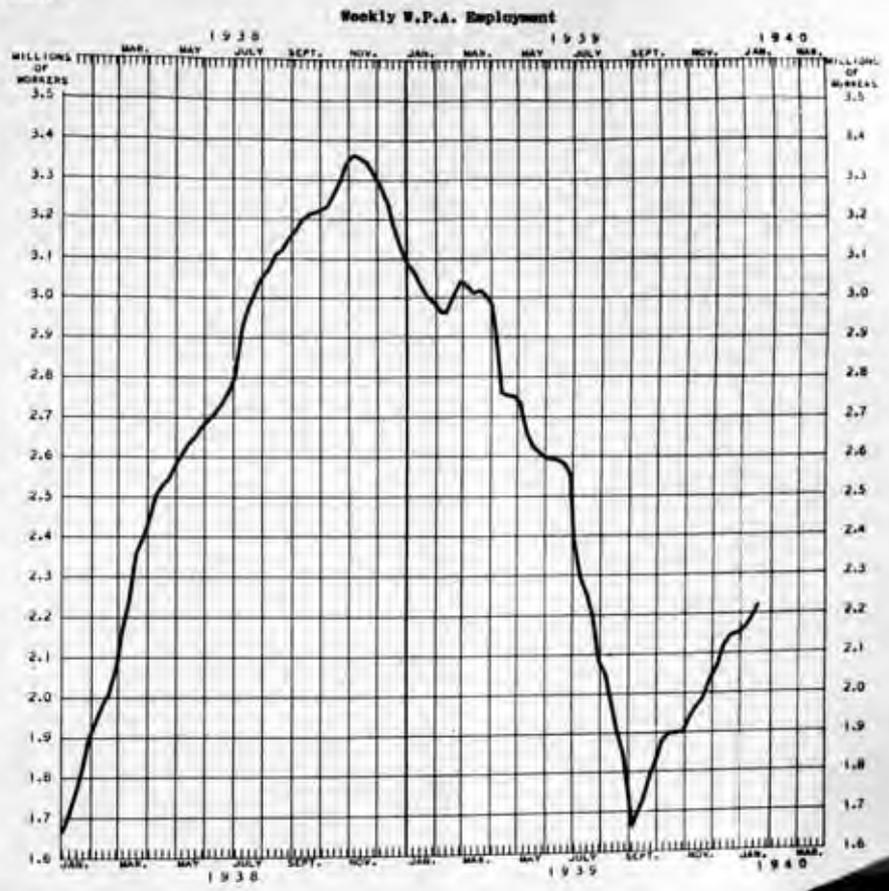
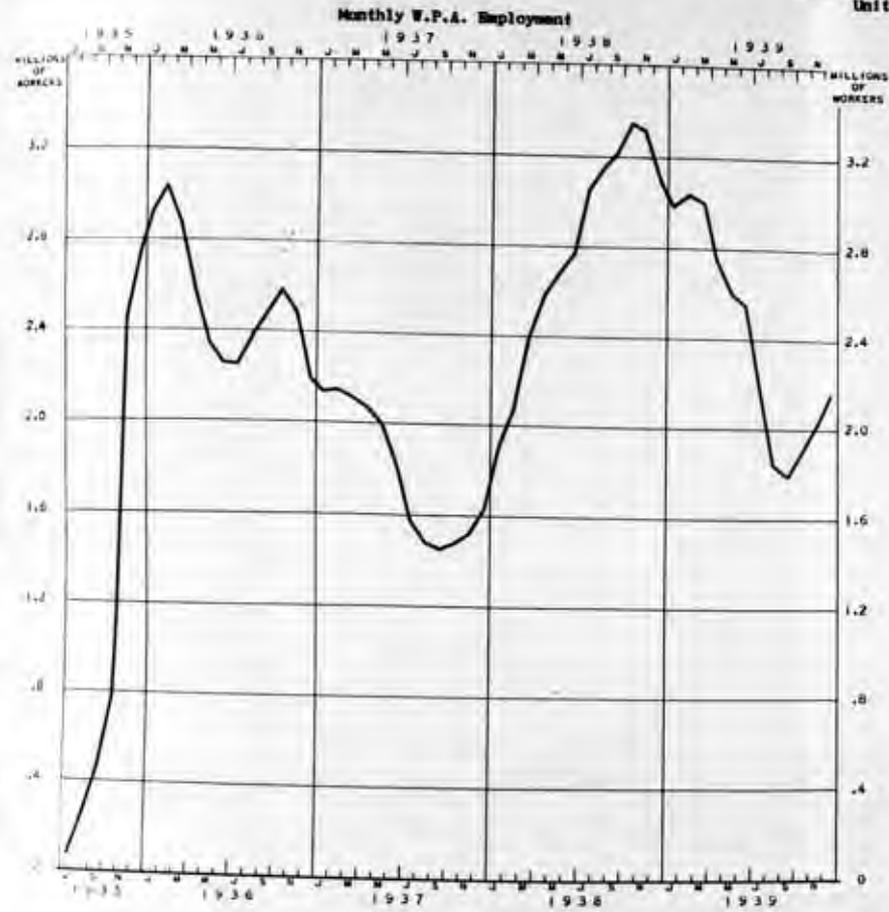
	Number of Workers (In thousands)
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
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

Z - 221 - 81

GROUP MEETING

January 29, 1940.
9:30 a.m.

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

H.M.Jr: Rather exclusive this morning, aren't we?

Gaston: Yes, very.

H.M.Jr: Anything new, Herbert?

Gaston: Yes. I think I told you that Callahan, after talking to Waesche and Land and Stark, put up a suggestion to the President that we withdraw our cutters from the Grand Banks patrol and transfer them to a patrol between the Azores and Bermuda for weather reports as a temporary proposition. The Maritime Commission would furnish, as soon as possible - recondition four ships which we will man and put on the run. The President approved that plan and we are withdrawing the cutters from the Grand Banks patrol and two cutters will leave for Bermuda for the Bermuda-Azores patrol on Wednesday of this week.

H.M.Jr: Who negotiated that one?

Gaston: Callahan. Callahan came to ask Waesche about this weather problem and this was the plan that Waesche suggested.

H.M.Jr: Very neat.

Gaston: Very neat. The good thing about it is that we get rid of that terrible winter patrol in the Grand Banks.

H.M.Jr: It gives the boys a chance to thaw out in the Azores.

- 2 -

Gaston: I called up Bob Kintner Saturday and he said he would have to talk to Joe and would inform me today.

H.M.Jr: I am reliably informed that those articles by Kintner were not acceptable to the Saturday Evening Post. Too friendly to the Administration.

Gaston: That might be so.

H.M.Jr: You can read this letter from the editor of the Post.

Gaston: I read that - is that the one --

H.M.Jr: Yes, it has something to do - it may have something to do with it.

Gaston: It is possible. The other thing was that we held a conference with Marriner Eccles and Goldenweiser and Walter Gardner, Saturday, on the Pan-American Bank and we seemed to sell them a bill of goods. They went back with the understanding they would try to get the approval of the Board on our plan as is.

H.M.Jr: I will make you a little bet they don't.

Gaston: All right.

H.M.Jr: A dime that they don't.

Gaston: All right.

H.M.Jr: Make a record of that.

Gaston: Ten cents.

White: Now, what do you mean by approving the plan? Maybe you had better clarify that.

H.M.Jr: Now, Harry, you keep out of this. Can't you spare me a dime? He said approve it as is.

Gaston: Yes.

White: As stated in the --

- 3 -

Gaston: Yes. We were going to cut out the word "Central Bank" but the participation by Governments and each Government to decide whom it shall select as its delegate, that was what we agreed on, participation by Governments and not by central banks.

H.M.Jr: Well, I will have to be educated, because the plan, as I saw it - Harry and I discussed it Sunday - maybe I don't understand the plan, but what we are betting on is the plan that you had when you started, before you saw those fellows.

Gaston: What I am betting on is the matter of requiring participation by Governments only, and that is the whole thing that we concentrated on and that is what they agreed to.

H.M.Jr: All right, ten cents.

Gaston: Ten cents.

H.M.Jr: Anything else?

Gaston: That is all.

H.M.Jr: Bernie?

Bernstein: Nothing.

H.M.Jr: You are looking very healthy. I have got to think of something to do to you.

Bernstein: Are you looking at me or at Merle?

H.M.Jr: No, at you.

Bernstein: I just came out of a cold wind. Maybe that is why.

H.M.Jr: I called up Miss McGuire and told her to have Sammy Klaus in. Is he here?

Bernstein: I don't know.

H.M.Jr: When do you want to do Bank of America?

Bell: Whenever you are ready.

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H.M.Jr: Say 10:30?

Bell: Yes.

E.M.Jr: If Sam Klaus is here, I will see him at 11:00 o'clock. Will you tell him?

Bernstein: Yes, I will tell him. If he isn't here, I will send Mrs. Klotz word.

H.M.Jr: Please.

Merle?

Cochran: Here is a letter which Mr. Chen sent in for me to give to you personally. Will you sign the letter for purchases of Canadian silver for February? We have purchased 900,000 ounces of silver from Canada so far this month.

H.M.Jr: Anything else?

Cochran: No, sir.

Cotton: Are you going to have a meeting today with Berle and Jones on Colombia? I explained the situation to them.

H.M.Jr: Well, I will put it down, anyway. I tell you what you do. How do they feel about it?

Cotton: They would seem generally agreeable to the idea.

