

HSM

GRAY

Paris

Dated January 29, 1940

Rec'd 8:10 p. m.

Secretary of State,
Washington.

144, January 29, 7 p. m. (SECTION ELEVEN)

According to the AGENCE ECONOMIQUE ET FINANCIERE of today after three years "deadlock" the Greek Government has offered to pay 43 percent of the interest on its foreign loans and the British Council of Foreign Bondholders and the League Loan Committee have recommended acceptance of the offer. Under the proposal the first payment will be made on an February 1 next the same percentage will continue and amortization will be suspended during the period of the war. The offer is presumably the result of an arrangement between the British and Greek Governments in connection with economic and in connection questions concerning the two countries and involves substantial purchases of Greek tobacco.

The securities market was depressed and irregular again today in narrow trading although price changes were unimportant. Rentes showed moderate irregular gains and losses. (END OF MESSAGE).

BULLITT

DDM



DEPARTMENT OF STATE
WASHINGTON

[Handwritten signature]

January 29, 1940.

PM

My dear Mr. Secretary:

In connection with the recent cable sent at your request to our Embassy in Mexico City, with regard to transshipment of American cargo at Manzanillo for Vladivostok, I am enclosing copies of reports received by air mail.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosures:

Copy despatch No. 9900
of January 24 from Mexico
with enclosures.

Copy despatch No. 9903
of January 25 from Mexico
with enclosure.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

set by [unclear] and returned [unclear]

[Faint vertical stamps and markings]

COPY

211

EMBASSY OF THE UNITED
STATES OF AMERICA

Mexico, January 24, 1940

No. 9900

Subject: Transshipment of American Cargo at
Manzanillo for Vladivostok.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to transmit two memoranda of conversation regarding the shipment of cargo from New York to Manzanillo, Mexico. It is understood the shipment consists of some eight thousand tons of copper, steel, and machinery, and that its ultimate destination is Vladivostok. According to available information, the shipment will be transhipped to the Russian S.S. VMAYAKOVSKY at Manzanillo.

Respectfully yours,

JOSEPHUS DANIELS.

10 115
120 115

800 700 00 84 2 01

COPY

MEMORANDUM OF CONVERSATION

January 20, 1940.

ROBERT BURWELL, Guadalajara

RALEIGH A. GIBSON.

Mr. Burwell stated that the Panama Railroad boats BUENAVENTURA and GUAYAQUIL were expected shortly in Manzanillo, with cargoes of copper, machinery and steel. The cargoes are to be transhipped in Manzanillo for Russia.

It is possible that the two vessels have been consigned to the Agencia Marítima y Comercial, Heynen Eversbusch and Company, Mexico City. This is a German firm. The ships will probably be handled by Ernesto Pirsch, in Manzanillo, shipping agent. Pirsch is a naturalized Mexican, having been born in Germany. He just returned from a six months vacation in Germany.

RALEIGH A. GIBSON.

COPY

MEMORANDUM OF CONVERSATION

January 23, 1940.

SR. DON JUAN LOPEZ

RALEIGH A. GIBSON

Mr. Lopez stated that Mr. Burwell had called him by long distance, and had informed him that the Russian boat S.S.VMAYAKOVSKY was in ballast, and was awaiting the arrival of the two American vessels S.S.BUENAVENTURA and S.S. GUAYAQUIL.

Mr. Lopez stated that he had received information from New York that the S.S. HARPOON, of the Shephard Shipping Company, was also loading at that port, for delivery to Manzanillo, Colima, Mexico.

RALEIGH A. GIBSON.

RECEIVED
JAN 23 1940
U.S. DEPARTMENT OF COMMERCE

COPY

EMBASSY OF THE
UNITED STATES OF AMERICA

Mexico, January 25, 1940.

No. 9903

Subject: Transmission of Memorandum regarding
Cargo of SS. GUAYAQUIL in Manzanillo

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to my air mail despatch No. 9900 of January 24, 1940, regarding the American vessels BUENAVENTURA and GUAYAQUIL, and to enclose herewith a memorandum of conversation between a member of my staff and Mr. Robert Burwell of Guadalajara, Mexico, with further reference to this matter.

Respectfully yours,

JOSEPHUS DANIELS.

10 JAN 26 1940
RECEIVED
U.S. DEPT. OF STATE
WASHINGTON, D.C.

9903 JAN 26 1940

COPY

MEMORANDUM OF TELEPHONE CONVERSATION

January 24, 1940, 8:15 p.m.

ROBERT BURWELL, Guadalajara

RALEIGH A. GIBSON.

Mr. Burwell informed me that the S/S GUAYAQUIL arrived today in Manzanillo and is transferring its cargo, mainly of copper to the Russian S/S VMAYAKOVSKY. This transfer is being made from ship to ship.

The ship is consigned to an employee of Heynen Eversbusch and Company, a German firm in Mexico City, and is the same as if consigned to Ernesto Pirsch, the German agent in Manzanillo. The reason for the consignment to an employee of the Mexico City firm was done in order to overcome certain labor difficulties that Pirsch might have encountered.

With reference to the two American vessels - BUENAVENTURA and GUAYAQUIL - it is believed that they do not belong to the Panama Railroad Company, but have been sold to Stoddart and Company or Eckhart and Company, American firms. If this is not true, it may be possible that the two ships are under time charters to the American firms mentioned.

The German agent is endeavoring to secure cargo for the S/S GUAYAQUIL, having offered her for European ports. One offer has been made which consists of garbanzos for Spain.

Mr. Burwell also stated that he would send the Embassy a copy of the air mail letter that he expects to receive from W. R. Grace and Company from the New York City office, regarding the circumstances under which the American vessels were consigned to a German agency in Manzanillo.

RALEIGH A. GIBSON.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 29, 1940.

TO Secretary ~~M~~ergenthau
 FROM Mr. Haas *HA*
 Subject: The Business Situation,
 Week ending January 27, 1940

Conclusions

(1) If the corrective setback in industrial activity now under way is to be of moderate extent and duration, a strengthening in the underlying business trend should soon become apparent, perhaps several months in advance of an actual upturn in industrial production. During the past week, some more optimistic signs have appeared on the business horizon:

- (a) New orders for steel and textiles have increased noticeably, partly due to seasonal influences and abnormally cold weather, respectively.
- (b) Prices of speculative bonds have risen moderately in comparison with high grade bonds, indicating an improvement in our "index of confidence". The undertone of the stock market has improved, though trading continues in light volume.
- (c) Contributing to increased business confidence is a growing feeling that war orders and general export demand may provide a greater stimulus to business activity in 1940 than had previously been envisaged.

(2) The volume of new orders during December (not allowing for the effect of unfilled orders) was sufficient to maintain the FRB index in that month at a level of about 110.

(3) Our basic indices, now available for December, appear somewhat more favorable than earlier figures had indicated. According to these indices, the FRB index at about 117-118 would have been in balance with actual demand in December. This compares with a production figure of 128.

(4) A further decline in sensitive commodity prices last week, due in large part to current slackness in industrial demand and to relief of the mid-western drought, may have some unfavorable reaction on business sentiment.

Secretary Morgenthau - 2

The general situation

Our monthly index of new orders shows a substantial further decline in December (see Chart 1), the index for that month being equivalent to an FRB index (unadjusted) of about 103. In terms of the adjusted index, this means that incoming orders in December were about sufficient to maintain the FRB index at a level of about 110, as compared with an actual level of 128, the difference representing production on previous unfilled orders.

In consequence of this excess production, the backlog of unfilled orders has been further reduced. Our approximate index of unfilled orders (lower section of Chart 1) turned down rather sharply during the month, but remains at an unusually high level in comparison with peaks in other recent years. Business activity during the early months of 1940 will be cushioned by these orders pending a renewed expansion in new buying.

Our basic business indices for December present a somewhat more favorable picture than was indicated last month, partly due to upward revisions in the November data. The index of basic demand (see Chart 2) stands at 119 for December, down slightly from the revised November figure, and compares with an FRB index of 128 for that month.

The index of sales, representing the offtake of manufactured goods, rose to 116 in December. This index normally lags somewhat behind movements in business activity, and appears to be still in a rising trend. The two indices taken together suggest that industrial production would be in balance with the present level of demand at approximately 117-118 for the FRB index.

Underlying tendency more optimistic

If the corrective decline in business activity now under way is to be completed within the next few months, evidence of improvement in the underlying business trend should soon begin to appear, since several months may be required to translate underlying improvement into increased industrial production.

Secretary Morgenthau - 3

During the past week some evidence of an improving outlook has appeared on the business horizon. New orders for steel and textiles have increased noticeably, bringing a sharp upturn in our weekly index. (See Chart 3) The improvement in steel demand is partly of a seasonal nature and sales of woolen goods have been stimulated by the abnormally cold weather.

Orders reported by the United States Steel Corporation last week rose to the equivalent of 59 per cent of capacity from 38 per cent the previous week, and various trade comments mention some improvement in incoming orders, particularly for lighter steel products. Orders for woolen goods have risen very markedly, stimulated in part by recent cold weather. A further expansion in cotton textile sales has been discouraged by weakness in raw cotton prices, but the undertone of the textile market remains firm and an expansion in sales is expected by the trade on any sustained price upturn.

The action of the security markets suggests some improvement in business confidence. Although trading in the stock market continues in unusually light volume, the undertone of the market seems to have improved following the failure of selling to increase on the recent market downturn, which is interpreted by observers as evidence of a sound market situation. Prices of second grade bonds improved last week in relation to prices of high grade bonds, bringing a moderate upturn in our "index of confidence".

Contributing to increased business confidence is a growing feeling that war orders and general export demand may provide a greater stimulus to business activity this year than had recently been envisaged. Publication of figures showing the marked increase in exports during December, a recent improvement in export orders for steel and certain other products, and press accounts of a possible billion-dollar aircraft purchase program have directed increased attention to the export outlook.

The magazine Steel says in its current weekly issue that steel buying for export has definitely improved, most active purchasers in Europe being Turkey, Holland, and the Scandinavian countries, while Brazil and Argentina lead among the South American countries. The Iron Age mentions that the volume of inquiries and orders from abroad has been gradually expanding in the past few weeks, and that there has recently been sharper price competition for export orders.

Secretary Morgenthau - 4

An analysis of the preliminary export figures for December, in comparison with average figures for the three previous months, as presented in the table below, shows the largest increases among important items to have been in manufactured products and refined copper. A continuation of this tendency would, of course, be of direct benefit to industrial activity. On the other hand, the greatest important declines were in certain agricultural products, tending to reduce purchasing power in certain agricultural sections.

Exports during December,
by selected groups
(Preliminary)

(Millions of dollars) Per cent change from
average of
previous 3 months

Aircraft	28.9	+387
Refined copper	14.3	+104
Iron and steel (excluding scrap)	28.8	+ 57
Automobiles	24.9	+ 46
Machinery	51.1	+ 21
Raw cotton	43.3	+ 16
Chemicals	19.4	+ 10
Petroleum	35.4	+ 3
Iron and steel scrap	4.0	- 24
Tobacco	4.2	- 28
Wheat	2.0	- 46
Dried and canned fruit*	2.0	- 72

* Figures for fresh fruit not yet available.

Sensitive prices decline

An unfavorable development of the past week has been a further downturn in sensitive commodity prices, which adds a degree of caution to current buying policies. (See Chart 4) The current slackness in industrial demand has itself been an important factor in the price weakness. The low volume of copper buying, for example, has been largely responsible for successive mark-downs in prices for refined copper. Further relief of the mid-western drought through heavy snowfall over a large part of the United States has weakened prices of agricultural products, notably cotton and wheat.

Secretary Morgenthau - 5

The collapse of speculative booms in silk and burlap, centered in foreign markets, has affected price indices containing those commodities, and has doubtless adversely affected prices of other commodities. Silk prices began to break late in December, and May futures at New York have lost 31 per cent in four weeks. The burlap boom collapsed last week on an unexpected decision of the British Government to defer a large purchase of sandbags, at a time when an announcement of increased purchases was looked for by the trade.

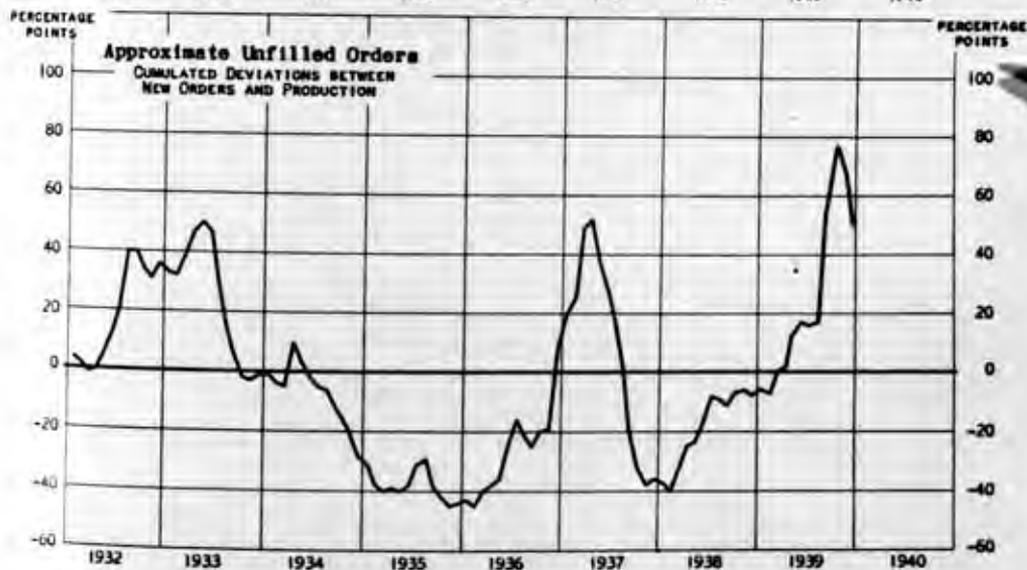
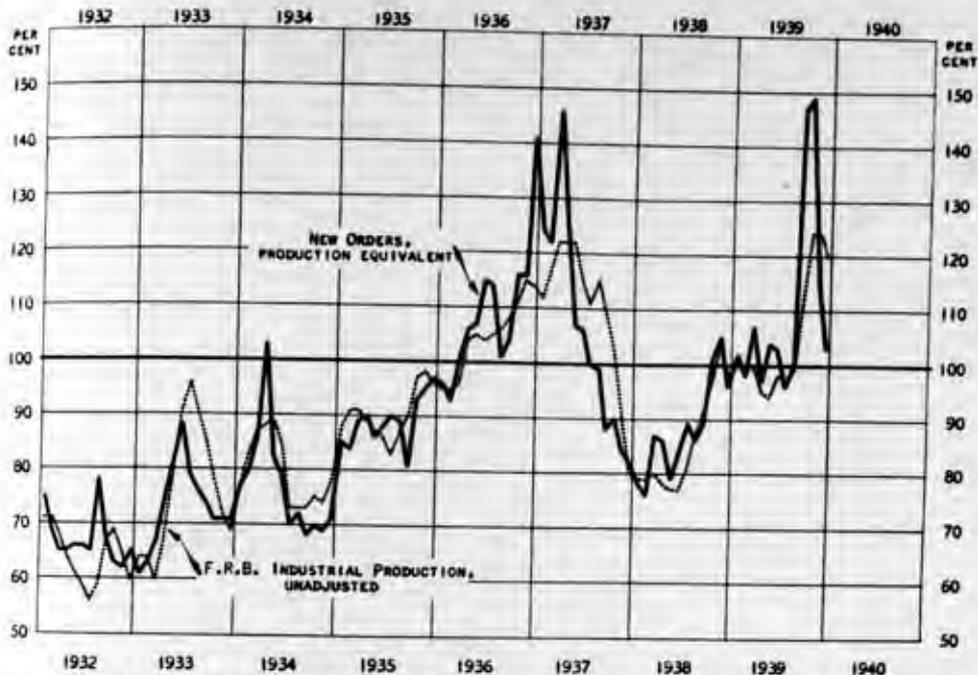
Current business news

The business decline was somewhat more pronounced during the week ended January 20, as indicated by a drop of 1.3 points in the New York Times index to 103.7. All components except cotton mill production were lower. For the following week, preliminary data indicate an improvement in the adjusted index of automobile production, but a further decline in the steel index.

Retail automobile sales during December, as indicated by registrations in 39 States, showed but a slight improvement over sales the previous month, while production expanded sharply. (See Chart 5) This has resulted in a larger estimated surplus of cars produced in that month than in any of the three previous Decembers. (See lower section of chart) The high December production was in anticipation of a heavy demand for cars in 1940, which is apparently being confirmed by the sales trend so far during January. Despite adverse weather, retail automobile sales during the second 10-day period of this month are estimated in the trade at only 16 per cent below the comparable period in December, as compared with an average decline of 22 per cent in recent years.

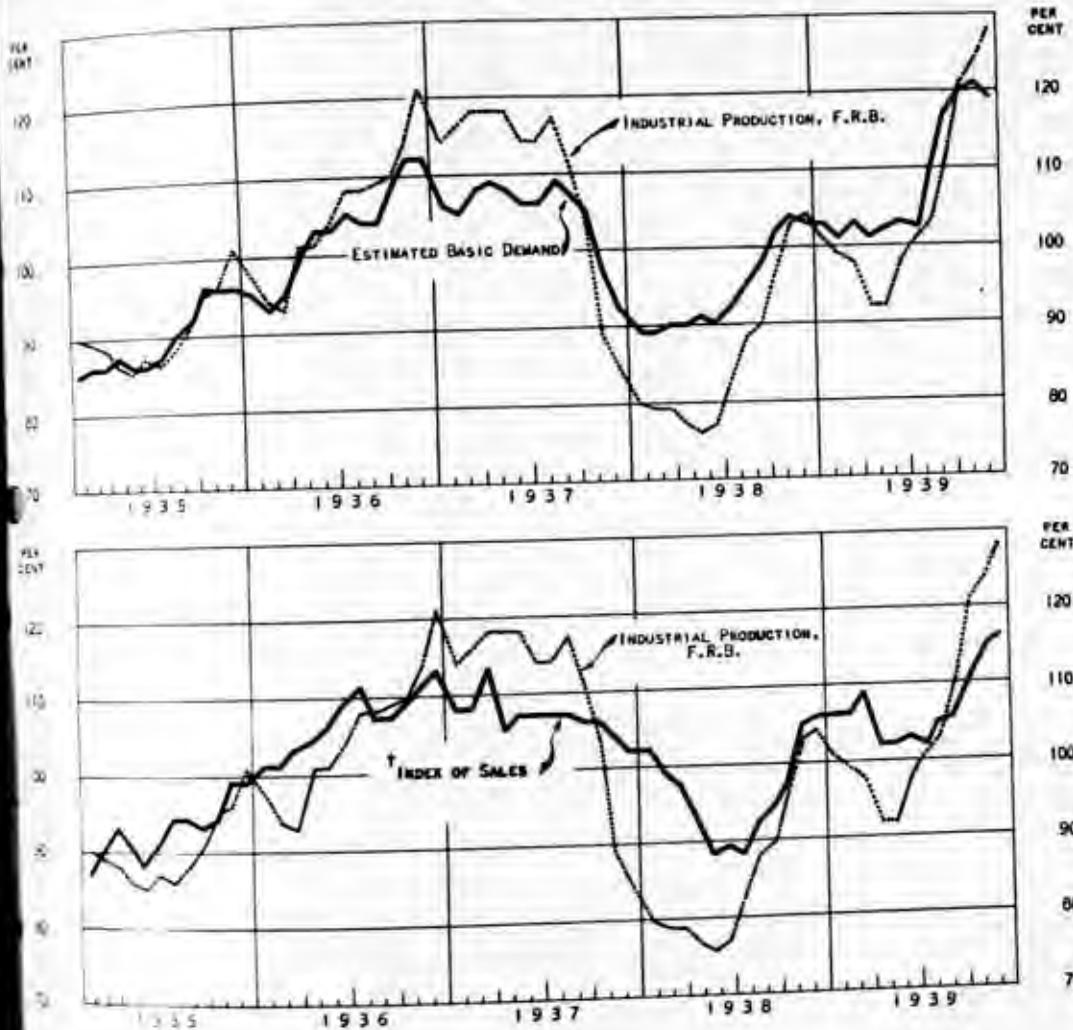
FHA mortgages selected for appraisal declined in December below the total for the previous December (see Chart 6), apparently foreshadowing no great improvement in the trend of residential building during early 1940. In January so far the weekly figures (lower section of chart) have also averaged slightly below last year's figures.

INDICES OF NEW ORDERS AND INDUSTRIAL PRODUCTION
SHOWING APPROXIMATE UNFILLED ORDERS
1923 - '25 = 100



INDICES OF BASIC BUSINESS TRENDS COMPARED
WITH INDUSTRIAL PRODUCTION

1923 = '25 = 100, SEASONALLY ADJUSTED

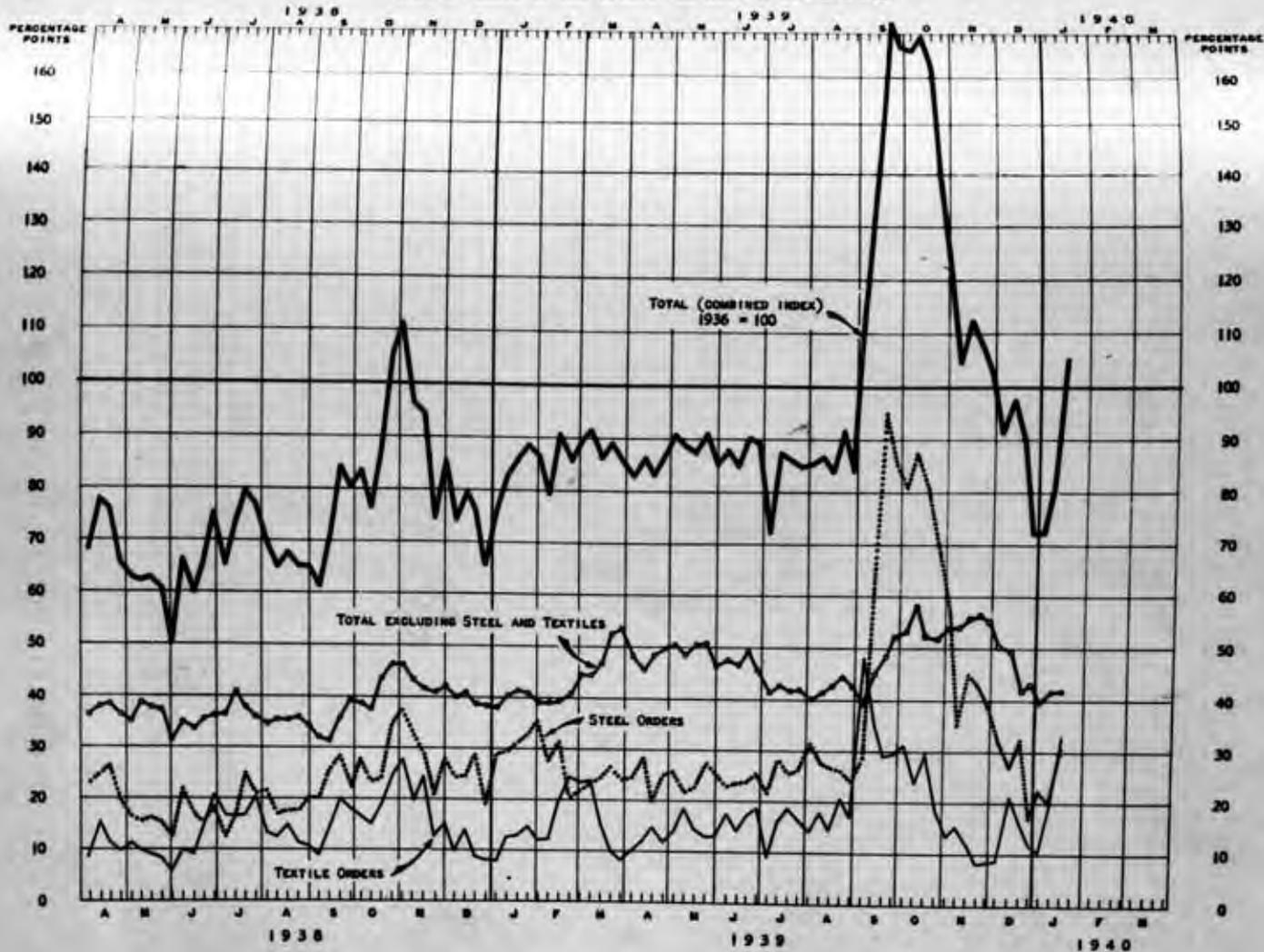


* REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME.

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

C - 245 - 2

INDEX OF NEW ORDERS
 Combined Index of New Orders and Selected Components



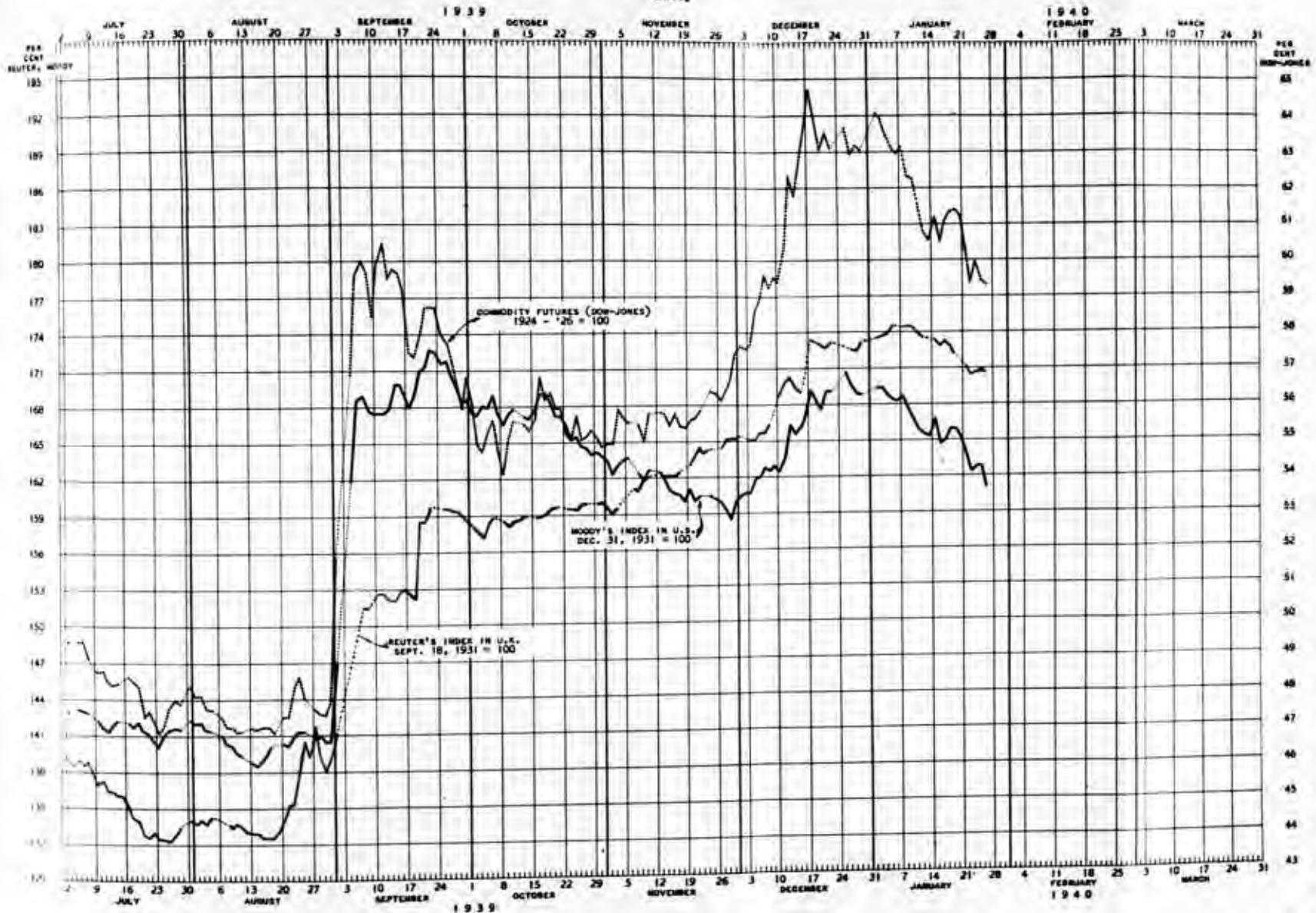
Office of the Secretary of the Treasury
 Division of Research and Statistics

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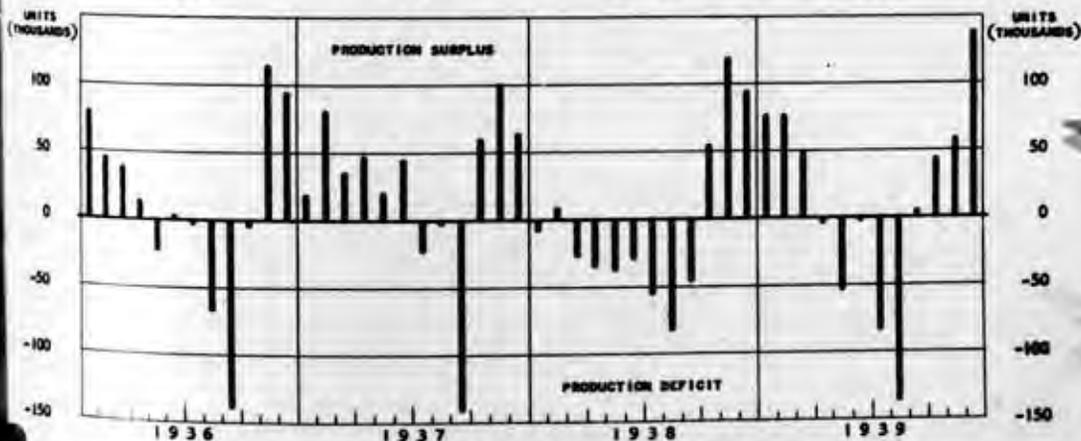
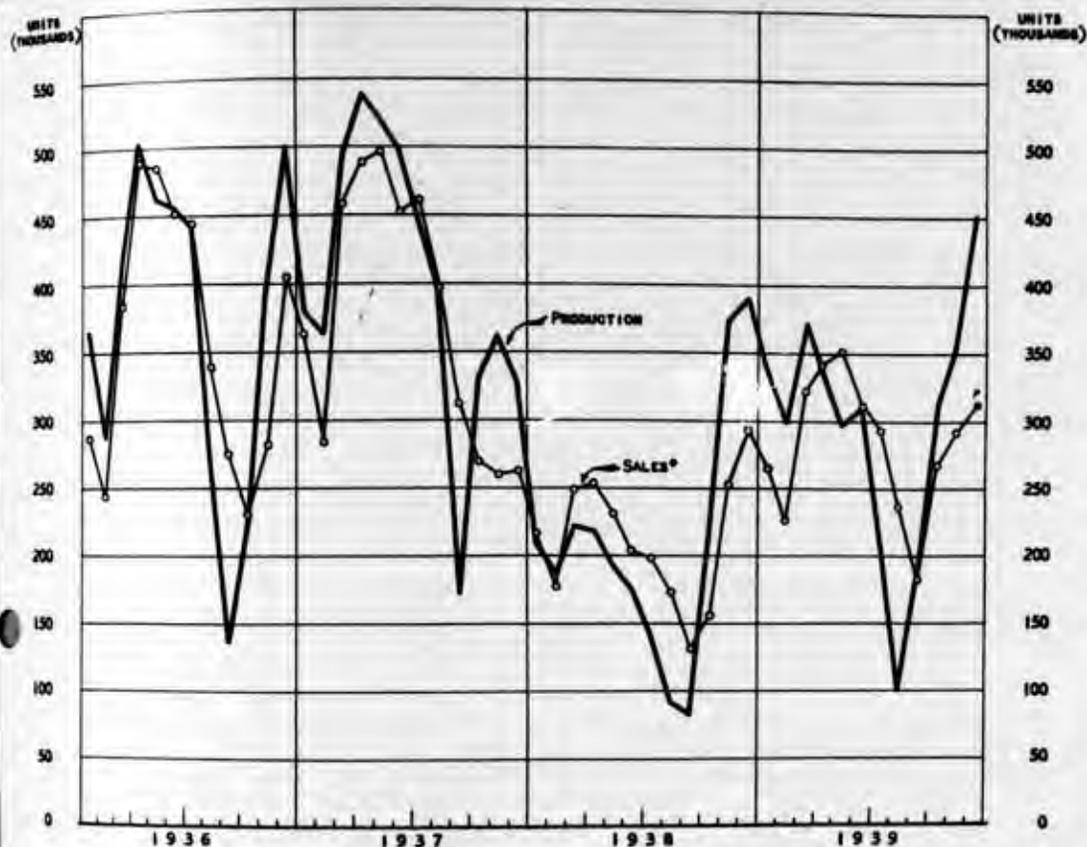
223 Chart 3
 CONFIDENTIAL