H.M.Jr: All right. You call up Mr. Traphagen, see, and ask him if he would like to come down here Thursday or Wednesday. I will give him a choice of two mornings, 10:00 o'clock Wednesday morning or 10:00 o'clock Thursday morning. Ask him whether he wants to come in here and sit down with the Ambassador and we can get him started and whether he would like to stay here until they get through, yes or no.

Cotton: Don't you think the step before that is to see what you think of the thing, see whether you are going to be ready to urge it upon one or the other?

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H.M.Jr: No. I would like to do it my way. I would like to ask Traphagen and Colombia whether they would like to come over to the Treasury Wednesday or Thursday morning and stay here in conference until the debt issue is settled or not. It isn't a question of whether I like it or not. It is a question of whether they can get together.

Cotton: Well --

H.M.Jr: I will take anything that they agree on.

Cotton: Traphagen will probably ask me what you think of it, and shall I say that you want to put them together --

H.M.Jr: It doesn't make any difference what I think of it. I will take anything that the two of them agree on.

Cotton: I'm afraid that isn't the issue. I think it is a question of the committee getting a point of view and urging it on --

H.M.Jr: I won't do that.

Cotton: You won't do that?

H.M.Jr: I definitely won't do that.

Cotton: I will tell Traphagen.

H.M.Jr: And tell him that they can come Wednesday at 10:00 or Thursday at 10:00 and we will make a room available for them to get together to agree or not and if they don't want to do it, then as far as I am concerned, I am through. This is my last gesture and if you don't mind, would you tell it to him just that way, see. And then once you know, let me know. Give them a choice of two days.

Did Jones say he would be willing to sit in?

Cotton: Yes. I told him that you asked me to tell him this and I said you might have a meeting today, I didn't know.

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H.M.Jr: Wednesday or Thursday, please.

John?

Sullivan: Nothing, except this memorandum about that letter (January 27).

H.M.Jr: Oh, all right.

Will you (Mrs. Klotz) write me a little note forwarding this to the President for consideration?

Anything else?

Sullivan: No.

H.M.Jr: Chick?

Schwarz: You asked me to call attention to the proposed reorganization plan for centralizing borrowing.

H.M.Jr: Oh, yes. Did you (Bell) know the Budget is actively busy on it?

Bell: Yes.

H.M.Jr: Is it all right, the way you want it?

Bell: Well, I haven't seen the final draft but this grows out of the program that was sent along last year and you know the decision was made not to touch matters of that kind in that session. Well now, it has come up again and they have put a man on that particular job and they have been over here and we have had several conferences and it has been revised and I think it is in pretty good shape.

H.M.Jr: You are watching it?

Bell: Yes. Mr. Bernard in the legislative section has been in on it.

H.M.Jr: Thank you.

Anything else, Chick?

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Schwarz: That is all.

H.M.Jr: George? Have you got anything on that labor thing?

Haas: Yes, I have that.

H.M.Jr: If you would stay behind, I would like to go over it with you.

Bell: Did you see the memorandum from - letter from Miss Perkins enclosing a memorandum on the unemployment situation (January 26)?

H.M.Jr: No.

Bell: Kind of breaking it down into three groups. The memorandum to Stead, I think --

H.M.Jr: Who?

Bell: Mr. Stead in the fiscal section down there. George might be interested in that.

H.M.Jr: Will you tell him about it?

Bell: I will give it to him.

H.M.Jr: How does business look this week?

Haas: The production looks as if it is going down further but there are some signs which are beginning to occur now which lead one to believe that later on in the year you will get an upturn. I think if we are going to get an upturn, some signs should be reappearing and there are some signs.

H.M.Jr: Harry?

White: We noticed that Chinese balances are increasing pretty rapidly. I have got a table here and we would like to know who owns them, because the officials don't, and it is very important because of their exchange controls. It may be that some of the insiders are getting more money out than --

H.M.Jr: Who can find out?

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White: I think that might be taken up with Chen, possibly. It is of interest to us only in the fact that there is a large outward movement of capital that there shouldn't be.

H.M.Jr: Can you find out?

Cochran: Yes, sir, I think I can. Mr. Knoke will be down tomorrow.

White: Knoke wouldn't know. It is not in the Federal Reserve Banks, it is in private banks, but he may know. If he doesn't, we might have to go further.

H.M.Jr: He found out that time on that high French official having an account here. You (Cochran) weren't here at the time.

Cochran: I know about it.

White: Oh, yes, he could inquire around in the banks.

H.M.Jr: He could do it better than anybody else.

White: There was a letter to Mrs. Roosevelt - to you and a proposed plan, to which we have the answer. (February 1). Do you want to - or is it customary that we also have an analysis of the plan?

H.M.Jr: Yes.

White: Do you want it from you to her?

H.M.Jr: Yes. She would appreciate it.

White: Senator Pittman's letter - I can handle it right here, if you want.

H.M.Jr: All right, go ahead.

White: Here is a letter for your signature (January 29) and here is a very brief memorandum indicating the issues that are the cause of this letter.

H.M.Jr: I had better read it, hadn't I?

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White: Yes, I think so.

H.M.Jr: I will read it.

White: And then you probably noticed the letter from Senator Vandenberg (January 22), asking about Russia and gold.

H.M.Jr: Also, Senator Townsend's statement (January 27).

White: I didn't see that.

H.M.Jr: You had better get Chick to get you a copy of it. He made a speech Saturday.

Schwarz: I have it.

H.M.Jr: Give it to Harry.

Anything else, Harry?

White: That is all.

H.M.Jr: And Harry, on that little talk, instead of 3:00, if I could start immediately after lunch.

White: I think so.

H.M.Jr: Could we?

White: Yes.

H.M.Jr: Because it may take longer.

Harold? What did you find in Philadelphia?

Graves: We spent the day in the Mint at Philadelphia, went through the whole plant. It looks very good to me, Mr. Secretary.

H.M.Jr: Does it?

Graves: Very good. They have a very capable man in charge there.

H.M.Jr: Have you got that particular office started, the one you were investigating?

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Graves: Indianapolis?

H.M.Jr: Yes.

Graves: Yes, I sent that man out there. He arrived there Friday morning.

H.M.Jr: Good.

Graves: This investigation that Mr. Cochran spoke of, the people pretending that they were representing the French and British Purchasing Commission, I took that myself to Mr. McQuillan, the special agent in charge, Saturday, and went over that with him. I think that before we turn that over to the Post Office Department or possibly to the FBI, we ought to know a little more about it than appears in that correspondence.

H.M.Jr: All right.

Graves: So we are going to make some preliminary investigation of our own to try and find out what is behind all this before we make any reference of it.

H.M.Jr: O. K. Anything else?

Graves: That is all.

H.M.Jr: Dan?

Bell: That matter that Senator Wagner spoke to you about on the interlocking directors of the bank seems to be pretty dead. The President told him that he would veto the bill again and we called the committee up there and they said they were not going to ask us for a report, they didn't think the bill would even be considered by the committee.

H.M.Jr: O. K.

Bell: Some time ago you asked me to - or the President asked you to give him a report of the comparative costs on the Self-Help. Well, we have got one here and it is pretty well qualified. (January 31). There are some elements in the three things that

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don't make them comparable. It is a letter which you can send along if you want to. I don't think it means a lot.

H.M.Jr: I would like to read it.

Bell: That is all I have.

Thompson: Here is a memorandum on Mr. Flynn (January 29).

H.M.Jr: Yes.

Thompson: Here is a memorandum on the Comptrollers of Customs. (January 29).

H.M.Jr: Well now, look, I don't think I am lunching with him until Thursday, see. I think I had better take it all over, this whole business.

Gaston: On that matter of the promotion of Foley, we found that it wouldn't be a promotion at all. He has got nothing to gain by being transferred and under this reorganization plan, those who have definite terms are to remain until their terms are served out and he has a definite term as surveyor, expiring in '42, so it would seem best on his account to leave him as surveyor, because he would gain nothing by being transferred to the appraiser.

H.M.Jr: Something else?

Thompson: No.

H.M.Jr: O. K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 29, 1940

TO

Lieutenant McKay

FROM

Joseph P. Cotton, Jr.

Re: Colombia.

After my message through you to the Secretary this morning with respect to Traphagen's reaction to the proposed meeting with the Colombians Thursday of this week, the Secretary asked me to telephone Berle to ask him to find out whether such a meeting would be agreeable to the Colombians. I called Mr. Berle. He told me that there was a new element in the situation which might make such a meeting inadvisable, namely the fact that the Colombians this morning informed the State Department that they had received instructions from Bogota which apparently will not permit them to offer two millions annual service.

Under the circumstances, the State Department is considering the Secretary's request that they find out whether such a meeting would be agreeable to the Colombians and will inform us shortly.

There is also the fact that Mr. Welles returned today and Mr. Berle assumes that Mr. Welles, rather than himself, would handle the matter and attend any such meeting.

Under the circumstances, I think it is an open question whether a meeting at this time which might lead to a breakdown would serve any useful purpose.

J.P.C.

January 29, 1940.

Personal

Dear Randolph:

Thanks for your letter of January 26th with the enclosed copy of your speech, which I read with great interest.

I did not think that I would see the day when you would sit at the feet of the great Aldrich as his disciple - but who could have foretold, 12 months' ago, that Mussolini would have fallen out of the bed of Hitler and that old man Stalin would have crawled in to take his place.

With kind regards.

Sincerely,

Henry

Mr. W. Randolph Burgess,
55 Wall Street,
New York, N. Y.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Livesey of the State Department telephoned me at 10 o'clock this morning. Mr. Bursley of the Mexican section of the Department, who was until recently Secretary of Embassy in Mexico City, was with Mr. Livesey. The latter told me that Bursley had received a confidential message by telephone from Mexico City yesterday in regard to the matter of transshipments to Russia. The person with whom Bursley spoke in Mexico City was guarded in his conversation, but let it be known that his informant had in the past supplied some good information and some incorrect information. The present report is that the steamship Guayaquil (which according to our records is the American vessel that left New York on December 28 for Manzanillo for transshipment) is now at Manzanillo. It is said to have stopped at sea near Manzanillo and to have unloaded machine guns, hand grenades and cartridges to a small unknown vessel, possibly for Germany. There was also the report that there may have been some gold unloaded either to this small vessel or to the Russian ship, whose name is unknown, which is now at Manzanillo to take the copper cargo which the Guayaquil is to unload there. Mr. Bursley requested Mr. Livesey to ask us to guard this information very carefully lest there be some unfortunate repercussion on the informant. I asked Mr. Livesey if there might be some American business man, in shipping or mining, at Manzanillo (where we maintain no consulate) who could make a spot investigation for us. He and Bursley thought there was no one there who could go very far into this matter for us. They asked, in turn, if the Treasury might desire to make a close check on the copper and other cargo leaving New York for Russia, with transshipment planned at a Mexican port, to see if munitions or gold may be hidden therein.

Mr. Livesey confirmed that the Treasury telegraphic inquiry had gone out to the Embassy at Mexico City.



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Note:

A photostat of Lubin's memorandum, with the President's O.K., was given to Harold Smith and a photostat was also given to Mr. Lubin.

H. S. K.

Feb. 7/40

see reply 1-20-40

U. S. DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
WASHINGTON
January 29, 1940.

OFFICE OF COMMISSIONER

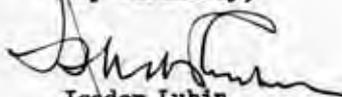
The Honorable
Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Attached herewith is a short memorandum bearing on the question of the need for information on the availability of skilled labor in certain key war industries.

As I stated to you in our conversation today, the Bureau has been instructed by the Congress to make a continuing study of the outlook for employment in the various industries of the country. Some of the funds appropriated for this purpose could be used for an immediate survey of those industries that are threatened with labor shortages. All that would be required to proceed immediately would be the approval of the President and the Director of the Budget.

Very cordially,



Isador Lubin
Commissioner of Labor Statistics

U. S. DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
WASHINGTON
January 29, 1940.

OFFICE OF COMMISSIONER

MEMORANDUM

To: Mr. Morgenthau
From: Mr. Lubin
Re: Labor Shortages

Information available to the Bureau of Labor Statistics shows that certain plants, particularly those manufacturing airplanes and airplane engines and those manufacturing machine tools, are finding it increasingly difficult to get persons with the proper background and training to fit into their organizations. Up until the present they have been finding the necessary skilled workers in the general labor supply that has already been trained by other industries. The increasing demand for skilled labor by these other industries, however, has created a situation where highly skilled labor is no longer compelled to move to other industries. If industrial revival should continue to increase, even at a moderate rate, it will become increasingly difficult to get labor to move into those areas where the airplane and airplane engine industries are located. In other words, increasing industrial activity will result in further competition between the older industries and the airplane industry for the limited existing supply of skilled crafts.

It should be borne in mind that even in an industry like the airplane and airplane engine industry, the number of workers who require years of training before they become proficient will not run in excess of 20 percent of the total labor force at the most. However, these 20 percent are the final determinants of the extent to which production can be expanded. The remaining 80 percent cannot be employed unless the key 20 percent are available when needed. This situation is not unique in airplane production. It is equally applicable to other types of industrial activity and is even found on WPA projects where certain skilled key workers are essential if employment is to be given to unskilled workers.

There is no accurate information available as to the probable demands for skilled crafts as industrial activity increases. Nor is there any accurate information available as to the supply of skilled craftsmen in various occupations. A survey should be made at the earliest possible moment which will throw light upon both the demand and the supply of skilled crafts if we are to avoid bottlenecks.

Mr. Morgenthau

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1-29-40

1. Studies should be started immediately of the probable demand for certain types of skills in different industries. The areas which are at the moment threatened are the metal trades industries. These include machine shops and foundries, machine tools, airplanes, airplane engines, and shipbuilding. In each of these industries the problem resolves itself into a limited number of skilled occupations.

2. A study should also be made as to the supply of workers in particular crafts. The crafts selected should be those which will probably be required by the "temporary emergency" and war needs.

3. A study should also be made of current employment and the occupational composition of the working force that is now employed. In many cases this group may in fact turn out to be the primary source of the immediately available supply of skilled labor. Thus, for example, the automobile industry may well have to become the immediate primary source of supply of tool and dye makers.

4. Information should also be secured on the supply of trained but unemployed workers in various crafts. A large volume of data is already available in the files of the United States Employment Service and in the files of the various trade unions.

It should be emphasized that even though the immediate supply of skilled workers in a given craft is limited to those with requisite training, the potential supply depends upon the number of those that can be advanced from lower to less skilled grades. Although apprenticeship is an important aspect of the problem, it should be emphasized that in an emergency, it may be necessary to consider ways of minimizing the training period.

The immediate need is a study of the probable demand for certain types of skills in certain potential bottleneck industries. Such a study could be made in a relatively short period of time and would cost less than \$10,000. The question of the labor supply available to meet our probable needs would involve at least two or three months and would involve the expenditure of about \$20,000.

Mr. McHugh 162

In the diary there is
a memo from Dublin
dated Jan 29, 1940,
✓ in file this booklet
with that memo.

Aircraft Survey

CONFIDENTIAL

Jan. 29, 1940

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SURVEY OF THE AERO-ENGINE AND
AIRCRAFT INDUSTRIES
JUNE 1939

DISTRIBUTED FOR THE PERSONAL USE OF THE MEMBERS OF THE
INTERDEPARTMENTAL COMMITTEE

Prepared by

Andrew Fraser, Jr.
Bureau of Labor Statistics

UNITED STATES DEPARTMENT OF LABOR
Bureau of Labor Statistics

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Scope and Method

During the period June 15 - June 28, 1939, the Bureau of Labor Statistics conducted a nation-wide survey of the aircraft and aero-engine industries in behalf of the Interdepartmental Committee.

The primary purpose of the survey was to obtain occupational information which could be used as a basis of estimation to determine the industries' personnel requirements in a time of national emergency.

The data were obtained through a personal visit to the major plants in the industries throughout the country by a member of the staff of the Bureau of Labor Statistics. The whole-hearted cooperation of the companies is evidenced by the completeness of the data furnished in regard to their personnels as of the time of the survey. ^{1/} Another gratifying feature was the willingness with which answers were given to certain questions. Among these questions may be cited the following: present plant facilities; present shift capacity; space available for expansion; schemes for the training of personnel; present and future status of subcontracting; and the dilution of labor.

The questions on the dilution of labor, it may here be noted, covered two important aspects which inevitably will arise in a national emergency: (1) the facility of transfer of semiskilled workers to skilled positions, and (2) the extent to which female labor could be utilized in the manufacture of aero-engines and aircraft.

As to the extent of the coverage of the sample obtained in this survey, this cannot be stated in too precise terms. The available evidence does however indicate that, relatively, the sample obtained for the aero-engine industry does exceed

^{1/} The Bureau wishes to record its thanks to all cooperating companies and to Colonel J. H. Jouett, President, Aeronautical Chamber of Commerce of America, through whose good services the contacts were facilitated, thus enabling the field work for the survey to be completed by June 28, 1939.

that of the aircraft industry. The estimated coverages in terms of workers employed in the industries are 70 and 80 percent, respectively, for plants engaged in the manufacture of aeroplanes and those plants engaged in the manufacture of aero-engines. The figures presented in this report also include workers engaged in the manufacture of propellers. The figures do not, however, include workers engaged in the manufacture of parts and accessories.

The Industries' Personnel by Functional Grouping

Despite the fact that the companies surveyed in June 1939 were at different levels of production and also differed markedly in regard to the extent to which they were engaged in developmental or experimental programs, there is a remarkable unanimity of opinion concerning the allocation of the personnel on a functional basis.

Thus, analysis of the data shows that the industries require approximately 8 percent of their total personnel for administrative-executive purposes. Another 17 percent of the total force are required for engineering and experimental work. The remaining 75 percent of the personnel are required for the physical manufacture of aero-engines, propellers, and aeroplanes. It is this last group which is studied later.

Another feature which emerges from this analysis of functional groups is that in the industries surveyed male workers preponderate. This, it should be emphasized, is particularly so in regard to those workers classified as direct labor employees and those workers employed in the engineering and experimental departments. In point of fact, virtually all of the female workers reported are found in clerical and stenographic positions in the administrative-executive departments.

It is pertinent, therefore, at this juncture to consider the opinions expressed by the officials interviewed concerning (1) the effect a national emergency would

have on the functional set-up of the industries' personnels, and (2) the extent to which female labor could be utilized in the industries.

As regards functional set-up, the agreement was most general that under emergency conditions the only group that would be increased is that comprising direct labor employees. None of the companies anticipate any marked increases in their administrative or engineering forces, though there would be a shift of personnel from design and research to the supervision of production. These opinions are borne out by two important considerations.