Regraded Unclassified

COMMODITY PRICE INDEXES IN U.S. AND U.K. Daily



MONTHLY AUTOMOBILE PRODUCTION AND SALES*



*NEW AUTO REGISTRATIONS IN U.S. PLUS EXPORTS

RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES

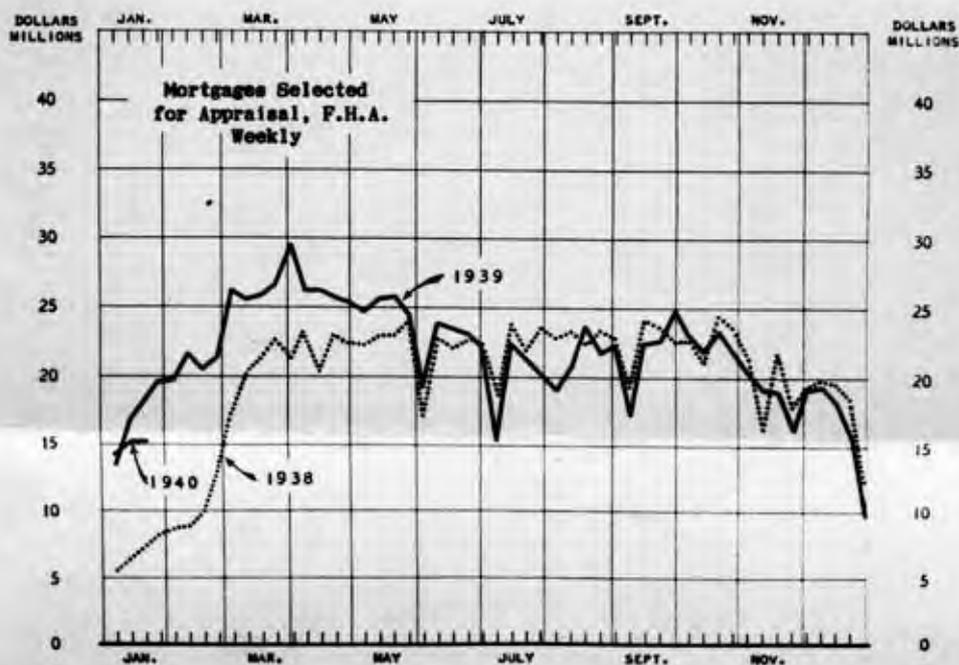
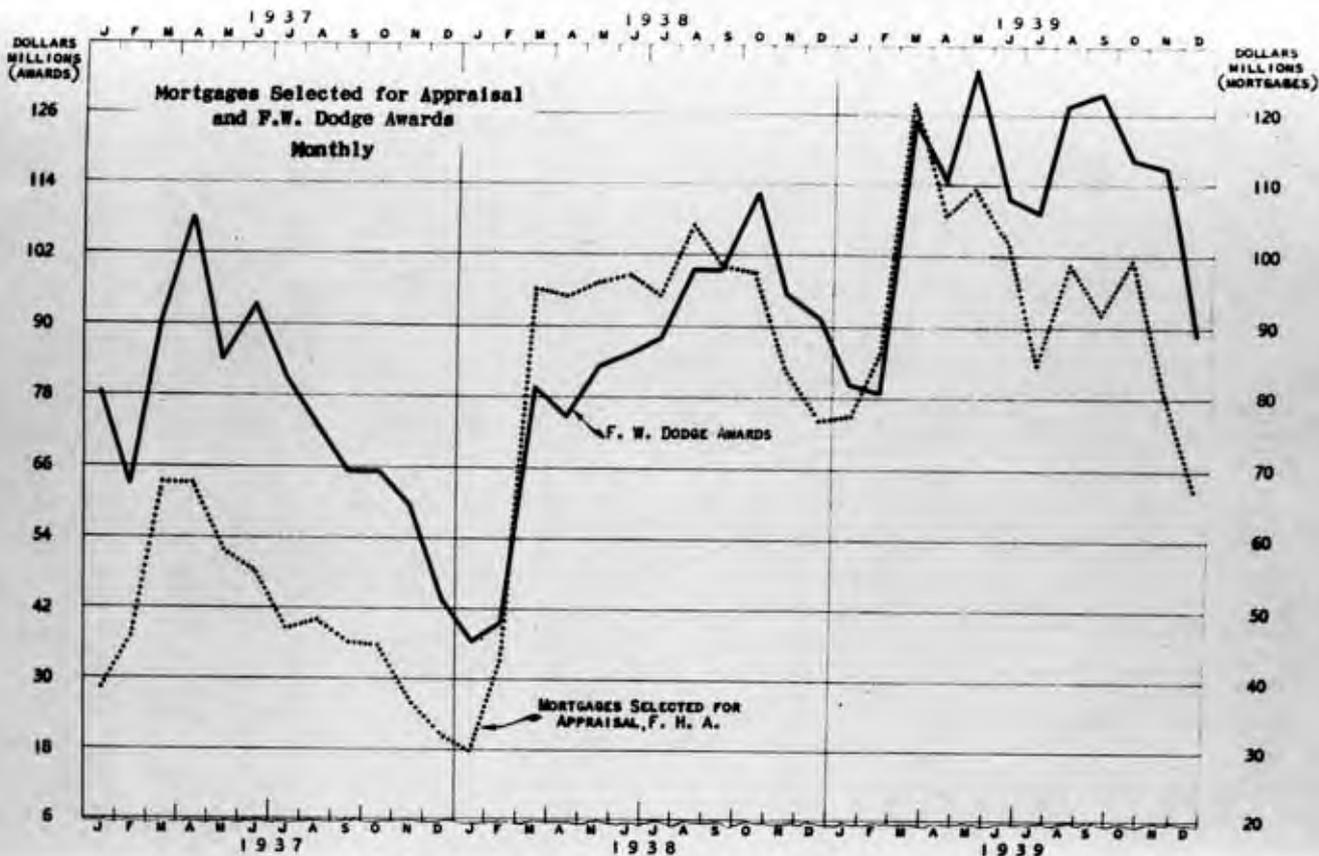


Table III

Employment of Selected Airplane Motor Corporations

1937 - 1939
(Continued)

	1937	1938	1939
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Lycoming Division of Aviation Manufacturing Corp.

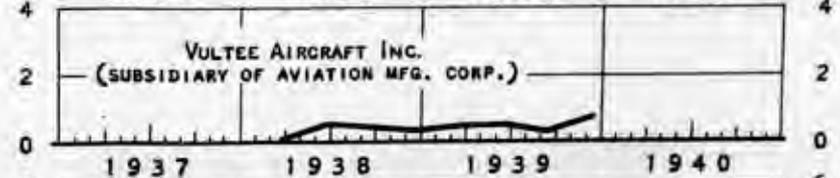
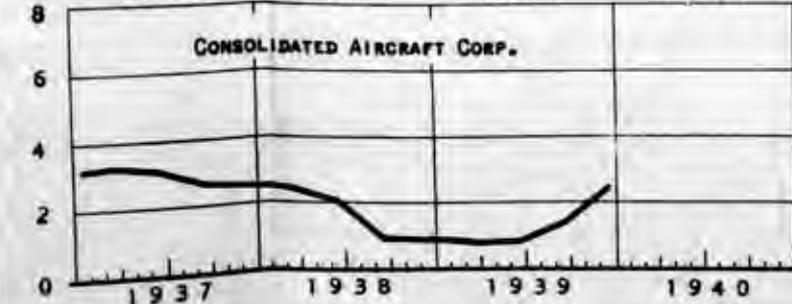
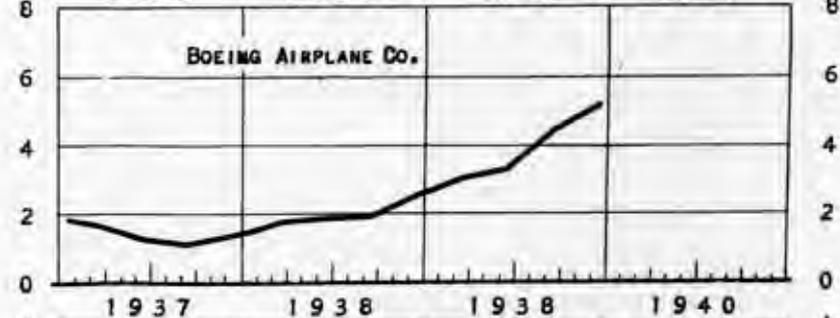
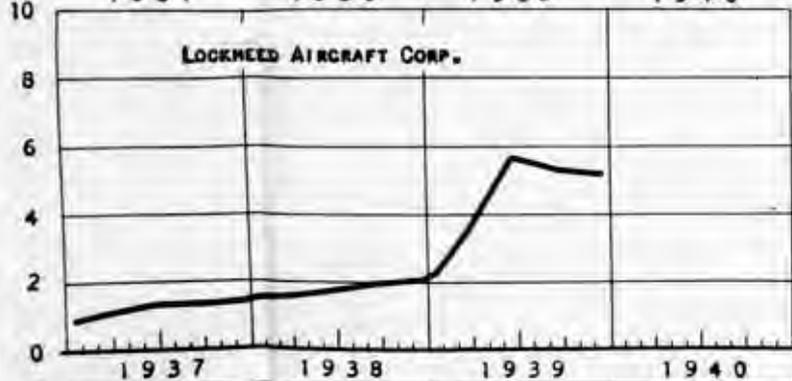
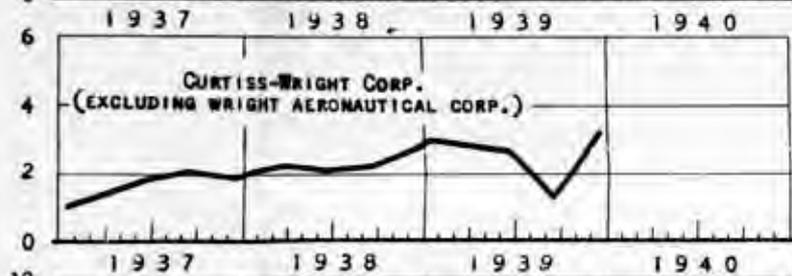
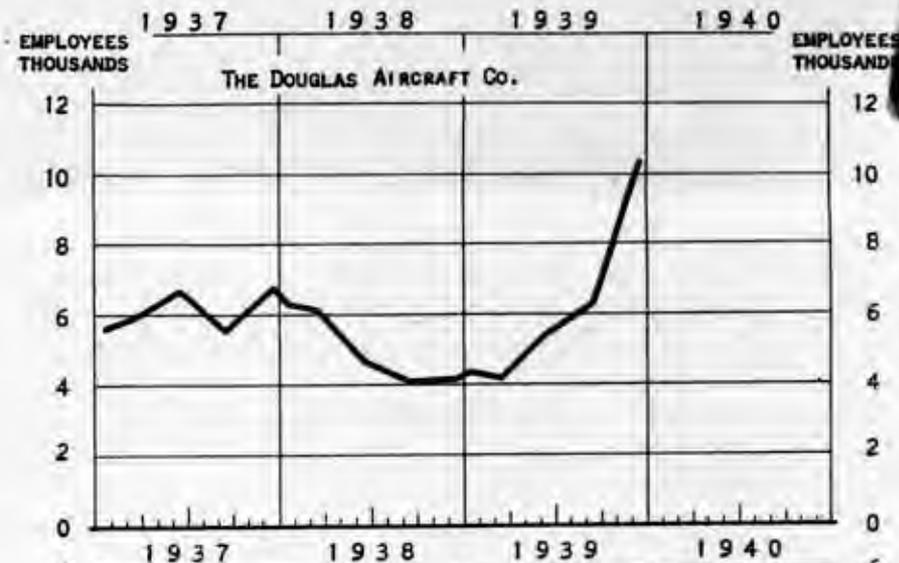
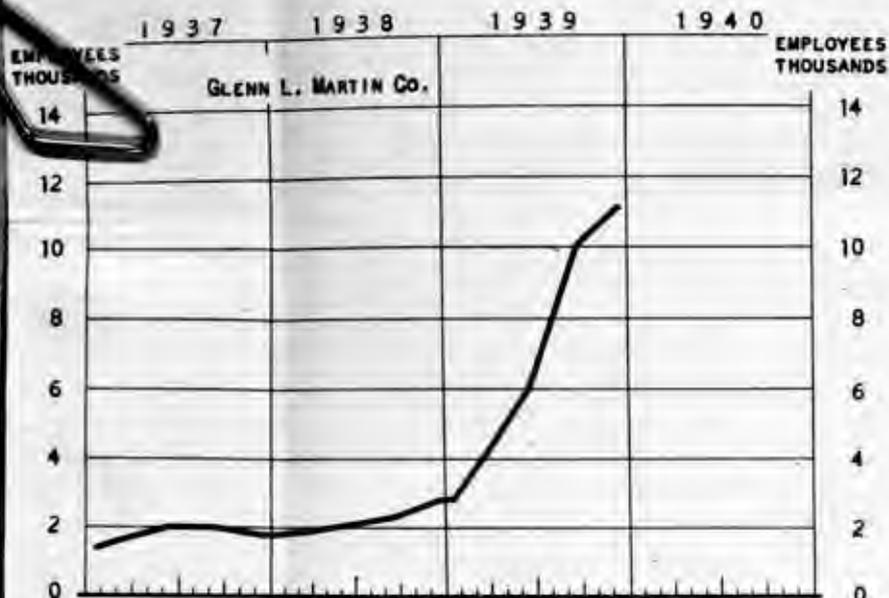
January	849	729	519
March	889	704	521
June	901	549	573
September	756	514	644
December	762	506	689

Continental Motors
(Airplane Engine Division)

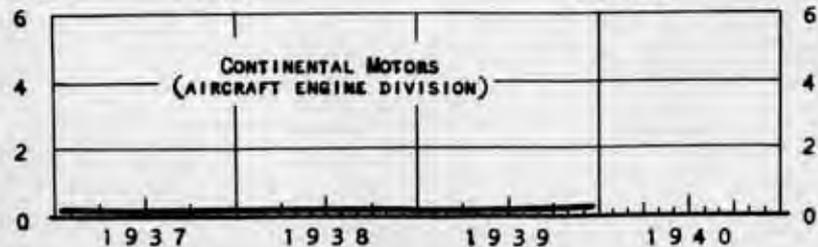
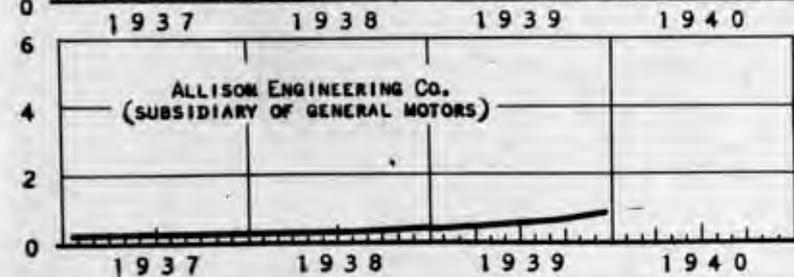
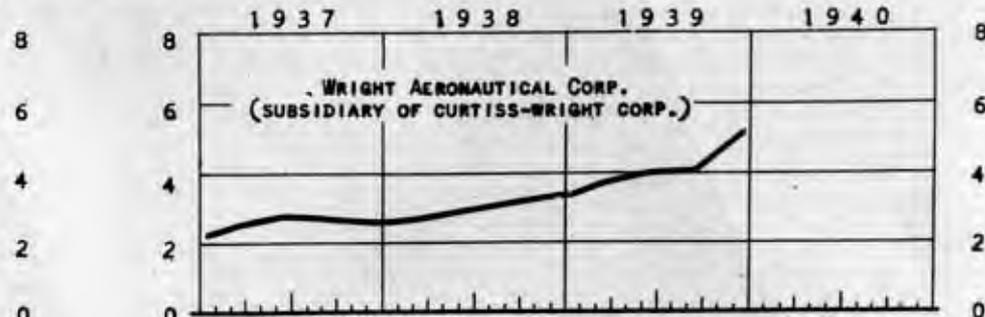
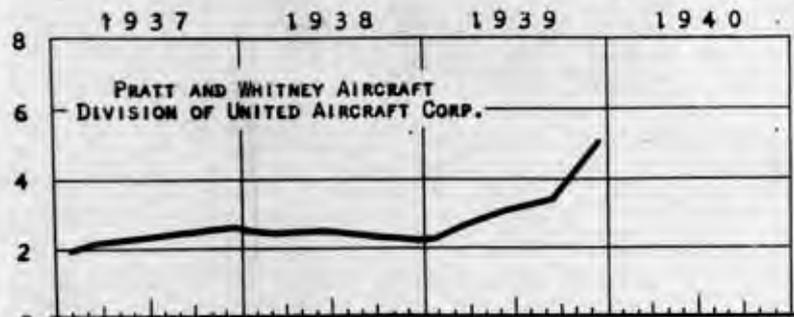
January	151	153	134
March	153	152	138
June	162	144	171
September	135	146	203
December	152	142	243

Treasury Department, Division of Research and Statistics
January 29, 1940

Selected Aircraft Manufacturing Companies



Selected Airplane Engine Companies



January 29, 1940

TO: LIEUTENANT McKAY
FROM: JOSEPH P. COTTON, JR.

The Secretary asked me to ask Mr. Traphagen to come down here on the Colombian debt matter at 10:00 Wednesday or Thursday of this week.

Mr. Traphagen will be very glad to come down for a meeting Thursday morning to talk to the Secretary and to Mr. Jones and Mr. Berle if the Secretary so desires. However, he questions the wisdom that he should be asked to talk to the Colombians again at this time because he feels that, although the gap to be bridged between the Council and the Colombians is small, whether or not the Colombians will move depends upon their hope of receiving a new loan from this government. The question of a new loan cannot be determined until the Export-Import Bank is or is not given new funds by Congress. I told Mr. Traphagen that I would communicate to the Sec'y his view that he should not be asked to talk to the Colombians at this time, and would telephone him as soon as possible the Secretary's views in this matter and confirm finally the meeting Thursday morning if the Sec'y still wishes him to come down.

JPC, JR.

MEMORANDUM

January 29, 1940.

TO: SECRETARY MORGENTHAU

FROM: MR. SULLIVAN

Talked with Eaton today at a conference arranged by Mr. Schwarz regarding the foreign letter No. 1084 dated January 23, 1940. He apparently has not seen the first sentence of paragraph 7, indicating that the President was not entirely satisfied with the Secretary's rulings in regard to obsolescence on new plant facilities.

He appeared to be surprised at this statement and explained his not having read it on the ground that one of his partners who had handled the foreign letter had recently died. He promised to check and find the source of that remark and to call me.

In a general discussion regarding the way in which most of the news services including his has been misled in the fall, he indicated that he thought his information had come from the best source. He was very close to Mr. Hanes and I infer was getting a lot of information from the Service Departments. He inquired at some length as to the attitude of the Treasury on bills to be introduced in Congress seeking a revision of the Vinson-Trammell Act. I told him that so far as I knew the Treasury had not been asked for an opinion on those bills or to cooperate in securing their passage and I further advised him that it was my off-hand opinion that the Treasury would not be interested in such a revision unless the proposed legislation involved a change in the technique which we were to employ in administering the tax provisions of the Act. He was particularly anxious to know whether as a matter of policy we were going to execute closing agreements with the munitions makers fulfilling orders for foreign belligerents. I advised him that only two closing agreements had been executed, both of these being with our own Department and that it had not yet been decided whether closing agreements would be executed to cover orders for foreign belligerents.

IN REPLY REFER TO: 231
HMD:hs



OFFICE OF THE COLLECTOR
DISTRICT NO. 10

ADVERTISE ALL COMMUNICATIONS FOR THIS OFFICE
TO THE COLLECTOR OF CUSTOMS
NEW YORK, N. Y.

TREASURY DEPARTMENT

UNITED STATES CUSTOMS SERVICE

NEW YORK, N. Y.

January 29, 1940.

MM
STRICTLY PERSONAL:

Honorable Basil Harris,
Commissioner of Customs,
Treasury Department,
Washington, D. C.

Dear Basil:

For your information I am enclosing herewith
a memorandum from Inspector Fitzgerald dated the
27th instant, regarding the cargo of the SS PIETRO
ORSEOLO which cleared from this port on January 25th,
for Vladivostok, Russia.

Sincerely yours,

Harry

Harry M. Durning,
Collector.

Encl:



TREASURY DEPARTMENT

UNITED STATES CUSTOMS SERVICE

NEW YORK, N. Y.

January 27, 1940.

OFFICE OF THE COLLECTOR
DISTRICT NO. 10SHOWS ALL COMMERCIALS FOR THIS OFFICE
TO THE COLLECTOR OF CUSTOMS
U.S. DEPT. OF T.MEMORANDUM FOR THE ASSISTANT COLLECTOR:

After checking the manifest of the Italian SS PIETRO ORSEOLO which cleared from this port January 25, 1940, for Vladivostok, Russia, the following is a condensed list of commodities laden that might be of interest due to prevailing conditions:

<u>Straits tin, slabs & pigs</u>	<u>Milling machines</u>
4906 pos. 493,422 lbs.	18 cs. 137,791 lbs.
<u>Copper, bars, ingots & cathodes</u>	<u>Elec. measuring sets</u>
85,990 pos. 11,488,619 lbs.	12 cs. 627 lbs.
<u>Strip brass, bars pos & cases</u>	<u>Elec. equipment</u>
4,815 pkgs 2,396,814 lbs.	58 cs. 23,607 lbs.
<u>Steel cases & coils</u>	<u>Elec. testing instruments</u>
815 pkgs. 213,297 lbs.	8 cs. 3,561 lbs.
<u>Angular steel grits</u>	<u>Elec. Controllers & parts</u>
230 bags. 23,230 lbs.	200 cs. 170,159 lbs.
<u>Tin plate</u>	<u>Elec. conveyor trolleys</u>
5 cs. 1,245 lbs.	21 cs. 7,538 lbs.
<u>Grinding machinery parts & oil</u>	<u>Elec. furnaces</u>
105 cs. 724,463 lbs.	95 cs. 152,968 lbs.
<u>Grinding wheels</u>	<u>Elec. instruments & parts</u>
207 pkgs. 39,067 lbs.	63 pkgs 180,108 lbs.
<u>Gear cutting machinery</u>	<u>Ferro Vanadium</u>
14 cs. 58,045 lbs.	166 drums 57,640 lbs.
<u>Lathes</u>	<u>Boring machines</u>
68 cs. 776,330 lbs.	21 cs. 258,270 lbs.
<u>Metal working machinery & parts</u>	<u>Airplane engine parts</u>
35 cs. 233,243 lbs.	9 cs. 1,148 lbs.
<u>Metal working presses</u>	<u>Blue print machinery</u>
28 cs. 744,845 lbs.	22 cs. 9,563 lbs.
<u>Machinery & parts</u>	<u>Boring Mill</u>
9cs. 14,821 lbs.	16 cs. 237,015 lbs.

-2-

<u>Airplane parts</u>		<u>Elec. indicating instruments</u>	
3 cs.	164 lbs.	1 cs.	150 lbs.
<u>Airplane instruments & parts</u>		<u>Elec. welding sets</u>	
2 cs.	33 lbs.	25 cs.	14,982 lbs.
<u>Auto parts</u>		<u>Elec. motors</u>	
281 pkgs.	86,401 lbs.	80 cs.	166,900 lbs.
<u>Alpha Methyl Napthalene</u>		<u>Elec. portable tools</u>	
1 cs.	70 lbs.	8 cs.	757 lbs.
<u>Automatic casting machine</u>		<u>Elec. warehouse trucks</u>	
2 cs.	1,945 lbs.	4 cs.	17,200 lbs.
<u>Broaching machine</u>		<u>Electrodes</u>	
2 cs.	54,730 lbs.	98 cs.	63,917 lbs.
<u>Batteries</u>		<u>Forging machinery</u>	
14 cs.	3,211 lbs.	4 cs.	57,060 lbs.
<u>Balancing gages</u>		<u>Films</u>	
5 cs.	2,769 lbs.	15 cs.	670 lbs.
<u>Blue prints</u>		<u>Filtering equipment</u>	
5 cs.	878 lbs.	9 cs.	4,086 lbs.
<u>Books</u>		<u>Laboratory apparatus</u>	
1 cs.	95 lbs.	10 cs.	1,270 lbs.
<u>Bearings</u>		<u>Lathe cutter grinder</u>	
1 ctn.	6 lbs.	10 cs.	38,070 lbs.
<u>Etane</u>		<u>Motorcycle & side car</u>	
1 cs.	102 lbs.	3 cs.	2,056 lbs.
<u>Casein (samples)</u>		<u>Metal working press & parts</u>	
1 cs.	155 lbs.	6 cs.	111,160 lbs.
<u>Coal pulverizing machine & parts</u>		<u>Metal shaper</u>	
3 pkgs.	3,040 lbs.	2 cs.	17,880 lbs.
<u>Couplings</u>		<u>Metal press dies</u>	
33 cs.	14,056 lbs.	3 cs.	26,253 lbs.
<u>Die sinking machines</u>		<u>Metal working shears</u>	
6 cs.	32,430 lbs.	4 cs.	60,860 lbs.
<u>Elec. lamp</u>		<u>Metal planes</u>	
5 ctns.	63 lbs.	2 cs.	33,070 lbs.
<u>Elec. appliances</u>		<u>Metal foundry patterns</u>	
1 cs.	†	1 cs.	3,300 lbs.

-3-

<u>Milling machine</u>		<u>Printed matter & samples</u>	
1 cs.	27,600 lbs.	11 cs.	3,620 lbs.
<u>Microphones</u>		<u>Radio receiving sets</u>	
1 cs.	66 lbs.	4 cs.	520 lbs.
<u>Miscellaneous Merchandise & Paint</u>		<u>Radio Testing apparatus</u>	
2 cs.	340 lbs.	2 cs.	330 lbs.
<u>Mixing machinery</u>		<u>Radio parts</u>	
1 cs.	4,000 lbs.	4 cs.	744 lbs.
<u>Generator sets</u>		<u>Rolling Mill machinery & parts</u>	
4 cs.	2,404 lbs.	12 cs.	98,360 lbs.
<u>Gear testing machines</u>		<u>Radio tubes</u>	
1 cs.	2,565 lbs.	3 cs.	798 lbs.
<u>Gauges</u>		<u>Roller bearings</u>	
1 cs.	189 lbs.	15 cs.	4,760 lbs.
<u>Honing machines</u>		<u>Refining plant equipment</u>	
12 cs.	174,460 lbs.	2 cs.	61 lbs.
<u>H.H. effects</u>		<u>Refrigerating machinery & parts</u>	
1 cs.	1,600 lbs.	19 cs.	5,516 lbs.
<u>Internal Combustion engines</u>		<u>Service station equipment</u>	
56 cs.	421,128 lbs.	2 cs.	1,960 lbs.
<u>Normal heptane</u>		<u>Scientific instruments</u>	
1 cs.	51 lbs.	18 cs.	1,842 lbs.
<u>Oil filtering machine</u>		<u>Steel grid resistors</u>	
1 cs.	2,739 lbs.	1 cs.	107 lbs.
<u>Spraying equipment</u>		<u>Saws</u>	
16 cs.	6,123 lbs.	8	647 lbs.
<u>pump & valves</u>		<u>Soda ash</u>	
5 cs.	1,012 lbs.	8 bbls.	7
<u>Periodicals</u>		<u>Tachometers</u>	
5 cs.	2,115 lbs.	2 cs.	424 lbs.
<u>Photo micrographic apparatus</u>		<u>Tool grinders</u>	
1 cs.	122 lbs.	10 cs.	6,220 lbs.
<u>Pneumatic tools</u>		<u>Tires & tubes</u>	
5 cs.	1,105 lbs.	23 pkgs.	757 lbs.
<u>Personal effects</u>		<u>Rubber samples</u>	
1 cs.	1,350 lbs.	1 cs.	5,600 lbs.

-4-

Reciprocating pump & air compressor
18 cs. 165,275 lbs.

Vulcanized fibre
2 cs. 1,511 lbs.

Valves
18 cs. 5,409 lbs.

Welding machine & parts
3 cs. 280 lbs.

Wrapping Machine
1 cs. 3,480 lbs.

Warehouse trucks
5 cs. 50,475 lbs.

XRay tubes
1 crate 24 lbs.

Machine cutting tools
9 cs. 61 lbs.

John G. C. Fitzgerald

John G. C. Fitzgerald,
Inspector of Customs #120.

IN REPLY REFER TO:
BMDP: hs



TREASURY DEPARTMENT
UNITED STATES CUSTOMS SERVICE
NEW YORK, N. Y.

OFFICE OF THE COLLECTOR
DISTRICT NO. 10
ADDRESS ALL COMMUNICATIONS FOR THIS OFFICE
TO THE COLLECTOR OF CUSTOMS
NEW YORK, N. Y.

January 29, 1940.

BME

STRICTLY PERSONAL:

Honorable Basil Harris,
Commissioner of Customs,
Treasury Department,
Washington, D. C.

Dear Basil:

I am enclosing herewith a memorandum covering the merchandise shipped on the SS GUAYAQUIL, the SS BUENAVENTURA, and the SS HARPOON.

I am still waiting to go before the Senate Committee on the appropriation for the new files and furniture for the Customhouse, which may be tomorrow morning, and if so I will be in to see you.

As ever

Sincerely yours,

Harry M. Durning
Harry M. Durning,
Collector.

Enclosure:

IN REPLY REFER TO:

JF:hs



TREASURY DEPARTMENT
UNITED STATES CUSTOMS SERVICE
NEW YORK, N. Y.

OFFICE OF THE COLLECTOR
DISTRICT NO. 10
RECEIVE ALL CORRESPONDENCE FOR THIS OFFICE
BY THE COLLECTOR OF CUSTOMS
NEW YORK, N. Y.

January 29, 1940.

MEMORANDUM FOR THE COLLECTOR:

Mr. Pandorf, operating manager of the Stockard Steamship Company, 17 Battery Place, states that the SS GUAYAQUIL was discharged into the Russian SS VLADIMAR MAYAKOVSKY, at Manzanillo, Mexico. He does not know the ultimate destination but presumes it is going to Vladivostok, Russia.

The SS BUENAVENTURA arrived at Manzanillo, Mexico, this morning. Mr. Pandorf stated that he does not know how it will be discharged.

Shipper in both of the above cases was the Amtorg Trading Corporation.

Mr. Sheppard of the Sheppard Steamship Company, 17 Battery Place states that the cargo of the SS HARPOON was discharged, some on lighters and some on wharf at Manzanillo, Mexico.

Mr. Dewhurst of the Sheppard Line states that they do not know what becomes of the cargo after it is discharged from the vessel, and that they have no further interest in it.

Respectfully,

John G. C. Fitzgerald
John G. C. Fitzgerald,
Inspector of Customs, No. 120.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 29, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The rate for sterling continued its upward movement today, accompanied by increased purchases for account of commercial concerns. After opening at 3.98-3/4, the quotation rose steadily to a new high of 4.00 by mid-afternoon. It closed at 3.99-3/4.

Sales of spot sterling by the four reporting banks totaled £306,000, from the following sources:

By commercial concerns.....	£ 91,000
By foreign banks (Europe, South America and Far East)...	£ 215,000
Total....	£ 306,000

Purchases of spot sterling amounted to £426,000, as indicated below:

By commercial concerns.....	£ 308,000
By foreign banks (Europe and South America).....	£ 118,000
Total....	£ 426,000

Although the spot rate for sterling improved, the market evidently feels that the better rate will not be sustained, as forward rates widened. Sterling for one month was quoted at 1¢ discount, and for three months, 4¢ discount, as compared to 11/16¢ and 3-3/8¢, respectively, on Friday.

The following reporting banks sold cotton bills totaling £9,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 5,000 by the National City Bank
4,000 by the Bank of Manhattan
£ 9,000 Total

The quotation for the belga, after opening at .1692, improved to .1699, a high for the current movement. The closing quotation was .1697. Last Thursday's report stated that the improved rate for the belga was attributed to the covering of short positions and the return of capital to Belgium, induced by the lowering of the Belgian discount rate. The increased demand for belgas resulted in the Belgian Bank acquiring dollars which it converted into gold. In addition to a small amount of gold which we sold to Belgium on Saturday, an additional \$110,000 was sold by us to that bank today. The gold was earmarked at the Federal Reserve Bank of New York for account of the National Bank of Belgium.

- 2 -

In contrast to the firmness in the rates for sterling and French francs, the discount for the Canadian dollar widened to close at 12-1/4% today. In the past few months, the usual tendency has been for the Canadian dollar to move in sympathy with the sterling rate.

The other important currencies closed as follows:

French francs	.0225-3/4
Guilders	.5309-1/2
Swiss francs	.2242-1/2

We purchased \$15,000,000 in gold from the earmarked account of the Bank of France.

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

\$1,728,000	from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.
1,464,000	from India, representing three shipments to the Chase National Bank, San Francisco, for sale to the U. S. Mint there.
236,000	from Canada, shipped by the Royal Bank of Canada, Montreal, to its New York agency, for sale to the U. S. Assay Office.
<u>\$3,428,000</u>	Total

The State Department forwarded to us a cable stating that the following gold shipments would be made by the Bank of Sweden, Stockholm, to the Federal Reserve Bank of New York:

\$5,229,000	for account of the Bank of Sweden
1,665,000	for account of the Bank of Finland
<u>761,000</u>	for account of the National Bank of Denmark
\$7,655,000	Total

The disposition of these shipments is unknown at the present time.

The New York Times of today's date carried an item from London stating that in the interests of the nation, all news relative to the movement of gold for the British account, either direct or indirect, has been suppressed. The report mentioned further that if, occasionally, direct shipments to the United States were made known, it could be safely assumed that such were for private accounts and represented transfers of gold held by foreign interests and acquired before the war. There are no restrictions on such shipments except that they are made under license.

The U. S. equivalent of the Bombay silver price, after falling about 5/8 cents on Saturday, moved off a further 7/8 cents today to 39.46¢. This decline, which was accompanied by heavy selling of silver, appears to have resulted largely from the announcement by the Indian government of an excess profits tax. According to

CONFIDENTIAL

a Reuters despatch from New Delhi, which appeared on Saturday's Dow Jones ticker, the new excess profits tax bill calls for imposition of a tax of 50% on excess profits over what are termed "standard profits" made in any accounting period after April 1, 1939. According to the Reuters article, the Bombay stock exchange reacted severely to the announcement of the bill and all other Bombay markets, including silver, were affected. We have learned from the Chase Bank that taxes on silver profits in India would amount to as high as 59% of the gross profits. If such is the case, the silver transactions in India would be taxed a total of 109%, made up of the 50% U. S. tax and the 59% Indian tax and, therefore, would involve a net loss to the Chase Bank. In the circumstances, the taxes involved should result in American banks withdrawing from silver operations in Bombay.

In a very thin market, the London fixing prices for spot and forward silver each declined 1/8d to 21-13/16d and 21-3/4d respectively. The U. S. equivalents were 39.14¢ and 38.78¢.

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

We made six purchases of silver totaling 775,000 ounces under the Silver Purchase Act. Of this amount, 350,000 ounces represented a sale from inventory by one of the refining companies and the remaining 425,000 ounces consisted of new production from foreign countries, for forward delivery.

B. M. R.

CONFIDENTIAL

JAN 29 1940

My dear Mr. Chairman:

In response to your letter of January 23, 1940, with respect to the Treasury Department Appropriation Bill for the fiscal year 1941 (H. R. 8068), I submit the following recommendations for amendments which I hope the Senate Appropriations Committee may find it appropriate to adopt. The recommendations contained herein cover only such items as are regarded by the Treasury as of imperative necessity for the efficient conduct of the Department.

COAST GUARD

The reductions made by the House Appropriations Committee in the appropriations "Salaries, Office of Commandant" and "General Expenses, Coast Guard" will not permit the Coast Guard to function to the degree of efficiency which it should, but such reductions will not curtail essential operations of the service. The reduction of \$100,000 in the appropriations for special projects, vessels, and aids to navigation, involving as it does a restriction of the program of establishment and maintenance of aids to navigation, and the reduction of \$1,699,000 in the appropriation for additional airplanes, which will cause a drastic curtailment of much needed aviation activities, will give the service serious concern. It is, therefore, urgently recommended that you restore in part the reductions made in the Budget estimates by the House Appropriations Committee, as follows:

- 2 -

Appropriation: "Additional Airplanes, Coast Guard"

Page 30, line 4, strike out \$500,000 and insert \$2,199,000.

The Coast Guard has ten strategically located, modern air stations on the East Coast, the West Coast, and the Gulf of Mexico, for which only sixteen long-range or off-shore airplanes are in service or under construction. Thirty-three are required to permit continuous operation with safety to plane crew and efficient performance of mission. Twenty-two additional intermediate-range planes are required to give these stations their normal operating complement of airplanes. Of the thirty-nine airplanes required to properly equip the Coast Guard air stations, fifteen (eight long-range and seven intermediate) at a cost of \$2,199,000 were included in the Budget estimates for the fiscal year 1941, but the reduction of the estimates to a figure of \$500,000 will permit the acquisition of only two long-range planes and one intermediate-range plane, or one long-range and three intermediate-range planes, leaving a woeful deficiency in the normal operating complement of these stations. This number will not even permit the replacement of five planes which have been lost to the service during the past two years through crashes, age, and obsolescence.

The law enforcement work of the aviation branch of the Coast Guard at sea and on land, and its operations in connection with rescue missions promoting safety of life at sea, and particularly at this time its patrol work in connection with the enforcement of neutrality laws, has proved its value to the service and to the Government; and if it is to continue its excellent record, provision must be made for the minimum number of planes required to carry out these duties. It must not be lost sight of that the Coast Guard aviation personnel receives exactly the same training as naval aviators, and this branch of the Coast Guard forms a most valuable national defense unit for the Navy in time of war.

Appropriation: "Special Projects, Vessels, and Aids to Navigation"

Page 30, line 8, strike out \$600,000 and insert \$630,725; line 10, strike out \$500,000 and insert \$569,775; and line 10, strike out \$1,100,000 and insert \$1,300,000.