In the first instance, a national emergency would necessitate a marked "freezing" of the many types of aero-engines and aeroplanes at present being manufactured. Such a situation in turn would permit of manufacture on virtually a mass-production basis.

But closely related to this factor of "freezing" of types is the anticipated change in the status of subcontracting procedures. Under normal conditions of manufacture subcontracting is negligible. On the other hand, under emergency conditions the considered opinion of the industries is that subcontracting would be resorted to to a very great extent indeed.

Thus, the combination of the two factors noted would result in confining the activities of the plants in very large measure indeed to the assembling of engines and aircraft.

Under such conditions it is obvious that there would be a radical change in the proportions by functional grouping as derived from the employment figures for the industries as of June, 1939. It is important to note, however, that the absolute numbers in the administrative-executive and engineering and experimental forces would remain fairly constant. The major problem is how the anticipated enormous increase in direct labor employees can be met.

A partial solution to one important aspect of the problem, namely, supervision is at hand. All of the officials interviewed concur in the opinion that, under the conditions postulated as regards "freezing" of types and subcontracting, they could readily utilize a large proportion of their engineering staffs for positions of a supervisory capacity, a situation which would be facilitated to a marked degree by their familiarity with all aspects of the companies' production methods.

Supplementing this source of potential supervisors would of course be promotion from among workers presently engaged in production departments in non-supervisory positions.

To meet the requirements of direct labor employees, however, it is of interest to note that none of the officials expressed any enthusiasm whatsoever for introducing female workers into the manufacturing branches of the industries. Even under emergency conditions, none of the companies would be willing to dilute their labor forces with female workers to an extent exceeding 15 percent of their direct labor forces.^{2/}

What this percentage means in gross numbers will be revealed in the ensuing sections, which are concerned with detailed analysis of the present set-up and estimated future requirements of direct labor employees.

Capacity Requirements of Direct Labor Employees

As of June 1939, the number of direct labor employees engaged in the manufacture of aero-engines and propellers was 8,471. Table 1 also shows that the number of

^{2/} It is understood that in France, Great Britain, and Germany up to one half of the labor supply in the aeroplane (not aero-engine) industry is female. The technical possibility of using female labor therefore may be greater than that visualized by American producers; but the industry starts with a unanimous opposition to a great extension of female labor citing World War experience as a basis of opposition.

Table 1.--ESTIMATED NUMBER OF DIRECT LABOR EMPLOYEES ^{1/} REQUIRED TO UTILIZE EXISTING AERO-ENGINE AND AIRCRAFT PLANT SPACE TO CAPACITY

Industry	Number of direct labor employees				Grand total
	Actually reported June 1939	Required to utilize existing space to capacity	Allowed for employ of companies not surveyed	in	
Aero-engines and propellers ..	8,471	13,429	1,500		23,400
Aircraft	35,754	59,246	28,000		123,000

^{1/} Includes all wage earners, clerical workers and supervisory staff, but excludes employees in the engineering, design, research, administrative and executive departments.

direct labor employees engaged in the manufacture of aeroplanes was 35,754. Those figures, be it noted, refer only to the companies actually surveyed.

From each of the companies visited, estimates were also obtained concerning (1) the present shift capacity, and (2) the extent to which the productive personnel could be increased so as to utilize their existing plants to capacity.

As regards question 1, the estimates reveal that none of the companies was on a 3 full-shift basis of 40 hours per week of 5 days.^{3/} Among the aero-engine plant, the prevailing shift bases in June 1939 were approximately the same. By contrast, there was a wide range in these regards among aircraft manufacturers. The answers to question 2 were consistently uniform for both industries. These clearly indicated that an immediate emergency could be met to a large extent by revamping existing plant equipment, and thus obviating requirements for physical expansion of plant in the way of new buildings.^{4/}

Consequently, applying the information furnished as answers to questions 1 and 2 above to the number of direct labor employees actually employed in June 1939, there is obtained the numbers of productive workers required to utilize plants to capacity working on 3 full-shifts of 40 hours per week, the shifts to run from 7:30 to 4 p.m.; 4 p.m. to 12:30 a.m.; 12:30 a.m. to 7:30 a.m. In all of the plant surveyed there is a down-period in each shift for lunch, ordinarily half an hour.

^{3/} The industry believes that plant can be maintained in continuous operation for 120 hours with incidental maintenance and repair and with 48 hours for maintenance and repair over the week-end when production is down. The industry has had no experience as yet under mass-production conditions to indicate what down-period is necessary in each 24 hours, and, whether it is greater than that provided by three one-half hour lunch periods.

^{4/} It is of interest to note that virtually all of the officials interviewed had experience in one industry or another of the post-war adjustment of over-expanded plants. The reluctance to expand plants before utilizing to the full present facilities is therefore quite explicable.

The respective figures of direct labor employees for the industries are 13,429^{5/} for aero-engine manufactures and 59,246 for the manufacture of aircraft.

Earlier in this discussion the statement was made that the survey covered approximately 80 percent of all employees directly in the manufacture of aero-engine and 70 percent of the workers engaged in the manufacture of aircraft. Consequently, allowing a 20 percent increase for aero-engine plants and a 30 percent increase for aircraft plants not contacted in the survey of June 1939, the capacity requirements for direct labor employees are, respectively, 23,400 for aero-engines and 123,000 for aircraft manufactures.

What these figures mean in terms of actual quantities of engines, propellers, or aeroplanes cannot be stated. Several factors vitiate any estimates whatsoever until such time as an acceptable "yard-stick" has been derived.

One part at least of the emergency problem, namely, ground space, presents no difficulty to the industries. In point of fact, as far as ground space is concerned, it has been shown that the industries are in a position to immediately cope with an increased production load far in excess of normal requirements without resorting to expansion of existing plants. And even if expansion is found necessary, the availability of space will be no problem. Without exception, all of the plants have ample ground space adjacent to their present sites, which areas taken as a whole would enormously augment the industries' productive capacity.

Nor is there any problem of plant space.^{6/} This particular situation is made

^{5/} The estimated figure was derived from the employment figures for aero-engine manufacturers.

^{6/} At least in the first instance the contraction of design and research departments will provide large areas for new productive machines. The process of subcontracting will release further space but may raise problems of plant space among the subcontracting industries.

evident by noting the personnel-area relationships for the estimated capacity requirements. Thus, according to the information furnished by 8 of the aircraft companies the existing plants contain 3,384,973 square feet. The capacity direct labor requirements for these same 8 companies is estimated to be 70,379 workers. The result is that 50 square feet of ground space are required for each direct labor employee engaged in the manufacture of aeroplanes under emergency conditions. By contrast, in the manufacture of aero-engines the direct labor area relationship under emergency conditions is 90 square feet of ground space.^{7/}

To meet the emergency requirements of direct labor employees, however, the Bureau is of the opinion that the industries will be confronted with a formidable task. And to give a setting to this aspect of the report, consideration will first be given to the composition of the respective industries' labor forces by skill.

Direct Labor Employees by Skill Grouping

In its extensive work in the field of wage and hour statistics for industries throughout the country, the Bureau of Labor Statistics has found that, in the absence of specific job descriptions, the consensus of opinion of the manufacturers in regard to skill is generally highly reliable.^{8/} Consequently, the figures as presented in table 2, which are a composite of the occupational information furnished, can be accepted as being representative of the industries on the basis of

^{7/} Another important relationship to be derived from these figures is that which exists between the two branches of manufacture. Thus, on the basis of the actual figures for June 1939 the ratio of direct labor for aero-engine manufactures to the direct labor required for the manufacture of aircraft is as 1 to 3. On a capacity basis the ratio is approximately 1 to 5. These particular ratios may be of value in determining requirements for a plant engaged in the production of both engines and aeroplanes, a feasible proposition for emergency conditions.

^{8/} The urgency of the survey did not permit of time wherein to compile a set of definitions which would be approved by the industries. That such material is not available is evidenced by the fact that invariably the author of this report was requested to state his opinion on skill. In general this was possible. It was, however, manifestly impossible to do this for all of the occupations in the in-172
dustries.

Table 2.--DISTRIBUTION OF DIRECT LABOR EMPLOYEES^{1/} IN THE
AERO-ENGINE AND AIRCRAFT INDUSTRIES, BY SKILL,
JUNE 1939

Industry	Total	Skilled workers	Semi-skilled workers	Unskilled workers
Number				
Actually reported June 1939:				
Aero-engines and propellers:	8,471	2,295	3,136	3,040
Aircraft	35,754	11,243	15,803	8,709
Emergency capacity requirements:				
Aero-engines and propellers:	23,400	6,341	8,658	8,401
Aircraft	123,000	38,622	54,366	30,012
Percent				
Aero-engines and propellers :	100.0	27.1	37.0	35.9
Aircraft	100.0	31.4	44.2	24.4

^{1/} Includes all wage earners, clerical workers and supervisory staff, but excludes employees in the engineering, design, research, administrative and executive departments.

3 broad groupings of the workers by skill.^{9/}

The figures in table 2 do reveal that in both industries semiskilled workers predominate. Thus, in the manufacture of aero-engines semiskilled workers comprise 37.0 percent of the total direct labor force. By contrast, in the manufacture of aeroplanes the proportion of workers classified as semiskilled is as high as 44.2 percent.