- 3 -

This appropriation provides for the annual replacement of overage and obsolete lighthouse tenders and lightships, for major repairs to lighthouse vessels, and for the construction, establishment and improvement of aids to navigation. The estimate of \$1,200,000, approved by the Budget, was a reduction of \$130,000 under the appropriation for special projects, vessels, and aids to navigation for the current fiscal year, so that the action of the House Appropriations Committee will make available for 1941 an appropriation which is \$230,000 less than that for the fiscal year 1940. When it is considered that the projects approved by the Budget in the sum of \$1,200,000 were taken from a list of urgent, accumulated projects totaling approximately \$2,500,000, it will be seen that the restoration of this additional out of \$100,000 is vitally necessary if the system of aids to navigation is to be maintained and improved as the safety of navigation of vessels along the coasts and interior waters demands.

BUREAU OF THE MINT

Appropriation: "Salaries, Office of Director of the Mint"

Page 35, line 12, strike out \$108,500 and insert \$118,340.

The proposed amendment will increase the appropriation \$9,840 to cover the salaries of four employees for the Silver Unit of the Bureau of the Mint, which were disallowed by the House Appropriations Committee. The additional amount requested will permit the employment of two accountants to go into the field and examine the records of large smelting and refining companies, and two clerical employees for work in the Bureau in Washington in connection with the compilation of reports and the maintenance of records.

Previous to July 2, 1939, the tenure of the Government policy bearing on the purchase of newly mined silver was indefinite. The policy was kept alive by a series of Presidential proclamations, each bearing a specified terminating date. Because of its temporary nature, it was not deemed good policy by the Treasury to build up a large permanent force to administer it. The differential between

the Government and the market prices during most of that time was small.

On July 6, 1939, Congress enacted a law which, in effect, authorizes the Government to pay seventy-five cents per ounce for newly mined domestic silver. About the same time the act was passed, the market price for silver fell to thirty-five cents an ounce, thereby creating a differential of thirty-six cents an ounce. So great a differential as this intensifies the incentive for such depositors, who might be unscrupulous, to present illegible silver as newly mined. The Silver Unit, therefore, should be sufficiently staffed to enable the Bureau to exercise reasonable precaution to forestall such imposition upon the Government.

It is impossible with the present personnel to pursue the examination of records in connection with the various processes through which the metal passes in the large smelters and refineries, and the examination of the monthly reports and the affidavits which the Bureau receives from more than 425 mining companies and approximately 4,000 individual miners. The need for additional personnel for this unit was recognized by the Department, and as a temporary expedient, personnel from other agencies of the Treasury has been detailed to the Bureau of the Mint for work on silver. At present there are six employees detailed to this work, but it will not be possible to retain them indefinitely. It will, therefore, be appreciated if you will give consideration to the increase of \$9,840 requested above.

Appropriations: Contingent Expenses, Office of Director of the Mint

Page 36, line 4, strike out \$14,500 and insert \$17,500.

The increase of \$3,000 requested covers the travel and incidental expenses of the two accountants for which funds are requested in the appropriation "Salaries, Office of Director of the Mint".

This increase is, therefore, contingent upon the approval of that item.

Appropriation: "Galleries and Processes, Prints and
Answer Office"

Page 37, Line 13, strike out \$2,282,540 and insert
\$2,340,780.

The Budget estimate for 1941 under this heading included an item of \$58,240 to cover an adjustment in wages of certain part time employees in the prints and answer office, which was not approved by the House Appropriations Committee, with the exception of a few part time employees, most of the personnel which was employed on the appropriation "Expenses, Silver Purchase and Gold Reserve Act" was paid on the basis of a six-dollar, five-day week, regardless of the work it was to perform. These employees were taken on at a time when the need appeared to be a temporary one, and no attempt was made to pay rates identical with those paid the regular employees. Conditions, however, which appeared to be temporary proved to be permanent, and the continued employment of this personnel has been necessary. The appropriation from which they were paid is now combined with the regular appropriation. Although most of them have had five years of experience or more, and are equally performing identical tasks of employees working side by side with them, their basic rate has not been increased. It is noteworthy that such new employees as are now being acquired under Civil Service are receiving at the start a salary which exceeds the pay of these employees in question. It is urgently requested that the amount of \$58,240 be restored to the appropriation. It is felt that not only in justice to the field employees concerned but in order that the morale of the service may be preserved, the minimum Civil Service rate of pay should be granted to these employees as it has been granted to other Civil Service employees. The present situation not only invites agitation among the employees concerned and their associates, but among other persons on the outside who are interested in the welfare of the workers. The proposed increase is not in the nature of a promotion, but rather an adjustment of pay in the spirit of the Civil Service laws.

Appropriation: "Medals to Howard Hughes and Personnel
Francis I. Ordway"

Page 37, after Line 13 and preceding Line 14, insert as a new item under the "Bureau of the Mint":

- 6 -

Medals to Howard Hughes and Reverend Francis X. Quinn: For carrying out the provisions of the Act, "To provide for the presentation of a medal to Howard Hughes in recognition of his achievement in advancing the science of aviation", approved August 7, 1939 (Private, Numbered 214) and for carrying out the provisions of the Act, "To provide for the presentation of a medal to Reverend Francis X. Quinn in recognition of his valor in saving the lives of two of his fellow citizens", approved August 10, 1939 (Private, Numbered 235), \$1,200.

Under Private Acts Numbered 214 and 235, 76th Congress, the presentation of the above-described medals by the President of the United States was authorized. The Acts in question also authorized that there be appropriated such sums as may be necessary to carry out the provisions of the Acts. The cost of preparing the medals, including the cost of materials, etc., was estimated by the Bureau of the Mint to be \$1,200, and the Department's estimate in this amount was approved by the Director of the Bureau of the Budget and submitted to the House Appropriations Committee. The item was disallowed by the House Committee and excluded from the Bill as reported to the House. The Bureau of the Mint obviously cannot comply with the provisions of the Acts of Congress authorizing the presentation of these medals unless funds are made available for their preparation. It is recommended, therefore, that a new item in the language above submitted be inserted in the Bill under Bureau of the Mint.

PROCUREMENT DIVISION

Appropriation: "Salaries and Expenses, Procurement Division"

Page 38, line 2, strike out \$628,470 and insert \$842,250.

The 1940 appropriation for Salaries and Expenses, Procurement Division is \$460,000. The Budget allowance for 1941 was \$842,250, an increase of \$382,250.

This increase was for two purposes: (a) \$228,979 to provide for additional permanent personnel and other expense made necessary by an increase in the regular work of the Division; and (b) \$153,277 for the establishment of a statistical unit.

The House reduced the allowances for additional personnel and other expense to \$168,470, a decrease of \$60,503 below the budget allowance for that purpose, and eliminated altogether the all source of \$153,277 for the statistical unit. The reduction of these amounts is essential to the efficient conduct of the work of the Procurement Division.

Increase in Regular Work of Procurement Division

The Procurement Division was established under Executive Order No. 6166, dated June 10, 1933, which contemplates that this Division shall have general supervision of all Government purchases. Under this order, the Division (a) makes indefinite-quantity contracts for supplies and equipment in common use by the various Government branches; (b) directly purchases supplies and equipment for such branches upon requests (c) carries in stock at Washington, D.C., many classes of commonly used supplies, including fuel, (d) fixes standard specifications to control Government purchases; (e) has custody and control of surplus property for all Government agencies, as well as all leased Government property; (f) operates shops for the maintenance and repair of Government automobiles, typewriters, and other equipment; (g) routes all important Government freight shipments; and (h) serves in many other ways as a clearing house and information center for the entire Government in connection with supply and other related problems.

These are the Division's permanent or regular functions. In addition, it is the sole buying agency for the Work Projects Administration, whose supply requirements annually exceed \$200,000,000.

Although the permanent functions of the Procurement Division have steadily increased, its Salary and Expense appropriation for 1940 is the same as in 1936. For that year the appropriation under this head was \$440,000, and the Division's expenditures here remained at substantially that figure to and including the fiscal year 1940. In this five-year period, the Division's purchases for the regular establishments of the Government have increased 27 percent; its issues from stock have increased 77 percent; its transfers of surplus and leased property have increased 119 percent; its traffic routings have increased 55 percent; ~~its~~ its indefinite-quantity contracts have increased 59 percent; and there has been a similar increase in the remaining functions. A survey made by the Bureau of the

Budget in connection with the Division's 1941 estimate indicated an increase in the Division's work load as a whole, exclusive of its emergency relief functions, amounting to not less than 50 percent, between 1936 and 1940. In this period, the Division has had a consistent record of money savings, which have now reached a figure approximating \$10,000,000 a year.

The increase of \$228,973 made by the Bureau of the Budget in the regular allowance for salaries and expenses, Procurement Division, for additional permanent positions, is proportionate to the increase in the Division's regular work, as here outlined. The reduction of \$60,503 made in this allowance by the House will cause substantial difficulty to the Division in the discharge of the responsibilities imposed upon it. The restoration of this amount by the Senate is therefore urgently requested.

Reestablishment of Statistical Unit

The Budget allowance for the Procurement Division included \$153,277 for the establishment of a statistical unit. The object is to furnish the Procurement Division an instrumentality through which it can keep constantly and accurately informed as to the requirements of the various branches of the Government for supplies and equipment, the volume and kind of purchases made by those branches, and the prices paid.

The total purchases by the nonmilitary branches of the Government, exclusive of relief purchases, run in the neighborhood of \$200,000,000 annually. Of this amount, the Procurement Division functions with respect to only about \$75,000,000. ¹ The remainder of \$125,000,000 represents purchases made by the departments and establishments for themselves, both in Washington and the field, about which the Procurement Division knows little.

The law under which the Procurement Division operates, exemplifies that the Division will have supervision of all such purchases -- not necessarily that it will make such purchases itself,

1. In the fiscal year 1939, direct purchases by the Procurement Division for the regular activities of the Government amounted to \$16,000,000. In addition, purchases amounting to \$60,000,000 were made by the several departments and establishments under contracts made by the Procurement Division.

but that it will determine the methods to be used. A great deal can be done which has not been done in the making of general contracts, and in the further consolidation of Government buying, but unless the Procurement Division has the whole problem before it, unless it knows what all the departments are doing in the purchasing field, it is powerless to make any improvement. The proposed statistical unit will receive reports from all branches of the Government with respect to their day-to-day purchases and tabulate them according to commodities. From these reports, it will be possible to make price comparisons and to carry on studies to determine what purchasing methods can best be applied to particular commodities. From these it is expected that further consolidations and improvements can be made in Government purchasing, thus securing the price advantages which obviously will flow from consolidating the requirements of all departments to the greatest practicable extent.

The Bureau of the Budget was in entire accord with the establishment of this much needed facility for the Procurement Division, but necessary funds were eliminated by the House. It is the opinion of the Department that the proposed statistical unit will ultimately produce money savings greatly exceeding the relatively small additional expenditure involved, and it strongly urges the restoration of the amount recommended in the Budget for this purpose.

If the Committee desires any additional information in connection with the recommendations herein, or is to hold a hearing on the bill, I shall be glad to furnish such information as may be required or to have the proper officials of the Government appear on request.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Carter Glass,
Chairman, Committee on Appropriations,
United States Senate.

By Messenger 5¹⁰ pm 1/29/40

Delivered 1/30/40

File to Mr. Thompson

1-29-40

Excerpts from Yunnanfu
Political Report for
November 1939

V. COMMERCIAL, ECONOMIC AND FINANCIAL ACTIVITIES.

* * * * *

B. Transportation & Communications.

* * * * *

2. Highways.

The Burma highway, which suffered serious damage toward the close of the rainy season, has been repaired and now is in intensive use. According to reports, the short section from Yunnanfu to Anning (33.5 kilometers), reputedly the worst section on the whole route, is to be widened and entirely rebuilt during the present dry season. At the same time the section from Lungling to the border at Wanting is to be improved.

The Yunnanfu-Luchow road, complete except for a few small bridges, is not yet open to service. Some of the trucks which were to be operated over this highway have been held in Indochina by the Japanese invasion of Kwangsi. It is reported that the road will be reserved for the exclusive use of the military. The Szechwan authorities, however, are said to be operating vehicles for short distances already on the northern end of the route.

A highway from Yunnanfu to Loakay, paralleling the French railway, is under consideration.

At the end of the month, a plan to consolidate all transportation agencies in southwest China was made public. This plan calls for the setting up of a "China Transportation Company" authorized to engage in all forms of transportation activities by land, water or air. It is understood that this blanket authorization is to be interpreted merely as a charter defining the limits of its activities, and not as a program for work. It is believed, however, that the projected company will take over all forms of motor transport.

* * * * *

E. Foreign Trade.

November was the first month of foreign trade control by the Yunnan branch of the National Foreign Trade Commission set up under the agreement between the Provincial and National Governments. The Yunnan committee is nominally headed by Mr. Y. T. Miao, manager of the provincial Futien Bank, the National Government's principal representative being T. T. Quo, brother of Quo Tai-chi, Chinese Ambassador to Great Britain.

There

-2-

There were no export shipments from Yunnanfu by the Foreign Trade Commission, due to the disruption of transportation facilities. During November total export shipments by the Commission's Yunnanfu office amounted to 1,801.8 metric tons as compared with 790.1 metric tons in September, the last previous month in which shipments were made. The items were: tung oil (1,766,998.5 kg.), bristles (15,125 kg.) and pigs' intestines (19,653 kg.).

The invasion of Kwangsi probably will cause increased quantities of export goods to pass through Yunnanfu from the interior.

TO THE SECRETARY
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CLERK ON THE

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DOMINICAN REPUBLIC

AND

DOMINICAN REPUBLIC SETTLEMENT
ASSOCIATION, Inc.

Agreement

Dated January 30, 1940

AGREEMENT entered into this thirtieth day of January, nineteen hundred and forty, between the Dominican Republic (henceforth referred to as the "REPUBLIC") and the Dominican Republic Settlement Association, Inc., a corporation duly organized and existing under the laws of the State of New York, United States of America, (henceforth referred to as the "ASSOCIATION").

WHEREAS in 1938 His Excellency Franklin Delano Roosevelt, President of the United States of America, invited thirty-two governments to consult with the Government of the United States of America at Evian, France, regarding aid to refugees; and

WHEREAS these Governments constituted themselves as the intergovernmental Committee; and

WHEREAS His Excellency Rafael Leonidas Trujillo Molina as President and in the name of the Dominican Republic generously informed the intergovernmental Committee at its first meeting of the disposition of the Dominican Republic gradually to receive settlers up to 100,000 within its territory; and

WHEREAS the Intergovernmental Committee and the Coordinating Foundation of which the Hon. Paul Van Zeeland is Executive President have shown a desire to avail themselves of the opportunity so offered by His Excellency Rafael Leonidas Trujillo Molina on behalf of his Government; and

WHEREAS the Republic and the Association are equally desirous to help and stimulate Jewish and non-Jewish settlers to establish themselves within the territory of the Dominican Republic and to make themselves citizens thereof; and

WHEREAS the Association is desirous to avail itself of the goodwill of the Republic for these purposes; and

WHEREAS this agreement has for its object the realization of said purposes; and

WHEREAS this agreement has been entered into in accordance with the Constitution, laws, decrees and other legal acts of the Republic and in their fulfillment, and consequently is invested with all legal power necessary or appropriate for its validity and compliance therewith;

THEREFORE the Republic, represented by Messrs. Mayor General José García, Secretary of State for the Interior and Police, and Raúl Carbuccia, Secretary of State for Agriculture, Industry and Labor, who have been duly authorized by the President of the Dominican Republic to execute this agreement in conformity with the laws of the Republic; and the Association, represented by James N. Rosenberg, President, and Joseph A. Rosen, Vice-President thereof, who have been duly authorized by a resolution of the Association to execute and deliver this agreement in its behalf; hereby COVENANT AND AGREE AS FOLLOWS:

ARTICLE I

RIGHTS OF SETTLERS

The Republic, in conformity with its Constitution and laws, hereby guarantees to the settlers and their descendants full opportunity to continue their lives and occupations free from molestation, discrimination or persecution, with full freedom of religion and religious ceremonies, with equality of opportunities and of civil, legal and economic rights, as well as all other rights inherent to human beings.

ARTICLE II

SELECTION AND ADMISSION OF SETTLERS

(a) The Republic shall receive and give every possible opportunity and help to the Jewish and non-Jewish settlers in order to leave their present residences, to enter and reside in the Dominican Republic and to make their livelihood, establish their permanent homes and acquire citizenship in the Dominican Republic in accordance with its Constitution and laws. Settlements shall progress gradually in the course of the number of years which may be desirable or necessary in order that the settlers may be placed in position to establish themselves as citizens of the Republic and to reimburse the Association for its expenditures on their behalf. It is understood that the Republic shall not be responsible either to the Association or any other institution whatsoever for any of the financial obligations of the settlers to the Association or for payment to the Association of any disbursements in which it may incur.

(b) The Association shall have the right to select the settlers who will be chosen in accordance with their fitness and technical ability for agriculture, industry, manufacture and trades. The Association will from time to time submit to the Republic through the Secretary of State for the Interior and Police the names of settlers thus chosen with statements as to their place of origin, abilities, experience and whatever other data may serve for their identification and evaluation of their special qualifications. The Association assumes full responsibility for the correctness of this information. The Republic will within the most reasonably brief time, examine the information thus submitted and will promptly decide on its admission. As soon as this shall take place, the Department of Foreign Relations of the Dominican Republic shall instruct Dominican consular officers to provide said settlers with the proper documentation for their trip and admission to the Republic,

including visas and other formalities which may assist them to travel from their place of residence to the Dominican Republic, and said consular officers shall issue these documents to the settlers free of all costs, fees, taxes and any other charges. All settlers whose admission shall have thus been approved shall be freely admitted into the Dominican Republic upon their arrival at the Dominican port of entry.