Also in the aero-engine industry it will be noted that, while skilled workers embrace 27.1 percent of the total labor force, the unskilled workers comprise 35.9 percent. On the other hand, in the aircraft industry, while skilled workers include 31.4 percent of all direct labor employees, the proportion classified as unskilled is 24.4 percent.^{10/}

These proportions by skill grouping, it will be noted, are based on the employment conditions which prevailed in June 1939. It is, however, of interest to note that under emergency conditions the consensus of opinion is that these proportions by skill-grouping would not be altered materially. As a consequence, the emergency capacity requirements of direct labor by skill for the two industries are readily derived.

Thus, in the case of aero-engine manufactures there will be required 6,341 skilled workers, 8,658 semiskilled workers, and 8,401 unskilled workers. In the same descending order of skill the corresponding figures for the aircraft industry are 38,622, 54,366, and 30,012 direct labor employees.

^{9/} It should be borne in mind that this breakdown by skill covers plants at various levels of production, and which markedly differ in regard to their developmental and experimental programs.

^{10/} It should be emphasized that the differences which exist between the two industries in regard to skill grouping must not be read as implying a greater or lesser degree of skill requirement. Each industry should be considered as an entity in this regard.

What these figures mean in terms of occupational requirements and in relation to labor supply and demand will now be considered.

Labor Supply and Demand

Based on experience of direct labor requirements under normal operating conditions, the officials of the companies interviewed maintain that the labor market areas adjacent to their plants are ample to meet any requirements. These opinions are, in general, also borne out by an analysis of the symbols concerning supply and demand placed against each occupation on the schedule containing the information furnished by the cooperating firms.^{11/}

Despite this situation, the Bureau is of the opinion that such optimism has to be severely qualified in regard to even the estimated capacity requirements of direct labor.

For example, since neither of the industries anticipates diluting its labor force by more than 15 percent through the employment of female labor, it would be faced with the obtaining of a labor force comprised almost entirely of male workers. It is also to be expected that the labor forces of other industries will be predominately male.

Now in a national emergency it is to be anticipated that the competition for male labor will become acute in all localities where manufacturing industries are established. It is also to be anticipated that under emergency conditions this competition for male workers will be aggravated by the migration of just this type of labor from low to high-paying areas. Consequently, to meet those eventualities plans ought to be made in advance.

The competition for male labor, it is believed, could be appreciably reduced by setting up a selected list of occupations for the two industries, members of which would be totally exempt from participation in any of the active service

^{11/} See Appendix A for facsimile of schedule used.

branches. The problems arising from the migration of labor could be mitigated in large part by the establishment of standard rates of pay in contiguous territories throughout the country, the areas of course to be large enough to insure an effective curtailment of migration.

But even if these objectives are approved, the prospective needs of the aero-engine and aircraft industries have still to be approached now in a realistic manner. And these needs are clearly visualized when the direct labor forces of the two industries are analyzed on an occupational basis.^{12/}

Capacity Requirements of Direct Labor By Occupation

From the data presented in table 3 the incidence and intensity of the estimated capacity requirements of 15,400 workers for the aero-engine industry can readily be derived by arbitrarily classifying the 41 occupations listed into 3 groups based on the number of workers who will be required.

The intensity of the labor requirements reveals that 61 percent of the workers are essentially in only 9 occupations. These occupations, taken in descending order of numerical importance, are as follows: grinders (8.9 percent), assemblers (8.7 percent), bench burrs (7.1 percent), laborers (7.1 percent), drilling machine operators (6.9 percent), supervisors (6.4 percent), turret lathe operators (6.1 percent), inspectors (5.7 percent), and clerical help (4.4 percent). In absolute numbers the above proportions range from 682 to 1,356, or a total of 9,417 workers.

In the two smaller groups, on the other hand, the numbers of occupations included are, respectively, 14 and 18. In the former the proportions of workers range from 1.1 to 3.4 percent, and in the latter from 0.2 to 1.0 percent.

^{12/} The original intent of the Bureau was to present the analysis for each industry on a departmental basis. This was found infeasible due to the lack of uniformity in this regard among the reporting companies.

Table 3.--EMERGENCY OCCUPATIONAL REQUIREMENTS OF DIRECT LABOR EMPLOYEES ^{1/} FOR THE AERO-ENGINE INDUSTRY UTILIZING TO CAPACITY EXISTING PLANT FACILITIES, JUNE 1939

Occupation	Percent	Number
	2/	
Apprentices	0.4	69
Assemblers	8.7	1,341
Baffle makers	1.3	194
Bench burrers	7.1	1,090
Blacksmiths	3/	4
Boring mill operators	.2	34
Bullard multimatric	.4	57
Carpenters and box makers	1.0	152
Casting cleaners	2.0	309
Clerical	4.4	682
Coppersmiths	.1	15
Corcmakers	2.2	343
Drilling machine operators	6.9	1,067
Electricians	1.1	168
Gear cutters	.8	118
Grinders	8.9	1,356
Heat treaters	.5	72
Inspectors	5.7	876
Laborers (maintenance and direct)	7.1	1,073
Lathe (engine)	3.2	495
Lathe (turret)	6.1	933
Learners	3.4	526
Maintenance	1.7	263
Metal melters	.5	72
Milling machine operators	2.8	434
Molders	.8	130
Paintors	1.0	149
Pattern makers	1.2	187
Pipe fitters	.6	91
Platers	.5	76
Polishers	2.2	335
Screw cutting and threading	2.2	339
Spot facers	.1	23
Straighteners	.1	23
Supervisors (foremen, subforemen and assistants)	6.4	979
Testers, engines	3.7	592
Tinamiths	.1	23
Tool designers	1.9	290
Tool makers	1.7	267
Truckers	.8	126
Welders	.2	27
Total	100.0	15,400

1/ Includes all wage earners, clerical workers and supervisory staff, but excludes employees in the engineering, design, research, administrative and executive departments.

2/ Typical percentage distribution on an occupational basis exclusive of propeller manufactures.

3/ Less than 0.05 percent.

A similar analysis of the occupational data for the aircraft industry (table 4) shows requirements totally different from those of the aero-engine industry. Thus, on the basis of capacity requirements, no less than 28 percent of the direct labor force will be engaged in assembly functions of one kind or another. Another 62 percent of the workers are included in 14 occupations with proportions ranging from 1.4 to 9.4 percent. In descending order of numerical importance, these 14 occupations are: riveters (9.4 percent), sheet metal bench hands (7.9 percent), metal bench hands and bench mechanics (7.7 percent), learners (7.6 percent), laborers (5.2 percent), machinists (4.5 percent), clerical help (3.5 percent), supervisors (3.2 percent), inspectors (2.7 percent), sprayers and dopers (2.6 percent), mechanics' helpers (2.5 percent), tool makers, i.e. jig and tool makers (2.2 percent), sheet metal machine operators (1.5 percent), welders (1.4 percent), pattern makers (1.1 percent). In the remaining 10 percent of the productive workers in the aircraft industry are included 35 of the occupations, but in none of these occupations do the proportions exceed 1 percent.

The significant fact which emerges from the preceding analysis is that in absolute numbers not even the smallest occupational group in either of the industries can be ignored in terms of a supply sufficient to meet the estimated capacity requirements of direct labor. As a matter of fact absolute number alone is not a significant measure of the problem. It is essentially one of skill and number, except as there is a total shortage of young male labor. Even within the occupations listed there are sharp gradations of skill.

The Training of Direct Labor Employees

Obviously some kind of advance training program is necessary. What this scheme ought to be can best be visualized against the background of existing methods of training direct labor.

Table 4.--EMERGENCY OCCUPATIONAL REQUIREMENTS OF DIRECT LABOR EMPLOYEES^{1/} FOR THE AIRCRAFT INDUSTRY UTILIZING TO CAPACITY EXISTING PLANT FACILITIES, JUNE 1939

Occupation	Sample		Number required for emergency estimate of 123,000	Percentage distribution according to N.Y.A. study ^{2/}
	Number	Percent		
Total	35,754	100.0	123,000	100.0
Angle benders	30	.1	103	.7
Anodic loaders and operators	116	.3	399	.5
Assemblers, final	6,058	17.0	20,843	4.3
Assemblers, final instrument mechanic ..	36	.1	124	.5
Assemblers, final motor mechanic	123	.3	423	.7
Assemblers, fuselage	1,472	4.1	5,064	5.0
Assemblers, sub (precision assembler) ..	1,349	3.8	4,641	1.7
Assemblers, tank	109	.3	375	.6
Assemblers, wing	841	2.4	2,893	4.7
Brake operators	45	.1	155	.3
Cable splicers	96	.3	330	.3
Carpenters and wood workers	265	.7	912	1.3
Clerical	1,239	3.5	4,262	1.4
Coverers	65	.2	224	.7
Die finishers	17	3/10	58	.3
Drill press operators	153	.4	526	1.4
Drop hammer operators	211	.6	726	.9
Electricians, aircraft	307	.9	1,056	1.5
Foremen	222	.6	764	1.4
Foremen, assistant or sub	224	.6	771	.8
Foundrymen and molders	100	.3	344	.3
Grinder operators and polishers	50	.1	172	.2
Hand bumpers	136	.4	468	.7
Heat treaters	79	.2	272	.3
Hydraulic press operators	53	.1	182	.1
Inspectors	965	2.7	3,320	3.0
Laborers	1,872	5.2	6,440	.8
Layout men (template maker)	233	.7	802	.9
Leadman	699	2.0	2,405	5.3
Learners	2,728	7.6	9,384	.0

^{1/} Includes all wage earners, clerical workers and supervisory staff, but excludes employees in the engineering, design, research, administrative and executive departments.