(c) There shall be admitted to the Republic as the first contingent in one group or separate groups approximately 500 families of Jewish or non-Jewish settlers. There shall additionally and gradually later be admitted up to the number of 100,000 settlers in accordance with decision which in this respect shall be made jointly by the Republic and the Association. All settlers admitted to the Republic pursuant to this agreement shall have all rights granted and guaranteed by this agreement.

(d) The Association may furthermore recommend to the Republic the free admission in the manner previously stipulated of all those who may be specialized in their professions, trades or occupations, experts, artisans and other persons acceptable to the Republic.

(e) Infants of settlers born in transit shall have free right of entry and all benefits of this agreement.

ARTICLE III

TAXES

It is specifically agreed that the Executive Power of the Republic shall initiate a law to modify the Immigration Law now in force in order to exempt from all entry taxes, or similar taxes, present or future, the settlers covered by this agreement, who shall not be subject to any entry charges established by any subdivision of the Republic. Likewise, the Executive Power shall initiate a law by means of which there shall not be required of the persons who may come as settlers to Dominican territory, the deposits now required of navi-

gation companies for the transportation of immigrants to the Dominican Republic, nor any other deposit of whatever nature, and so that these settlers may be permitted to bring with them, upon entering Dominican territory, free of duty and not for sale but for their own personal use in their agricultural enterprises and others incidental thereto, such furniture, personal effects, tools, equipment, materials and other instruments which they may need in order to establish themselves with economic solvency. It is understood that the present agreement shall become effective only after the Congress of the Republic shall have enacted, in accordance with the Constitution, the laws proposed in the present agreement, and likewise any other laws which may be necessary to give this agreement full legal force and validity.

ARTICLE IV

RIGHTS AND OBLIGATIONS OF THE ASSOCIATION

(a) It shall be the duty of the Association to take care of and promote the economic life of the immigrants who enter the territory of the Republic for their enterprises;

(b) The Association should maintain in the Dominican Republic an office or offices, and its representatives, experts, and other officials and employees shall enjoy full rights in order to carry out their mission within the territory of the Dominican Republic in accordance with this agreement and the Constitution and national laws of the Republic. Officers and employees of the Association shall receive from the Republic suitable documents enabling them freely and effectively to perform their duties, including travel within, to and from the Republic, and shall enjoy the cooperation of the Republic and its officials in the execution of their duties.

(c) The Association shall not be subject to the payment of any tax on property, or other duties or contributions on the transactions or any other acts incidental

thereto which refer exclusively to the fulfillment of the essential purpose of transporting and establishing within the territory of the Republic the settlers referred to in this agreement, or to the carrying out of projects of general interest in the establishment of said settlers, provided they do not imply competition with other similar activities open to private initiative;

(d) The Association shall pay and supply or cause to be supplied all funds necessary to cover transportation expenses of settlers, their disembarkation and their needs in the Republic, until such time as they may become self-supporting;

(e) The Association shall have the right to buy, lease, receive by donation, concession or exchange, alienate, and in general to acquire, possess or enjoy real or personal property, to burden, mortgage, lease, sell, sublease, or otherwise dispose of, and in general to cede any of these rights to settlers or groups of settlers; to loan monies to them, sell them properties or in any form deal with the settlers as the Association may deem necessary or convenient; to make regulations as to the mode of economic activities and conditions of granting loans, etc. etc., to settlers; and in general, shall have full rights to deal with the settlers and with others, as it may see fit, in accordance with Dominican law;

(f) The Association shall have the right to equip and maintain or otherwise dispose of places for the reception, training and education of the settlers; to construct for them adequate dormitories, school buildings, houses of worship, dwellings, experimental agricultural fields and in general supervise and promote the physical, social, economic and spiritual wellbeing of the settlers, as well as to organize, foster and assist purchasing, selling, credit, production, and consumption cooperatives and other types of cooperatives among the settlers.

(g) The President or Vice-President of the Association or their designees, when carrying out any project of the Association in respect of which the laws of the

Republic may require action or intervention by the Government, shall get in touch previously with the department or official entrusted with taking cognizance of such case;

(h) Nothing said or stipulated in this contract shall be construed as meaning that the shareholders, officers, directors or employees of the Association are or will be subject to any personal or individual responsibility by reason of this contract or for the acts, deeds or omissions of the Association or of the settlers;

(i) It is understood that under the terms of this agreement the settlers are not to be considered in any way as employees of the Association but merely as beneficiaries of its activities.

(j) The Association shall have the right to take such steps and to petition the Executive Power of the Dominican Republic as may be necessary in the personal or collective interest of the settlers until such time as they may have acquired Dominican citizenship;

(k) It is understood that the rights which settlers and the Association may acquire pursuant to this agreement or any acts thereunder shall not be abrogated by subsequent legislation, as the principle of non-retroactivity of laws established by Article 42 of the Constitution of the Republic does not permit it;

(l) The Association shall have the right to engage in any lawful activities which it may deem necessary or convenient to carry out this agreement.

ARTICLE V

COOPERATION OF THE REPUBLIC

(a) The Republic shall by all the means in its power, except when of a monetary nature, facilitate the efforts of the Association for the selection, construction and maintenance of adequate living quarters and other buildings which will so far as feasible be built with material

existing within Dominican territory, and shall cooperate with the Association insofar as feasible for the proper employment of settlers in agricultural enterprises, construction of highways and other similar activities. The Republic, likewise, shall take appropriate measures through the departments of its administration to help in the selection of suitable lands for agricultural purposes and for the acquisition of said lands by the Association, and shall give its best assistance to the Association for the purpose of giving or obtaining desirable options to the Association for agricultural lands which may be deemed adequate and necessary for future large settlement;

(b) The Republic, in order to make this agreement effective and to insure the acquisition by the Association or settlers of suitable lands, buildings, water rights and other inherent rights, shall authorize and direct its appropriate departments to take such official measures as may from time to time be necessary or advisable in order to obtain and grant sound and valid titles, as well as the right to use said properties and to grant the Association and the settlers such rights, titles and benefits.

(c) The Republic hereby guarantees that all rights which may from this date be extended by the Republic to any other association, groups or agencies engaged in similar activities, will automatically thereupon accrue to and operate for the benefit of the Association and all settlers hereunder.

ARTICLE VI

VALIDITY AND EXECUTION OF THIS AGREEMENT

The present Agreement shall not bind the contracting parties until the following conditions have been fulfilled:

1. That this Agreement has been ratified by express resolution of the Board of Directors of the Association;

2. That the Congress of the Republic, within the free exercise of its constitutional rights, shall have enacted a law whereby persons who may come for the purpose of establishing themselves in the country under the protection of a colonization agreement are exempt from discriminatory taxation; and likewise a law whereby persons who may come as settlers to Dominican territory shall not be obliged to make the deposits at present required of navigation companies for the transportation of immigrants to the Dominican Republic, nor any other deposit whatsoever, and so that these settlers may be permitted to bring with them, upon entering Dominican territory, free of duty and not for sale but for their own personal use in their agricultural enterprises and others incidental thereto, such furniture, personal effects, tools, equipment, materials and other instruments which they may need in order to establish themselves with economic solvency; and furthermore, a law whereby associations organized for the establishment of colonies in the Dominican Republic shall be exempt from taxes on property or other duties or contributions on the transactions or any other acts incidental thereto which refer exclusively to the fulfillment of the essential purpose of said associations of transporting and establishing settlers in the Republic; and that said laws shall have been duly promulgated and published;

3. That the present Agreement has been approved by the Congress of the Dominican Republic.

The present Agreement will come into full force and effect as soon as these conditions have been fulfilled, whereupon the Association, without further formalities on the part of the Republic, will proceed to engage in the activities mentioned in the present Agreement.

TECHNICAL ASSISTANT
TO THE SECRETARY

Done and signed in four originals, in Ciudad Trujillo, District of Santo Domingo, Dominican Republic, this thirtieth day of January, nineteen hundred and forty.

JOSÉ GARCÍA,
Secretary of State for the
Interior and Police

JAMES N. ROSENBERG,
President, the Dominican Republic
Settlement Association, Inc.

RAÚL CARBUCCIA,
Secretary of State for Agriculture,
Industry and Labor

JOSEPH A. ROSEN,
Vice-President, the Dominican
Republic Settlement Association, Inc.

WITNESSES:

For the Chairman

RT. HON. EARL WINTERTON

For the Director

SIR HERBERT EMERSON

By STEPHANUS V. C. MORRIS

Secretary Intergovernmental Committee

FOR THE EXECUTIVE COMMITTEE
COORDINATING FOUNDATION

By: HAROLD F. LINDER

Member of Executive Committee.

CERTIFICATE OF TRANSLATION

I hereby certify that this is a true and exact translation of the official Spanish text of the Agreement today entered into by the Dominican Republic and the Dominican Republic Settlement Association, Inc., and that I have been authorized by the Hon. Vice-President of the Dominican Government to make this translation and furnish this certificate.

Seen:

FRED Q. RICKARDS.

M. DE J. TRONCOSO DE LA CONCHA,
Vice-President of the Dominican Republic.
(SEAL)

MEMORANDUM

January 30, 1940.

TO: SECRETARY MORGENTHAU
FROM: MR. SULLIVAN

11:12 a.m. Thurman Hill just phoned from Utica to report that the Judge had signed order transferring the Associated Gas and Electric case to the Southern District of New York.

JLS

JAN 3

Gentlemen:

Attention: Mr. J. W. McKeon

Reference is made to my letter of February 26, 1936, enclosing a form of letter which I approved and which I authorized and requested you, as fiscal agent of the United States, to write to the Bank of Canada, Ottawa, Ontario, Canada, respecting the purchase of newly-mined Canadian silver, and also to my letters of May 13, 1936, November 5, 1936, and January 26, 1938 in this connection.

It is my understanding that the Bank of Canada has advised you that it wishes to renew, for the month of February, 1940, the arrangement provided for by your letters to it. This is to advise you that you are authorized and requested, as fiscal agent of the United States, to renew such arrangement for the month of February, 1940, all as stated in your letter to the Bank of Canada above mentioned, as amended by letters of May 13, 1936, November 5, 1936, and January 26, 1938, except that during February, 1940, you may purchase newly-mined Canadian silver which according to the production date marked on the bars was produced in Canada during January, February, or March, 1940, and so to advise the Bank of Canada, and to carry out during such month the transactions contemplated by the letters of February 26, 1936, May 13, 1936, November 5, 1936, and January 26, 1938.

It is understood that the terms of the Department's letter to you of June 19, 1934, regarding the purchase for the account of the United States of silver, at home or abroad, shall apply to the action taken by you pursuant to the foregoing, except that the silver purchased pursuant to this authorization need not be of the degree of fineness, or carry the marks, required for "good delivery" in the market of the place where the purchase is made or where delivery is to be taken.

Very truly yours,

Secretary of the Treasury.

Federal Reserve Bank of New York,
33 Liberty Street,
New York, N. Y.

JD:kms
1/10/40

(COPY:FE:JFS)

AIR MAIL

No. 49

AMERICAN CONSULATE GENERAL

American Foreign Service, Hanoi, Indochina,
January 30, 1940

SUBJECT: The Caobang Road.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to refer to my despatch no. 8 of October 20, 1939, and to subsequent despatches in regard to the possibility of using the Caobang road as a route of transportation into China. The Department will recall that the consensus of opinion has been to the effect that that route will never be of significant importance in the transportation scheme, despite the expressed optimism of certain Chinese and others connected with transportation in China. Although some traffic is now clearing the Indochina frontier for Pingma and Hochi, there appears to be no sound reason to alter that opinion.

The following is a brief summary of the information supplied by an officer of the Standard-Vacuum Oil Company, who recently inspected the Caobang road and who proceeded some distance beyond the Indochina frontier.

The road between Dong Dang and Caobang (122 kilometers) is passable in all weather and the road bed is excellent and firm. It is, however, very narrow with many sharp curves. It is a dangerous road and, in the observer's opinion, there will be many accidents involving total loss of cargo and truck, especially if shipments are made in any volume. It is fairly certain that one way traffic during certain hours will be inaugurated by the authorities. The temporary bridge at Caobang will not be usable during the high water season and the ferry, which

- 2 -

will be used at that season, has a limited carrying capacity. The road from Caobang to Tran Khan Fu (62 kilometers) is very narrow and dangerous. For the greater part the road bed is good, as is the surface. In the past the road has been closed occasionally by land slides. The authorities regulate traffic so there is only one way travel during certain hours. The road from Tran Khan Fu to the frontier (29 kilometers) is an old cart road which has been widened and rebuilt. It will be virtually impassable in wet weather and most of the present bridges and culverts will soon go to pieces under heavy traffic unless constantly repaired. Beyond this point, to Pingma (204 kilometers) the road is said to be in fair condition, and from Pingma to Hochi (325 kilometers) the road is still an unknown quantity. The observer concludes that he is not optimistic regarding this road as a major route of transportation.

The Caobang road (Haiphong to Chungking) is about 90 kilometers longer than the Dong Dang-Nanning road (Haiphong to Chungking). Most observers consider that the percentage of loss, of cargo and trucks, will be higher on the Caobang road than on the Dong Dang-Nanning road. They also believe that the Caobang road will be extremely vulnerable to Japanese bombing, in view of the nearness of the reputed Japanese air base at Nanning, and anticipate the commencement of bombing as soon as an appreciable number of trucks appear on the Chinese section of the road.

I understand that trucks leaving Haiphong with transit cargo for China must report for inspection to the Customs at Dong Dang, Nacham, That Kay and Caobang. This repeated inspection will cause many delays. The last Indochina Customs post is at Tran Khan Fu and transit cargo will be cleared for China at this point, each truck or fleet of trucks being accompanied to the frontier by Annamite guards. The commanding officer of the Caobang military district is reported to have said that he will not allow Caobang or Tran Khan Fu to become a second Haiphong or Dong Dang and that transit cargo will be held to a readily transportable quantity.

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An officer of the Asiatic Petroleum Company has recently made a trip over the same road. His report agrees in the main with that summarized above but he is somewhat more optimistic as to the future of this route of transportation. He is inclined to believe that the road, when completely established, will handle from 8 to 10 thousand tons monthly. An officer of the British American Tobacco Company, likewise recently returned from inspecting this road, opines that the route is definitely an uncertainty, particularly during the forthcoming rainy season.

A recent interesting development in connection with the Caobang road is the rumored discontent of the Kwangsi Provincial Government with the monopoly which the Southwestern Transportation Company is endeavoring to exercise on the road. Under the present arrangement no cargo is supposed to pass over the road unless covered by a permit issued by the company. And no permit is issued unless the carrier gives 50 per cent of his carrying capacity to the company's cargo.

SUMMARY. At the present time it is generally believed that natural obstacles and Japanese activities will prevent the Caobang road from carrying any great amount of cargo. However, if the road is rendered impassable for motor traffic, a certain amount will be transported by cart, coolie and pony.

Respectfully yours,

For the Consul at Saigon,

CHARLES S. REED II,
American Consul

In duplicate to the 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:csr

Treasury

PARAPHRASE OF TELEGRAM RECEIVED

From: American Consul, Rangoon
To: Secretary of State
Date: January 30, 1940, 1 p.m.
No. Unnumbered. STRICTLY CONFIDENTIAL

During the first fifteen days of January the value of reexports of war supplies to China was 2,706,000 rupees. At the present rate of exchange this amounts to approximately 812,000 American dollars. Almost 98% was furnished by Russia in fuses, shells, machine gun parts and cartridges. The balance was furnished by the United States and Czechoslovakia. Materials from the United States were valued at approximately \$3,700 and consisted exclusively of airplane parts.

10 JAN 31 1940
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SECRETARY OF STATE

COPY

AMERICAN CONSULATE GENERAL
American Foreign Service, Hanoi, Indochina,
January 30, 1940.

No. 50

Air Mail

Subject: Transportation to China via Indochina.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my despatch no. 27 of December 17, 1939, reporting the construction of a road in northern Indochina which might be used in transporting cargo to Yunnan and mentioning possible transportation routes in Yunnan connecting with the road in Indochina. In my despatches nos. 41 and 45 of January 12 and 18, 1940, reference was made to the views of Mr. M. E. Sheehan, an American motor traffic expert, who regards these possible transportation routes in Yunnan as being of great future importance.

The development of the Sino-Japanese conflict in Kwangsi and its anticipated further development in the same region emphasizes the vital necessity of establishing, if possible, adequate transportation routes from Laokay northward towards Kunming. The Dong Dang-Nanning road, carrying a substantial and an ever increasing amount of important supplies to the Chinese National Government, was lost on November 24, 1939. The Caobang road, as yet carrying an insignificant amount of much needed supplies (possibly 100 tons a day), is reputedly incapable of carrying

- 2 -

extremely heavy traffic and is certain to be the target of future Japanese bombing attacks.

There remain the transportation routes northward from Lachay to Kunming. The one route which is a known factor is the Indochina-Yunnan Railway - estimated to have a potential carrying capacity of 24 thousand tons monthly by the end of April. At the present time the railway is repairing the damages caused by the Japanese bombings at the beginning of the year and is, in the meantime, carrying something less than 100 tons a day. That the Japanese will again bomb the railway, thus curtailing its usefulness as a transportation route, is almost a foregone conclusion.

The remaining routes of transportation are still in the embryonic stage. They are routes which combine water, caravan, rail and motor means of transportation and which require extensive and urgent development before they can become important factors in China's transportation system. A certain amount of cargo can be carried by these routes, in much the same way as cargo was carried many decades ago, but the thousands of tons of supplies which China needs now are reputedly an impossibility. If the reports of investigators of the oil companies are to be believed, and their reports are not colored with the characteristic optimism of the Chinese and advisors to the Chinese, it will be a matter of months before these back country routes can be given serious consideration.