^{2/} The figures in this column are presented merely for comparative purposes. They have been derived from the publication "An Occupational Study of the Aircraft Manufacturing Industry in California" compiled by the National Youth Administration, State of California, Anne de G. Treadwell, Director, 1939. The plants included in this survey ranged from 650 to 3,000 employees.

^{3/} Less than 0.05 percent.

Table 4.--EMERGENCY OCCUPATIONAL REQUIREMENTS OF DIRECT LABOR EMPLOYEES^{1/} FOR THE AIRCRAFT INDUSTRY UTILIZING TO CAPACITY EXISTING PLANT FACILITIES, JUNE 1939--Concluded

Occupation	Sample		Number required for emergency estimate of 123,000	Percentage distribution according to N.Y.A. study 2/
	Number	Percent		
Machinists	1,616	4.5	5,559	4.1
Maintenance	375	1.0	1,290	1.5
Mechanics, unskilled (holper).....	888	2.5	3,055	19.6
Metal bench hand and bench mechanics	2,742	7.7	9,433	2.4
Model builders	47	.1	162	.3
Pattermakers	401	1.1	1,379	2.0
Platers	110	.3	378	.2
Power hammer operators	23	.1	79	.3
Punchpress operators	140	.4	482	.6
Riveters	3,335	9.4	11,473	12.0
Roller operators	53	.1	182	.2
Router operators	47	.1	162	.7
Shear operators	69	.2	237	.8
Spot metal bench hands	2,821	7.9	9,704	4.5
Spot metal machine operators	547	1.5	1,882	.0
Skin fitters (coverer)	91	.3	313	2.1
Spar builders	24	.1	83	.0
Sprayers, painters, and dopers	930	2.6	3,199	2.0
Tool designers	173	.5	595	.5
Toolmakers (jig and fixture builder).....	785	2.2	2,700	2.3
Tube benders	111	.3	382	.6
Upholsterers (sewing machine operators) ..	46	.1	158	.2
Welders	287	1.4	1,675	2.5

^{1/} Includes all wage earners, clerical workers and supervisory staff, but excludes employees in the engineering, design, research, administrative and executive departments.

^{2/} The figures in this column are presented merely for comparative purposes. They have been derived from the publication "An Occupational Study of the Aircraft Manufacturing Industry in California" compiled by the National Youth Administration, State of California, Anne de G. Treadwell, Director, 1939. The plants included in this survey ranged from 650 to 3,000 employees.

In keeping with the trends of modern production methods the demand for workers in both the aero-engine and aircraft industries with specialized training exceeds by far the demand for workers with an all-round training, as has just been indicated.

In virtually all occupations in both industries there are to be found 3 groupings of workers by skill. In a few instances there are even as many as 5 skill classifications. The problem of supply becomes one of securing adequate numbers of workers in the higher ratings. Normally the supply of labor for the already large increase of employment has been recruited in the lower ratings and advanced as occasion offered to higher ratings, rather than through recruitment of the more highly skilled from other industries.

Further evidence that long training is not a prerequisite is had by recalling that in the aero-engine industry indentured apprentices comprise less than 1 percent of the total labor force. In the aircraft industry, on the other hand, the prospective trained workers, designated learners, include a substantial number of the productive workers.

In the case of the aero-engine industry, however, the inference that a long training is not required has to be slightly qualified. In the first instance, no analysis was made of the direct labor force to determine how many of them had actually undergone a regular apprenticeship training. A second limiting factor is that without exception all of the aero-engine plants are located in centers of engineering manufacture. As a consequence, there is at hand a source of workers trained in procedures common to all engineering plants.

By contrast, the majority of the aircraft manufacturing plants are located in nonengineering areas of manufacture. Yet, even in this industry the occupational set-up is generally one that does not require a long training, the evidence in this

regard being that in certain of the plants permission was given to interview any of the direct labor employees in the several stages of manufacture. Without exception the questions elicited answers to the effect that the particular jobs could be learned with some degree of facility in from 6 to 8 months. As further evidence of this situation, it may be said that in only one of the aircraft plants visited was there established a regular apprenticeship training program.

It is important to note, however, that in both industries great stress was placed on application to studies of courses as suggested by the personnel directors of the several companies. The progress made in these studies, together with that made on the specific job in the plant being the criteria upon which advancement was based.

Pragmatic as this situation may be, the fact that both industries have for many years been producing high class products, with somewhat rigorous requirements of precision and degrees of tolerance, it can only be concluded that under normal conditions the respective industries' methods of production do not demand, or even require, long periods of training wherein to acquire the necessary degrees of skill.

However, despite the facts enumerated in this report, it is obvious that present methods of training are too indefinite when considered in the light of the estimated capacity requirements. Fortunately, the liaison existing between manufacturers and educators in all centers visited bespeaks that the problem is not an insuperable one.

APPENDIX A

CONFIDENTIAL

U.S. DEPARTMENT OF LABOR
Bureau of Labor Statistics
Washington

Name of firm _____

Address _____

Engaged in the manufacture of _____

Person furnishing information _____

- IMPORTANT: a. In col. 1, include all professional, supervisory, clerical, and non-professional workers, and underline what you consider to be the KEY OCCUPATION in each department.
- b. In col. 3, against each occupation place a "1" if you consider present supply is excellent, "2" if present supply is good, or a "3" if present supply is just fair.
- c. In col. 4, against each occupation place a "1" if you consider present demand for this occupation is high, a "2" if present demand is medium, or a "3" if present demand is low.

January 29, 1940
3:55 p.m.

HMJr: Hello.

Operator: Mr. Currie. Go ahead.

HMJr: Hello.

Lauchlin
Currie: Hello, Mr. Secretary.

HMJr: How are you?

C: Fine, thanks.

HMJr: Lauch, I had Lubin in here at lunch and I was going over with him this question of the machine-tool industry.

C: Yeah.

HMJr: And he gave me his report of last June and the reason I'm calling you is he told me you had lots of meetings on it and hadn't gotten anywhere, is that right?

C: What do you mean, on tool -- I mean, on this tool labor shortage?

HMJr: Yeah, or whatever the trouble is.

C: Yeah, I can give you some background on that, Mr. Secretary. I -- I don't think the President will want to go ahead on it.

HMJr: You don't think he will?

C: I don't think he wanted to this fall.

HMJr: Oh, well.....

C: That's when I got into it and I find he boiled it down to the two or three alternative ways of proceeding and put it into him and I never got anything back, and I reminded Miss LeHand about it and still didn't get anything back, so I just assumed that the President didn't want to move on it.

- 2 -

- HMJr: Well, the reason I'm calling you is I am moving on it very fast.
- C: Oh, you are?
- HMJr: Yeah.
- C: (Laughs) I see.
- HMJr: So if there's anything that you had other than what Lubin had I'd appreciate your letting me have the benefit.
- C: No, I haven't got anything. I was just holding certain meetings with technicians and more or less finding out what was going on, and a lot of people were flirting with the thing and about to start something. You've run across this inter-departmental committee for aeronautic.....
- HMJr: Well, I -- the only thing I've got is this report of Lubin's, prepared by Andrew Frazier, Jr., "Survey of Arrow Engine and Aircraft Industries..."
- C: Yeah.
- HMJr: ".....June, '39."
- C: I see.
- HMJr: That's the only thing I've got.
- C: Yeah. Now the person who has been pushing that pretty steadily in all sorts of various ways has been Louis Johnson.
- HMJr: Well.....
- C: And his man Sadler keeps on calling me every month to inquire what's going on.
- HMJr: Well, I don't mind saying that I can't work with Louis Johnson.
- C: (Laughs) You're not alone in that, Mr. Secretary.
- HMJr: But I just -- I can't work with him.

- 3 -

- C: Yeah. Oh, I think it's infinitely better for you to take this over than let it be there because it had too much the -- the military slant to it.....
- HMJr: Well.....
- C:and ran into opposition.
- HMJr: There're all kinds of things and I don't think it's going to be terribly difficult and I'm not -- to fool around with it. I mean it's -- it's a question of -- of the machine-tool builders and what's their problems and -- and these aeroplane engine fellows and why in the hell can't they get the tools.
- C: Yeah.
- HMJr: And I'm just going to knock their heads together and see what happens.
- C: Yeah. Fine.
- HMJr: What?
- C: Fine.
- HMJr: And then also the question about the -- the skilled workers - where are they and is -- is it the labor or is it the tools, that's what I.....
- C: Yeah.
- HMJr: I think in a day or two I'm going to have the answer.
- C: I should just go right ahead and proceed without inquiring too much in this other committee which is supposed to be doing that.
- HMJr: Well I wanted you to know about it, see?
- C: Yeah.
- HMJr: And Lubin was kind enough to postpone going to the hospital for one day to sit with me.
- C: Yeah.

- 4 -

HMJr: And -- but I called him and I'm just calling you now if there's anything that you've got that I ought to know because I'm doing it all for the President.

C: Yeah. You have that first report.....

HMJr: Yeah.

C: -- new report of our interdepartmental committee, haven't you?

HMJr: I've got that.

C: Yeah.

HMJr: And I'll -- I mean, outside of whatever Johnson is doing nobody is doing anything, are they?

C: No. No.

HMJr: Is that right?

C: That's right.

HMJr: And I don't believe Johnson is doing anything.

C: I don't think so. I get the impression that he.....

HMJr: He's calling on you, isn't he?

C: Well, he kind of gave me up after while and -- and wrote a letter requesting this be done. I think he wrote it to McLaughlin -- is that his name, over in Labor? And showed the President a copy of that letter, but what happened then I don't know. I got this from Major Sadler.

HMJr: Well.....

C: But I don't think anything has happened on it.

HMJr: Lubin feels just the way I do about Johnson, so.....

C: Yeah.

HMJr:I'll go ahead. I'm not going to -- that is....

- 5 -

- C: No, I think you.....
- HMJr: And I'm going to get Lubin -- some of that money released from the Budget to -- he's got thirty thousand dollars over there and I told him to write me a memo. He hasn't been able to get that -- to make a survey of this particular industry. He says the President has always turned him down.
- C: Yeah.
- HMJr: I told him to ask for five and I'd get it for him and then he could do the work -- and if the President liked this he could go another bottleneck.
- C: Yeah. Yeah.
- HMJr: See?
- C: Perhaps it was because the thing was too -- in too big and too general terms before that the President didn't want to move on it.
- HMJr: Well, when I'm a little further along I'll ask you to drop in and I'll tell you where I am at.
- C: Fine. Any time, Mr. Secretary.
- HMJr: Because.....
- C: Glad to help.
- HMJr:this is -- I asked Lubin whether this wasn't the worst bottleneck we had and he said it is.
- C: Yeah. Everybody seems to be agreed on that point.
- HMJr: And I'm just ambitious enough to think that I can fix it up.
- C: I've been noticing recently that you've been inspecting aeroplane engines. (Laughs)
- HMJr: Well, the point is you can learn more by going to a factory and talking with a plane plant foreman.....
- C: That's right.

- 6 -

HMJr:and spend a day with that fellow.

C: That's right.

HMJr: And.....

C: The office man who.....

HMJr: Yeah. Now I spent a day up at Williamsport and I learned more there in one day than I -- and I got on the right track quickly.

C: Yeah.

HMJr: I mean, Lubin was amazed because he said that I -- I've already arrived at the places which he hoped to do but they have been unable to get started.

C: Well, that's fine.

HMJr: And I only got it by going into the field.

C: Fine.

HMJr: I mean, I.....

C: Well, I'm awfully pleased you have taken ahold of this.

HMJr: And.....

C: Well.....

HMJr: There's -- there's a billion dollars' worth of orders yet to be gotten.

C: And Lord knows we need them badly enough.

HMJr: You and I agree.

C: Yeah.

HMJr: Well, I'll keep you posted.

C: Fine. Thank you so much, Mr. Secretary.

HMJr: Righto.

C: O.K. Bye, bye.

EMBASSY OF THE
UNITED STATES OF AMERICA

México, January 29, 1940.

CONFIDENTIAL

No. 9921

Subject: Shipments from Manzanillo, Mexico.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to the Department's telegram no. 23 of January 26, 7 p.m., 1940 with regard to information desired concerning freight shipments made to Vladivostok from or by way of Manzanillo, Mexico.

Vice Consul Noel stationed in Manzanillo has reported to the Embassy as follows regarding these shipments:

"January 26, 1940. Arrived January 25, 1940, at Manzanillo Young Everbush with New York Amtorg representative, Mr. Feinstein, re copper shipment for Malakovsky; also thirty-four hundred tons of copper due on Buenaventura January 27, for the same vessel.

"January 24, 1940. Shepard Line's Harpoon with cargo of copper left New York January 20, 1940. Copper purchased by Amtorg in United States and will be transferred at Manzanillo to vessels destined for Vladivostok.

"January 24, 1940. Thirty six hundred tons copper transferred this date to Malakovsky from American Guayaquil."

(It will be noted that Mr. Noel uses the name Malakovsky for the Soviet ship whereas the press in Mexico City refers to this vessel as the Mayanovsky. Neither name is shown in Lloyd's Registry for 1939-40.)

As of possible interest to the Department in this connection I enclose memoranda of conversations which took place between Mr. McGregor, of the staff of the Consulate General, and Mr. Diego Rivera, Mexican muralist, and Mr. Lionel K. Dalkowitz, an American resident in Mexico City.

Mr. Rivera is not considered a reliable informant and Mr. Dalkowitz seemed unaware that anything unusual was taking place in the port of Manzanillo. The Department will be kept informed promptly of all further developments in this situation.

Respectfully yours,

JOSEPHUS DANIELS.

STRICTLY CONFIDENTIAL

American Consulate General
México, D. F., México,
January 29, 1940.

MEMORANDUM OF CONVERSATION:

I called yesterday (Sunday, January 28, 1940) on Mr. Lionel K. Dalkowitz, an American citizen long resident in Mexico City. The nature of my visit was entirely social but I took an opportunity of asking him if he knew any reason for the unusual activity reported to be taking place in the port of Manzanillo. He asked in what respect activity there seemed to be unusual and I told him that information had been received that shipments of copper and machinery originating on the eastern seaports of the United States were being consigned to Manzanillo for transshipment. I likewise mentioned the presence in Manzanillo of the Soviet ship MAYANOVSKY.

Mr. Dalkowitz said that if the shipment of copper did not exceed 300 tons it was likely that it was destined to a competitor of his who secured a contract from the Ministry of National Defense of certain types of ammunition for the Mexican Government about a month ago.

He stated that he was not aware of any unusual movement in the port, but that he would have occasion early this week to talk of the matter with friends of his from that region and he would let me know on Wednesday anything further that he obtained.

ROBERT G. MCGREGOR, JR.

STRICTLY CONFIDENTIAL

American Consulate General
Mexico, D. F., México,
January 29, 1940.

MEMORANDUM OF CONVERSATION:

On the morning of January 27, 1940 I found Mr. Diego Rivera, Mexican painter, in the notarial section of the Consulate General and asked him if he could spare a few moments in order to discuss various matters of interest to me. He acquiesced and came to my office.

I asked him what was behind the recent demonstrations held on board the Russian ship MAYANOVSKY in the port of Manzanillo when groups of school children were brought on board and there were alleged to have sung the Internationale. Mr. Rivera said that the Federal authorities in Mexico City had ordered the local authorities in Manzanillo to greet in a suitable manner the Soviet ship in order to show the appreciation of Mexican officialdom in the resumption of maritime traffic with the Soviet Union. The nature of the demonstration was left entirely to the local authorities who decided that the bringing of school children on board was the best method of showing friendliness.

I asked what cargo the ship brought into port. Mr. Rivera said that the ship came in in ballast but that he was reliably informed by a friend from Manzanillo that the ship discharged a cargo of arms (machine guns and rifles), ammunition and hand grenades into small boats prior to coming into port. He did not say to whom these arms were consigned.

He likewise said that he had been informed, but was unable to confirm the story, that a certain quantity of gold and possibly Communist or Nazi agents were brought to Mexico on the ship. He added that the Soviet vessel's presence might render feasible arrangements which he understood had been made for the transportation of gold from the United States to Germany via the Far East.

ROBERT G. MCGREGOR, JR.



DEPARTMENT OF STATE
WASHINGTON

January 31, 1940.

My dear Mr. Secretary:

In connection with the telegram sent recently at your request to Mexico City, with regard to the transshipment of cargo at Manzanillo for Vladivostok, I enclose herewith a copy of despatch No. 9921 of January 29, 1940 from the American Embassy, Mexico, with enclosures.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

No. 9921 of January 29
from Mexico.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

JAN 31 1940 2 20

RECEIVED

Employment in Aviation Manufacturing Industry
(Aircraft and Motors)

1937 - 1939

	1937	1938	1939
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Aircraft Manufacturing

January	22,100	23,700	25,000
March	24,100	24,200	27,400
June	25,200	22,800	36,500
September	23,400	21,700	41,100
December	23,800	24,100	52,100

Airplane Motors

January	5,403	6,318	6,769
March	5,905	6,347	7,555
June	6,485	6,517	8,365
September	6,290	6,610	8,909
December	6,406	6,688	11,996

Total Industry - Aircraft and Motors

January	27,503	30,018	31,769
March	30,005	30,547	34,955
June	31,685	29,317	44,865
September	29,690	28,310	50,009
December	30,206	30,788	64,096

Treasury Department, Division of Research and Statistics
January 29, 1940

Table II

Employment of Selected Aircraft Manufacturing Corporations
1937 - 1939

	1937	1938	1939
<u>Glenn L. Martin Co.</u>			
January	1,364	1,814	2,905
March	1,716	1,892	4,092
June	2,044	2,134	6,029
September	2,032	2,341	10,070
December	1,818	2,777	11,174
<u>Curtiss-Wright Corporation</u> (excluding Wright Aeronautical Corp.)			
January	1,027	2,120	3,044
March	1,311	2,263	2,908
June	1,804	2,077	2,691
September	2,117	2,256	1,307
December	1,879	2,809	3,206
<u>Lockheed Aircraft Corp.</u>			
January	910	1,577	2,305
March	1,094	1,594	3,509
June	1,338	1,797	5,699
September	1,383	1,997	5,324
December	1,428	2,123	5,156

Table II

Employment of Selected Aircraft Manufacturing Corporations
1937 - 1939
(Continued)

	1937	1938	1939
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Consolidated Aircraft Corp.