In my despatch no. 42 of January 12, 1940, I mentioned the views of the various oil companies as to the future of transportation to China via Indochina, to the effect that the future is far from bright and that Rangoon will supplant Haiphong in importance as a port for China. Those

- 3 -

were the views of men experienced in pioneering transportation in China and those are still the views of the oil companies. The companies will maintain their organizations in northern Indochina, on a reduced scale, as a certain amount of business can still be done in and with China. But their business will be for the most part ex-Gaobang, ex-Lackay, et cetera, thus leaving the matter of transit to China to the purchaser.

The unfortunate feature, considering transportation to China via Indochina as a whole, is the loss of the Dong Dang-Nanning road. The Japanese move in Kwangsi should have been expected and every effort should have been made to defend this important line of supply. Equally unfortunate is the seeming disregard of the urgent necessity of defending the Indochina-Yunnan Railway. The redeeming feature is the Chinese faculty of overcoming seemingly insurmountable obstacles by their own methods and at their own time.

Viewed in the light of effective and immediate means of transportation to China, the failure of the Chinese to commence transshipment of cargo at Haiphong to Rangoon in large quantities is somewhat incomprehensible. I understand that some has been moved but in relatively insignificant amounts. Perhaps it is indifference to the fate of much of this cargo, which is no better for months of exposure to the elements. Perhaps it is boundless optimism that the unforeseen will happen - that Nanning will be retaken, that the Japanese will cease bombing the railway. It is possible, of course, that there is at Rangoon, or there is en route to Rangoon from ports other than Haiphong, sufficient cargo to tax the capacity of the Burma road.

- 4 -

SUMMARY. The future of transportation to China via Indochina is viewed with some pessimism. So long as the Dong Dang-Manning road is controlled by the Japanese and so long as the Indochina-Yunnan Railway is vulnerable to Japanese bombing, transportation will be confined to routes of seemingly definite impracticability, both as regards natural hazards and proximity to Japanese bases. Other back country routes are being developed but their usefulness will be in the future. This pessimism is, however, not so profound as to overcome the belief that the Chinese will get along somehow - coolie and pony caravan will serve a useful purpose in default of an assured motor and railway transportation.

Respectfully yours,

CHARLES S. REED II,
American Consul.

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

815.4

CSR:csr

CONTINUATION OF CABLE RECEIVED 30 January, 1940

FROM: Spagent, Shanghai, China.
To: Secretary of the Treasury

- 4 -

293

The following is a translation of the documents concerning the secret agreement concluded by Wang with the Japanese. Its publication has created a tremendous sensation.

"AN OUTLINE GOVERNING READJUSTMENT OF NEW SINO-JAPANESE RELATIONS
PRIMARY PRINCIPLES

Item I. Japanese and Chinese Governments shall readjust new relations between the two countries in accordance with general principles governing readjustment of new Sino-Japanese relations as set forth in Annex One.

Item II. Faits accomplis before restoration of normal relations between two countries as result of the incident, vis. hostilities shall be recognized and gradually readjusted in accordance with developments in the situation and in conformity with the abovementioned principles.

Item III. Continuance of the special area situation created by "necessity" during the course of hostilities shall be recognized. The abovementioned special situation shall be gradually readjusted in accordance with developments in the situation until settlement of the incident in conformity with the general principles governing readjustment of Sino-Japanese relations.

Item IV. Detailed measures for carrying out the foregoing two items shall be separately studied.

SECRET

"ANNEX ONE — GENERAL PRINCIPLES
GOVERNING READJUSTMENT OF NEW
SINO-JAPANESE RELATIONS

Japan, China, and Manchukuo, in consonance with the idea of establishing a new order in East Asia, in pursuance of the spirit of neighborly cooperation, all for the attainment of the common objective of consolidating peace in East Asia, shall carry out the following fundamental items:

Item I. On the basis of reciprocity, Japan, China, and Manchukuo shall establish the fullest cooperation between them and shall pay particular attention to the principle of neighborly amity, joint defense against communism, and economic collaboration.

Item II. Special zones for close Sino-Japanese cooperation, both military and economic, shall be established in North China and Mongolia. In Mongolia, besides the above provision, Japan, for the sake of defense against communism shall have a special position both in military and political spheres.

Item III. A zone for close Sino-Japanese economic cooperation shall be established in regions along the lower reaches of the Yangtze River.

Item IV. A special status shall be established in certain specially designated islands off the South Coast.

Item V. Concrete measures for carrying out foregoing items shall be based on provisions set forth in Annex Two.

SECRET

"ANNEX TWO

"IMPORTANT ITEMS RELATING TO READJUSTMENT OF NEW SINO-JAPANESE RELATIONS

AFFAIRS RELATING TO NEIGHBORLY AMITY

Preamble: Japan, China, and Manchukuo, in pursuance of mutual respect, shall cooperate fully with each other for preservation of peace in East Asia and shall translate their neighborly amity into genuine collaboration.

Item I. China shall recognize the Empire of Manchukuo. Japan and Manchukuo shall respect China's territorial and sovereign rights. Japan, China, and Manchukuo shall establish new relations with each other.

Item II. Japan, China, and Manchukuo shall suppress in the future any political propaganda or commercial measures of a cause that may jeopardize the friendly relations between the three countries.

Item III. Japan, China, and Manchukuo shall adopt a policy of cooperation in their diplomatic relations (foreign affairs) and may not violate this principle in their relations with third powers.

Item IV. Japan, China, and Manchukuo shall cooperate in the promotion of culture.

Item V. Japan shall dispatch advisers to the new Central Government to assist in various new enterprises of reconstruction and more especially in various organs in zones for the close Sino-Japanese cooperation.

SECRET

Item VI. In accordance with the gradual establishment of friendly relations between Japan, China, and Manchukuo, Japan shall gradually consider the retrocession of concessions and relinquishment of extra-territorial rights in China.

"AFFAIRS RELATING TO GENERAL PRINCIPAL OF JOINT DEFENSE AGAINST COMMUNISM

JAPAN, CHINA, AND MANCHUKUO SHALL ADOPT CONCERTED MEASURES FOR JOINT DEFENSE AGAINST COMMUNISM

Item I. Japan, China, and Manchukuo shall suppress communist elements and organizations in their respective territories and exchange information and cooperate in propaganda for joint defense against communism.

Item II. Japan and China shall regard joint defense against communism their common objective. Japan shall station necessary number of troops in North China and Mongolia.

Item III. Sino-Japanese anti-communist military alliance shall be separately concluded.

Item IV. Japanese troops other than those referred to in Item II shall be promptly withdrawn in accordance with developments in the central or local situation, but those at present stationed in North China and along the lower reaches of the Yangtze River shall continue to be stationed in those areas until peace and order are definitely restored.

Item V. For the sake of joint maintenance of peace and order Japanese gunboats shall have the right to be stationed in specially designated areas along the Yangtze and at specially designated islands in South China.

SECRET

Item VI. Japan reserves the right to demand and supervise the railways, airports, postal services, principal harbors and waterways in areas where Japanese troops are stationed.

Item VII. In areas where Japanese troops are stationed only the minimum number of Chinese police troops and other armed forces may be temporarily stationed for the maintenance of peace and order and the fulfillment of the requirements for national defense. Japan shall dispatch advisers and instructors to China for the training of Chinese troops and police and shall furnish the latter with military equipment.

"AFFAIRS RELATING TO THE GENERAL PRINCIPAL OF ECONOMIC COOPERATION

JAPAN, CHINA, AND MANCHUKUO IN PURSUANCE OF THE SPIRIT OF MUTUAL DEFENSE SHALL ADHERE TO THE PRINCIPLE OF RECIPROCITY IN PROMOTION OF PRODUCTIVE AND ECONOMIC ENTERPRISES SO THAT THEIR RESPECTIVE ECONOMIC REQUIREMENTS MAY BE FULFILLED

Item I. Japan, China, and Manchukuo in pursuance of the above-mentioned objectives as well as those mentioned in the following items shall conclude an agreement concerning the development of natural resources and administration of customs, commerce, aviation, communications, postal services, and meteorological surveys.

Item II. In conformity with the spirit of joint defense and economic cooperation, China shall accord special facilities to Japan for the development of natural resources in North China and Mongolia and Tibet. For the sake of cooperation economically, China shall also accord the necessary facilities to Japan for the development of special resources in other areas.

SECRET

Item III. Japan shall give special assistance to China for development of general productive enterprises. Japan shall assist China in improvement of agriculture with a view to increasing farm production and stabilizing the livelihood of the Chinese people.

Item IV. Japan shall assist China in formulating financial and economic policy.

Item V. With reference to commerce, an appropriate customs tariff and an appropriate system of customs administration shall be adopted with a view to improving trade relations between Japan, China, and Manchukuo. At the same time the supply of raw materials between Japan, China, and Manchukuo, and more especially in North China, shall be re-adjusted.

Item VI. Japan shall assist China in the development of communications, postal services, and meteorological surveys. Japan shall assist China in the development of aviation and the improvement of the administration of railways in North China, including the Lunghai railways. Japan and China shall cooperate in establishing as a route between Japan and the Chinese coastal regions in facilitating navigation along the Yangtze River and in establishing postal communications between North China and regions along the lower reaches of the Yangtze.

Item VII. Japan and China shall cooperate in establishing a new Shanghai.

SECRET

REMARKS:

Item I. The new Central Government shall pay indemnities to Japan for losses suffered by the Japanese Government and the Japanese people in China since the outbreak of the incident.

Item II. The new Central Government shall maintain the closest relations with Japan in all important matters concerning Japan before the establishment of new Sino-Japanese relations.

"ANNEX ATTACHED TO OUTLINE GOVERNING READJUSTMENT OF NEW
SINO-JAPANESE RELATIONS

ANNEX ONE

OUTLINE GOVERNING READJUSTMENT OF RELATIONS
WITH PROVISIONAL GOVERNMENT

Item I. The term "North China" referred to in this outline in a general sense denotes Hopei, Hansi and Shantung Provinces to the south of the Great Wall and that part of Honan Province to the north of the old Yellow River bed.

Item II. With reference to special character of the plan for close national defense and economic cooperation between North China, Japan, and Manchukuo, a North China Political Affairs Committee shall be established in accordance with the general principles governing the readjustment of new Sino-Japanese relations so as to attend to all local affairs concerning Japan and Manchukuo.

Item III. Detailed measures concerning the powers and organization of the North China Political Affairs Committee shall be decided upon by the Central Political Council. However, before the establishment of the Central Government they shall be fixed by

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Wang Ching Wei and Wang Ke Min.

Item IV. The powers and the organization of the North China Political Affairs Committee shall aim at carrying out the following affairs during the establishment of new normal relations between Japan and China. However, before the establishment of such relations the following items shall also be regarded as objectives of the committee with a view to the gradual readjustment of Sino-Japanese relations. The name of the Provisional Government shall be abolished and faits accomplis by the Provisional Government shall be temporarily recognized and taken over by the North China Political Affairs Committee so as to facilitate the transfer of political affairs and prevent anxiety on the part of the public.

"AFFAIRS RELATING TO JOINT DEFENSE, ESPECIALLY DEFENSE
AGAINST COMMUNISM AND THE MAINTENANCE OF PEACE AND
ORDER

Item I. Disposal of affairs arising from the stationing of Japanese troops in China.

Item II. Disposal of affairs arising from Sino-Japanese joint defense against communism and maintenance of peace and order.

Item III. Disposal of other affairs arising from Sino-Japanese military cooperation.

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Jan 30, 1940

Part 3.

"AFFAIRS RELATING TO ECONOMIC COLLABORATION ESPECIALLY
EXPLOITATION OF NATURAL RESOURCES AND READJUSTMENT
OF RAW MATERIAL SUPPLIES BETWEEN JAPAN, MAN-
CHUKUO AND NORTH CHINA

Item I. Disposal of affairs relating to granting of special facilities to Japan for exploitation and utilization of natural resources.

Item II. Disposal of affairs relating to the readjustment of raw material supplies between Japan, Manchukuo, Mongolia, and North China.

Item III. Disposal of affairs relating to the joint readjustment of trade and currency relations between Japan, Manchukuo, Mongolia, and North China.

Item IV. Disposal of affairs relating to the joint Sino-Japanese development of aviation, railways, postal services, and principal sea routes between Japan and China.

"DISPOSAL OF AFFAIRS RELATING TO EMPLOYMENT
JAPANESE ADVISERS AND EMPLOYEES

"THE CENTRAL GOVERNMENT SHALL GIVE ITS SUPPORT
TO A JOINT SINO-JAPANESE CURRENCY SYSTEM
AND OTHER SYSTEMS RELATING THERETO
DURING PERIOD OF TRANSITION

"PROVISIONAL RELATIONS BETWEEN NORTH CHINA PO-
LITICAL AFFAIRS COMMITTEE AND THE CENTRAL
GOVERNMENT

Item I. The North China Political Affairs Committee in order to defray necessary expenditures may adopt necessary measures for the collection of revenues. Consequently, although customs revenues,

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salt revenues, and consolidated taxes are to be regarded as central revenues as a general principle, a certain percentage of customs and salt revenues shall be temporarily turned over to the North China Political Affairs Committee. Moreover, the power of supervision over organs for collection of the abovementioned national revenues shall be delegated by the Central Government to the North China Political Affairs Committee.

Item II. The North China Political Affairs Committee shall have the right to issue loans to a certain extent.

Item III. Government properties in North China shall continue to be placed under the control of the North China Political Affairs Committee and shall be gradually readjusted.

Item IV. Customs, postal, and air services shall be placed under the control of the Central Government, but existing conditions of such services shall be altered gradually.

Item V. Affairs relating to the administration and operation of the Lunghai Railway shall be placed under the jurisdiction of the North China Political Affairs Committee.

Item VI. The power of appointing subordinate officials in North China shall reside in the North China Political Affairs Committee with the exception of first rank officials of the province of Mongolia.

Item VII. Diplomatic negotiations with third powers shall be conducted by the Central Government. Negotiations concerning local

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affairs arising between North China, Japan, and Manchukuo shall be conducted by the North China Political Affairs Committee.

"ANNEX TWO

"OUTLINE GOVERNING READJUSTMENT OF RELATIONS
WITH REFORMED GOVERNMENT

Item I. Views of Reformed Government, that is Nanking regime, shall be respected. Any action likely to affect the stability of the Reformed Government shall be avoided. Measures shall be taken to guide the Reformed Government to become part of the Central Government and to enable the Reformed Government to continue to perform its political duties pending the inauguration of the Central Government.

Item II. After the establishment of the Central Government, no political affairs committee need be established, thanks to understanding of the Reformed Government. However, the status of important leaders of the Reformed Government shall be taken into due consideration by Wang Ching Wei's side.

Item III. During the inauguration of the Central Government and the abolition of the Reformed Government, the Central shall temporarily recognize and take over faits accomplis by the Reformed Government so as to facilitate the transfer of political affairs and prevent anxiety on the part of the public.

Item IV. In order to realize close Sino-Japanese economic cooperation in regions along the lower reaches of the Yangtze River, Japan presents the following special requests:

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"REQUESTS CONCERNING A NEW SHANGHAI

Item I.

1. Affairs relating to the joint reconstruction in new Shanghai.
2. Disposal of affairs arising from stationing of Japanese troops in new Shanghai.
3. Affairs relating to the joint administration of aviation, sea navigation, shipping along the Yangtze, and postal services in new Shanghai.
4. All other affairs relating to Sino-Japanese cooperation in new Shanghai.

Item II. In order to facilitate fulfillment of the abovementioned Japanese requests, a Sino-Japanese economic association shall be established.

"ANNEX FOUR

"NEW STATUS OF AMOY. WANG CHING WEI'S SIDE SHALL
AS FACTS ACCOMPLISH THAT AMOY IS A SPECIAL
ADMINISTRATIVE AREA

"ANNEX FIVE

"SPECIALLY DESIGNATED ISLANDS OFF THE SOUTH
CHINA COAST

With reference to the specially designated islands off the South China coast, an administrative organ, including a military organ, shall be established on Hainan Island under the direct jurisdiction of the Central Government. This organ shall carry out the following demands based on Japan's special position on the islands:

1. Affairs arising from the stationing of Japanese troops on the island.

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2. Affairs relating to Sino-Japanese joint military affairs and maintenance of peace and order.

3. Affairs relating to exploitation and utilization of natural resources of special importance to national defense.

4. Affairs relating to aviation, communications, and sea navigation.

Remarks: This outline includes Japan's requests concerning a future Sino-Japanese agreement and affairs relating to voluntary disposal of military and political questions on the part of China.

"URGENT EXPECTATIONS FROM JAPAN BEFORE INAUGURATION
OF NEW GOVERNMENT

(This document was drawn up by Dr. Wang Ching Wei and handed by Mr. Chow Fu Hai late in August last year to a Japanese who took it to Japan.)

Japan has sent a written reply to China's hope for enforcement of general principles concerning respect for China's sovereign rights and has expressed full understanding of China's hope and undertaken to make energetic efforts to realize it. In view of the approach of the date for the inauguration of the Central Government, China regards the following items as indispensable conditions for the inauguration of the Central Government. Their enforcement will not be incompatible with Japan's considerations regarding space and time. It is hoped Japan will express her agreement to these conditions.

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Item I. Since the conclusion of the Anglo-Japanese customs agreement in May last year, customs revenues have been deposited in the Yokohama Specie Bank. Up to the present, revenues collected by the Chinese maritime customs in Shanghai alone have amounted to more than one hundred and eighty million dollars. The Chungking Government has made payments up to January 31, 1939 for the amortization of foreign loans and payment of Boxer indemnities. Therefore please return to the Central Government the sinking fund for the amortization of foreign loans and the payment of Boxer indemnities as well as surplus customs revenues that have accumulated before January, 1939. However, in conformity with legal procedure, the fund should be returned only after the inauguration of the Central Government. Japan is hereby requested to agree to the following two points:

First: Before the inauguration of the Central Government, please order the Yokohama Specie Bank to advance forty million dollars in the form of a loan derived from customs revenues deposited in the bank. The loan will be indirectly redeemed after the inauguration of the government.