January	3,169	2,540	968
March	3,246	2,518	819
June	3,099	2,104	832
September	2,617	989	1,408
December	2,580	981	2,540

Douglas Aircraft Co., Inc.

January	5,591	6,328	4,334
March	5,961	6,173	4,177
June	6,653	4,672	5,445
September	5,532	4,028	6,318
December	6,771	4,110	10,362

United Aircraft Corp.

(excluding Pratt & Whitney)

January	2,350	2,245	1,826
March	2,444	2,168	1,766
June	2,497	1,972	1,952
September	2,439	1,880	2,123
December	2,338	1,774	2,588

Table II

Employment of Selected Aircraft Manufacturing Corporations
1937-1939
(Continued)

	1937	1938	1939
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Boeing Airplane Co.

January	1,834	1,493	2,666
March	1,726	1,742	3,016
June	1,249	1,836	3,374
September	1,109	1,948	4,468
December	1,380	2,485	5,199

Vultee Aircraft, Inc.

(Subsidiary of Aviation Manufacturing Corp.)

January		364
March		440
June	560	533
September	430	288
December	334	662

North American Aviation, Inc.

January	829	1,713	2,223
March	889	1,935	2,457
June	841	2,400	3,125
September	1,272	2,685	2,992
December	566	2,530	3,795

Table II

Employment of Selected Aircraft Manufacturing Corporations
 1937-1939
 (Continued)

	1937	1938	1939
<u>Bell Aircraft Corp.</u>			
January	615	222	654
March	850	290	912
June	808	440	1,410
September	718	235	703
December	213	606	799

Treasury Department, Division of Research and Statistics
 January 31, 1940

Table III

Employment of Selected Airplane Motor Corporations
1937 - 1939

	:	1937	:	1938	:	1939
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Pratt & Whitney Aircraft Division of
United Aircraft Corp.

January	1,931	2,567	2,264
March	2,119	2,489	2,659
June	2,384	2,555	3,066
September	2,471	2,384	3,394
December	2,618	2,227	5,022

Wright Aeronautical Corp.
(Subsidiary of Curtiss-Wright Corp.)

January	2,254	2,607	3,398
March	2,515	2,705	3,771
June	2,800	2,930	3,997
September	2,690	3,184	4,026
December	2,608	3,374	5,141

Allison Engineering Co.
(Subsidiary of General Motors Corp.)

January	218	262	454
March	229	297	466
June	238	339	558
September	238	382	642
December	266	439	901

January 29, 1940
11:55 a.m.

HMJr: Hello.

Operator: Senator Barkley.

HMJr: Hello.

Alben W.
Barkley: Hello.

HMJr: Hello, Alben.

B: Henry.....

HMJr: Yes, sir.

B: I wanted -- I may have to call you later, I've
got to go in on the floor in a minute. What I
wanted to talk to you about - I suppose you saw
this blast that John Townsend gave out.

HMJr: Yeah.

B: About the purchase of gold from Russia.

HMJr: Right.

B: And also from Japan.

HMJr: Right.

B: My understanding is that we're not buying any gold
from those countries and we're not receiving any
except in payment for goods. Is that true or not?

HMJr: Goods and services, that's right.

B: Yes. In other words, we're not just going out
and buying.....

HMJr: That's right.

B:in the open market any gold from either
country.

HMJr: No. Now, I tell you, if you want somebody I can
get up a quick little statement for you and send
it up, but what you're saying is perfectly correct.

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B: Well, I'd like to have it if you can send it up to me.

HMJr: I'll have.....

B: I don't know that I'll need it, but if it turns up -- comes up on the Senate floor I'd like to have the -- the facts.

HMJr:in answer to Townsend's statement.

B: Yeah.

HMJr: I'll rush it right along.

B: Well, thank you.

HMJr: Thank you.

B: Goodbye.

HMJr: Goodbye.

TELEGRAM SENT

JT

GRAY

January 29, 1940

3 p.m.

AMERICAN EMBASSY

PARIS (FRANCE)

67

PERSONAL FOR THE AMBASSADOR FROM THE SECRETARY OF
THE TREASURY.

Please accept my warm thanks for the sentiments so
generously expressed in your No. 126 of January 25, 9 p.m.
I also appreciate sincerely your attitude as indicated in
your No. 135, January 27, 4 p.m.

HULL
(HF)

EA:HF:LHW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 29, 1940, 7 p.m.

NO.: 144

FOR THE TREASURY.

FROM MATTHEWS.

This morning I went to the Bank of France to see Boisanger, the Under Governor. For the moment, he said, financial conditions in France are quite satisfactory. He said subscriptions to armament bonds are coming in as rapidly as could be desired, and that revenues from taxes are holding up well. However, he believes that while the French have so far been quite successful in holding prices down, it is inevitable that there will be inflation on a scale somewhat comparable to that of the last war. He said there has begun a rise in the prices of foodstuffs, due in part to large purchases for the expeditionary force by Great Britain, and in part to the severe cold spell recently experienced. He expressed the fear that this in turn might bring some serious demands for higher wages on the part of the C.G.T. He went on to say that any policy which is based on excessive borrowing such as is necessitated by the war is bound to have inflationary results in the long run regardless of how well they may be postponed temporarily. In keeping wages down, he said, the French have shown more courage than the British but he added that in the matter of taxes the British have shown more courage than the French.

END SECTIONS ONE AND TWO.

BULLITT.

PARAPHRASE OF SECTIONS THREE TO TEN, INCLUSIVE,
OF TELEGRAM NO. 144 OF JANUARY 29, 1940 FROM THE
AMERICAN EMBASSY, PARIS.

By taxation the British are covering about 50 percent of their total expenditures now, whereas only about 25 percent are covered by the French. He expressed skepticism as to how much more the French can or will be taxed.

He said that with regard to the financial accord between Great Britain and France, the franc-sterling balance is still running in favor of France, but he was not sure how long this would go on. For the duration of the war he did not seem particularly preoccupied at the difference in price levels between the two countries, pointing out that presumably the British will purchase more from France if prices in Great Britain are higher, and thus the ultimate French debit balance with Great Britain would be reduced. Boisanger, like others here, feels that before the war is over such a debit balance will develop.

As for possible requisition of French foreign holdings, he did not seem as positive as Couve de Murville, though he did not indicate that they contemplate any immediate move in this direction. However, he remarked that it was a very complicated matter to undertake such requisitioning, and it would only be with reluctance that the Government would approach it. He said that for four years Italy had been carrying

- 2 -

carrying this on and had not yet completed its requisitioning of foreign assets. There are French firms doing business abroad, for instance, which require the maintenance of revolving funds in the United States, and obviously in any scheme of requisitioning the needs of such concerns would have to be given greater consideration than dollar securities held for safety or as a hedge against inflation in France. Through pressure by the Foreign Exchange Office, he intimated, some reductions in the aforementioned revolving business funds are already being made when the concerns come to the Office to replenish the accounts.

Reference, telegram No. 104 of January 22 from the Embassy - I commented on the recent articles by Jenny urging that in the French system of payments more checks be used. He seemed to feel that the importance of the question should not be exaggerated, saying that the matter is one which Jenny has been harping on for many years.

Boisanger added that he also believed too much importance is attributed to hoarding of banknotes. He said that a distinction should be drawn between hoarding of a temporary character, which can have serious inflationary effects when the notes are dehoarded, and the more permanent hoarding characteristic of France, when for unlimited or very long periods the banknotes are kept in the sack. He considered
the

- 3 -

the results of the latter type of hoarding to be relatively unobjectionable.

Incidentally, in LE TEMPS of last evening there was a further article by Jenny urging that more "Cheques Barrea" be used. The article was apparently written primarily for the public and devoted largely to a (permanent?) between the characteristics of checks and banknotes. In effect he said that it is a fact that the present circulation of banknotes can form the basis of a credit structure much vaster than the present existing one. One must realize, in building this structure, that an expansion of bank credit should not be confused with monetary inflation, saying that if the volume of credits appreciably exceeded needs, it could result in a certain credit inflation. But he said in the present state of affairs today's needs are without question only partially satisfied. He added that this particular form of inflation would not have the same effects as pure and simple inflation, that there would be only a slight effect on retail prices because as a means of payment the "Cheque Barre" is used and always will be used much more extensively by manufacturing and commerce than by the consumer.

The Under Governor has been on a trip to Italy recently, and had just returned. Financial conditions there, he said,

are

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are "not too bad", attributing this in part to the substantial war orders from the Allies and the exchange resulting therefrom. Compare: telegram of January 4, No. 14, from the Embassy giving Pennachio's views. For the present, Boisanger thinks that the French can worry along without serious inflation. He said that a difficult problem is that presented by exports of coal to Italy from Germany and transportation by water. Of course Italy is anxious to keep imports of coal from Germany as close to levels before the war as is possible in order to avoid the loss of exchange which would be involved in purchasing coal from Great Britain.

Boisanger said in conclusion that exports from France for the month of December had shown a marked improvement - reference, telegram of January 17 from the Embassy, No. 89; the same thing was said by Rist and Couve de Murville. Boisanger also said that likewise there is improvement in French industrial production; and that he had no worries for the moment but that much depended upon the duration of the war and French ability to purchase from the United States.

Boisanger, incidentally, is of the school of thought that thinks no offensive in the west will be launched by Hitler this year. This is a view making for a long war with all the inherent implications for French economy and finance.

END SECTIONS THREE TO TEN, INCLUSIVE.

BULLITT.

EA:LWW