Second: After all customs revenues deposited in the Yokohama Specie Bank have been returned to the new Central Government, customs revenues collected each month in the future shall be remitted to the national treasury of the Central Government. However, a portion of revenues may be deposited in the Yokohama Specie Bank and a remainder in Chinese commercial banks designated by the Central Government.

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Third: The consolidated tax bureaus in the provinces of Kiang, Suchekiang, and Anhwei are at the present time independent organs and are not under the jurisdiction of the Reformed Government. Revenues collected each month are remitted to a Japanese special service organ. A part of the revenues is then remitted by this organ to the Reformed Government. With the concurrence of Japanese authorities, the abovementioned consolidated tax bureaus shall be taken over by the Ministry of Finance upon the inauguration of the Central Government. Receipts from consolidated taxes shall be remitted to the National Treasury in the future.

Fourth: Salt revenues constitute the chief source of taxation in our country, but at present there are no receipts from this source. The Tung Yuan Corporation established in Central China is Japanese operated transportation organ and pays no taxes. Before the inauguration of the Central Government, Japan should agree to restore the administration of salt revenues and methods of revenue collection after the inauguration of the Central Government to conditions prevailing before the incident.

The foregoing four points are related to finance. If they cannot be carried out, the Central Government cannot be inaugurated.

Fifth: Japan is requested to agree to reopen the Shanghai - Nanking section of the Yangtze River within two months after the inauguration of the Central Government. Negotiations in this

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connection shall be conducted by the Central Government. With reference to the prevention of transportation of arms and ammunition by foreign steamers to guerilla units, strict technical measures may be adopted. The Central Government after its inauguration must secure de facto recognition by Britain, France, and the United States. Such recognition cannot be obtained if the Yangtze River is not opened.

"ANNEX THREE

"OUTLINE GOVERNING READJUSTMENT OF RELATIONS
WITH MONGOLIAN AUTONOMOUS GOVERNMENT

Item I. Mongolia, referred to in this outline in a general sense, denotes the region to the north of the Inner Great Wall.

Item II. In view of the special character of Mongolia as a zone for close national defense and economic cooperation between Japan, China, and Manchukuo with the exception of diplomatic affairs, that is excluding negotiations with Japan and Manchukuo, all executive, legislative, judicial, and military affairs and negotiations with Outer Mongolia shall be based on faits accomplis. Inner Mongolia shall be granted extensive local autonomy and shall be recognized as an anti-communist autonomous zone.

Item III. In order to establish relations between the Mongolian Federal Autonomous Government and the new Central Government, a written agreement concerning the following affairs shall be

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concluded by Wang Ching Wei or his representative with Prince —*
President of the Sinongol League or his representative.

1. The Central Government shall recognize anti-communist and autonomous character of the Mongolian Federal Autonomous Government as faits accomplis.

2. Measures for readjustment of relations between the two political regimes shall be separately negotiated on the basis of this understanding after the inauguration of the new Central Government.

Item IV. Upon the conclusion of the understanding referred to in the foregoing item, the Mongolian Federal Autonomous Government shall dispatch a representative to the Central Political Council.

Item V. The Central Political Council shall discuss no affairs outside of the scope of understanding referred to in Item III.

Item VI. Travelling passes for the Nanking-Shanghai Railway shall be issued by the Central Government instead of Japanese authorities.

Item VII. Inspection of travellers at the Nanking Railway Station and at various city gates shall be conducted by Chinese gendarmes and police. Japanese troops, when they wish to make arrests within the city, should be requested to do so in conjunction with Chinese gendarmes and police.

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The foregoing points, though they may appear to be small matters, are of great importance in altering the feelings and psychology of the people. However, these points can only be carried out with full understanding of the Japanese military authorities now stationed in Nanking. Japan is requested to pay particular attention to this matter.

"JAPAN'S REPLY TO WANG CHING WEI'S URGENT
EXPECTATIONS

(This reply was sent to Wang Ching Wei in the
middle of October, last year)

The chief points of Japan's reply to Wang Ching Wei's urgent expectations are as follows:

"WITH REFERENCE TO CUSTOMS REVENUES

Item I. With reference to your request that the Shanghai branch of the Yokohama Specie Bank advance a sum of forty million dollars under certain conditions in the form of a loan derived from customs revenues deposited by Shanghai maritime customs in the bank before the inauguration of the Central Government, Japan is prepared to fulfill your honorable wishes if after the inauguration of the future government the plans for readjustment of new Sino-Japanese relations, that is to say, the general principles for the readjustment of new Sino-Japanese relations and other transitional measures are definitely fixed and carried out.

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Item II. With reference to the disposal of customs revenues after the inauguration of the new Central Government, the system of customs administration and disposal of customs revenues shall be placed in principle under the control of the Central Government. However, with the exception of that part held as security for foreign loans, please turn over customs revenues collected in North China and Inner Mongolia to authorities of North China and Inner Mongolia. Moreover, for the time being, please continue to deposit customs revenues in the Yokohama Specie Bank.

"WITH REFERENCE TO CONSOLIDATED TAXES

Japan takes no exception to the proposal that after the inauguration of the Central Government the organs for collection of consolidated taxes in the three provinces of Kiang, Suchekiang, and Anhwei be taken by the Ministry of Finance of the Central Government; that receipts from consolidated taxes be remitted to the National Treasury; and that the administration of consolidated taxes be gradually readjusted.

"WITH REFERENCE TO SALT REVENUES

Japan takes no exception to the proposal that after the inauguration of the new Central Government the administration of salt revenues and methods for collection of salt revenues, with the exception of those in North China and Inner Mongolia, be

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gradually readjusted with a view to restoring them to conditions prevailing before the incident, that is, hostilities.

"WITH REFERENCE TO THE REOPENING OF THE
YANGTZE

Japan also hopes that there will be a necessary relaxation in Japanese military operations in the Yangtze Delta so that the entire Yangtze River and section thereof may be reopened at an early date. However, under present conditions, it is still difficult to fix a definite date for the reopening of the river.

"WITH REFERENCE TO ISSUE OF TRAVELLING PASSES FOR
NANKING SHANGHAI RAILWAY AND INSPECTION OF
TRAVELLERS AT THE METROPOLITAN RAILWAY
STATION

In conformity with the principle for respect for political power of the new Central Government, Japan takes no exception to your honorable views in the principle. However, Japan hopes that concrete measures for readjustment of the stipulated situation will be discussed and agreed upon by Chinese and Japanese authorities concerned on the basis of the requirement for the maintenance of peace and order."

END

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 30, 1940.

TO Secretary Morgenthau

FROM Mr. Haas *BA*

Subject: Notes on meeting held in Secretary Morgenthau's office on January 30, 1940, at 2 P.M., on plant expansion costs in connection with Allied Purchasing Commission's war orders.

Present: Secretary Morgenthau
Mr. Purvis, Chief,
Allied Purchasing Commission.
Mr. Sullivan
Mr. Haas

Mr. Purvis said that after a long conference with Atlas Powder Company he had worked out a contract, consisting of twelve pages, which was satisfactory to the Atlas Company and which he thought would meet the requirements of the Bureau of Internal Revenue. Mr. Sullivan had not had time to read the contract, but indicated that if he were given an hour to look it over and if Mr. Purvis would come to his office at 3 P.M. he would be glad to give him his reaction to it.

Mr. Sullivan asked Mr. Purvis about the Hercules Powder contract. Mr. Purvis then went on to explain his difficulties. He said that he had a three-hour conference with the three top men of the Hercules Powder Company last Friday, that he had gotten no where but he was still working on it as he felt the Allies needed the Hercules powder badly. He said he had a cable from London telling of 2,000 tons of powder lost in a recent explosion and directing him to make every effort to secure 2,000 tons of powder as soon as possible. So he said it was imperative that he come to some understanding with the Hercules Company. He pointed out that the Company insisted (1) that they be paid immediately 100 percent the cost of the new plant required, (2) that they be paid an additional 18 percent to cover the contingency that the Bureau of Internal Revenue might consider at least part of the plant expenditure income rather than capital, and (3) that immediate payment be made of 27 percent of the order. The latter figure,

Secretary Morgenthau -2-

Mr. Purvis said he had worked down from 100 percent. In his last conference he said he got somewhat angry with the Hercules people, but because of the British situation he must continue on with them. He said that the Hercules people did not want to enter into any arrangement for payment for the plant which involved a period of time, such as an amortization plan with provision for a scrap or peace-time value of the plant after the war-time production was completed. This proposal, the Hercules people said, involved a risk on their part which they did not wish to undertake. He indicated to them that the British Government would underwrite the proposal. They rejected this because they did not care to hold a claim against a foreign government.

Mr. Purvis said he hoped that the Atlas proposal would be acceptable from a tax standpoint and he could then use this as an example in dealing with other companies. The meeting adjourned with the understanding that Mr. Purvis would see Mr. Sullivan at 5 o'clock in Mr. Sullivan's office.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 30, 1940.

TO Secretary Morgenthau

FROM

Mr. Haas *BA*

Subject: Notes on meeting held in Secretary Morgenthau's office on January 30, 1940, at 11:30 A.M., continuing a discussion of ways and means to secure adequate machine tools in order to increase sharply the production of airplane engines in the United States.

Present: Secretary Morgenthau

Mr. Purvis, Chief,
Allied Purchasing Commission.

Mr. Tell Berna, representing the
National Machine Tool Builders' Assn.

Mr. Charles J. Stillwell, President,
Warner-Swasey Machine Tool Manufacturers.

Dr. Lubin,
Commissioner of Labor Statistics.

Captain Collins

Mr. Haas

The Secretary outlined to Mr. Purvis some questions which were raised in the earlier morning meeting: (1) He said it was felt that Mr. Purvis should be the sole arbiter of machine tool orders in the United States for the Allies (Mr. Stillwell suggested sole dictator rather than sole arbiter) and (2) It was necessary to know which was more important to the Allies - airplanes and airplane motors or machine tools. The Secretary went on to explain to Mr. Purvis that the machine tool manufacturers were bringing him next Wednesday a list of machine tool orders which they had on their books including both domestic and foreign orders. He added that the airplane engine companies were making up a similar list of the orders they had placed for machine tools. The Secretary indicated also the need of looking as far in advance as possible with regard to future requirements.

Mr. Berna asked Mr. Purvis if his committee had set up any priority system. Mr. Purvis replied in the affirmative, saying that a committee responsible for machine tools was set up about two months ago. Mr. Stillwell pointed out that machine tool orders had come in from private sources in Great Britain which tended to confuse the situation. Mr. Purvis stated that during the debate on neutrality his commission had delayed its operations, and that now they were busily engaged in centralizing all the orders. He said that before the machine tool people left he would like to go over in detail with them their whole system of handling machine tool orders and would appreciate their suggestions and criticisms.

Mr. Stillwell pointed out that there might be a possibility of re-arranging delivery on some French orders for machine tools, which might help the airplane engine companies in the United States. Mr. Purvis indicated he did not wish to do anything which might retard airplane production in France and England, as these countries expected they might be cracked down upon in the Spring.

Mr. Purvis asked if the bottleneck question could be brought down to specific cases. Mr. Stillwell said that was what they intended to do. The Secretary pointed out to Mr. Purvis that next Wednesday the machine tool people were going to bring in a complete list of their orders and at that time we would know more about which orders would have to give way.

The Secretary suggested that the machine tool representatives talk first with Mr. Purvis and then later with Mr. Sullivan, who, the Secretary indicated, would give them an informal tax ruling. Mr. Purvis agreed to meet the machine tool representatives at 4 P.M. It was then arranged that they would see Mr. Sullivan at 9:15 tomorrow morning. The Secretary said he would arrange to see the airplane engine representatives at 9:15 in the morning and then the three groups at 10 A.M., to include Mr. Purvis, the machine tool manufacturers' representatives and the representatives of the airplane engine manufacturers.

Dr. Lubin asked Mr. Purvis if it would be possible for him to sort out the machine tool orders which were for foreign airplane construction. Mr. Purvis indicated that should be possible.

The Secretary told Mr. Purvis he had heard that the Canadians had bought some plants in this country and then stripped them of the machinery which was shipped to Canada. Mr. Purvis said he had heard the matter mentioned but did not think it actually had taken place. The Secretary told Mr. Purvis that he could expect to be scolded publicly if he (the Secretary) found out such was the case, and suggested that Mr. Purvis put his Canadian friends on notice.

Mr. Berna told Mr. Purvis that the British machine tool orders which were for stock should be eliminated from their order lists. Mr. Purvis agreed.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 30, 1940.

TO Secretary Morgenthau
FROM Mr. Haas *HA*

Subject: Notes on meeting held in Secretary Morgenthau's office on January 30, 1940, at 9:15 A.M., on ways and means to secure adequate machine tools in order to increase sharply the production of airplane engines in the United States.

Present: Secretary Morgenthau

Mr. Tell Berna, representing the
National Machine Tool Builders' Assn.

Mr. Charles J. Stillwell, President,
Warner-Swasey Machine Tool Manufacturers.

Dr. Lubin,
Commissioner of Labor Statistics.

Captain Collins

Mr. Haas

The Secretary opened the meeting by saying that the problem in which he was interested was the bottleneck in the machine tool industry. Mr. Berna asked if the question related to the bottleneck in the machine tool industry in the United States or the machine tool industry of the world. The Secretary limited the problem to the United States.

Mr. Berna then began his discussion by saying that he would like to take a few minutes to furnish the group with a little background information with regard to his industry. He pointed out that about the middle of 1938 the demand for machine tools began to increase and that by August, 1939, before the outbreak of the European War, the backlog of unfilled orders had already reached sizeable proportions. He said that the history of the industry has always been one of fluctuating periods of production, and that consequently there was great reluctance among producers to undertake plant expansion to take care of these orders.

Secretary Morgenthau -2-

When the war broke out in September, he continued, it thus caught the industry with an already heavy backlog of new orders. This was immediately augmented by a deluge of cable orders from Europe. In the case of many machine tool companies if these orders were accepted it would mean their plant capacity would be occupied well into 1941. Since September, he indicated, steps have been taken in many instances to expand plants and that more men have been employed. He said that shipments have increased sharply but the increase has been only a fraction of the tremendous increase in new orders. He showed the Secretary a chart on which there were two curves, one showing monthly figures for new orders and the other showing unit production on a monthly basis. He used the chart as a statistical verification of the statement which he had just previously made. Upon an inquiry from the Secretary, he said that the chart represented the combined figures of 80 companies which comprise the bulk of the business in the industry.

Mr. Berna then went on to explain that during the depression the foreign business had been a lifesaver to the industry, the Russian business in particular. Now the foreign business was coming largely from England, France, Russia and Japan, but the industry was giving preference to the domestic business. He said that in addition to the new orders that had come from Europe after the outbreak of the war, there was a great increase in domestic orders, largely the result of fears of businessmen here that war would cause price increases and make for difficulties in delivery, etc. New domestic orders of this type, however, have declined sharply since September, but there has been very little cancellation.

The Secretary then indicated that the problem at hand was how to get adequate volume of machine tools to permit the airplane engine manufacturers, such as Wright, Pratt-Whitney, and Allison, to secure machine tools so as to increase their production sharply.

Mr. Stillwell took up the discussion by stating that airplane manufacturers were faced suddenly with a very sharp increase in demand and for that reason did not get their orders placed early. He suggested there were two things that could be done to meet the situation. The first, which would produce results immediately, was to re-arrange orders on the books. The second, which he considered of equal importance, was that the industry be given a definite picture of the needs of the United States Government for the next fiscal year. He pointed out that the U.S. Ordnance Department's needs were fairly clear, but the needs of the U.S. Air Corps were not. In addition, it was necessary to have similar information concerning foreign orders and to know the precedence which should be given these orders.

Secretary Morgenthau -3-

The Secretary asked Mr. Stillwell how the machine tool industry would proceed to re-arrange its orders. Mr. Stillwell asked if the problem was to increase the production relating to United States' orders or the production relating to foreign orders. The Secretary answered by saying that our domestic requirements came first, but the production problem we would like to meet was that of supplying the domestic requirements, supplying the requirements of the Allies, and also taking care of the South American business.

Mr. Stillwell stated that he did not feel there was any bottleneck in the machine tool industry, and that the industry could meet the program as outlined by the Secretary. However, to meet such a program the machine tool industry would have to have a definite order schedule laid out on the table and they would have to be given an opportunity to work it out with members of the machine tool industry. He emphasized that the industry must see the problem in toto, and that the time limitation as to each portion must be specified. He pointed out, for example, that at the present time inquiries came in from airplane motor companies somewhat in this form - How soon can you deliver such and such an order of machine tools? The honest answer which was many times given to such inquiries was "Sometime in 1941". He indicated also that the vagueness of the inquiries was not the fault of the airplane engine manufacturers, as the airplane manufacturers themselves did not have firm propositions to work on.

The Secretary pointed out that it was his purpose to bring the airplane engine manufacturers, the machine tool manufacturers, and Mr. Purvis of the Allied Purchasing Commission, together so that a program such as Mr. Stillwell proposed could be worked out. Mr. Stillwell indicated he was sure that was the proper approach and that through use of persuasive means only he could get deliveries from the machine tool industry stepped up in the direction which would meet the problem. He indicated, for example, that there was no reason why the Japanese and Russian business could not be stalled for a time.

Mr. Stillwell emphasized the importance of sitting down with Mr. Purvis to discuss the problem, and the importance of being given a definite picture of the Allied requirements. He said there was one question which Mr. Purvis must answer before the industry could get anywhere with this problem. That question, he said, was which do the Allies consider more important (1) delivering planes to Europe or (2) delivering machine tools to Europe.

The Secretary then asked Mr. Stillwell if he anticipated any difficulty with regard to shortages of skilled labor and available plant capacity. Mr. Stillwell said he did not feel that skilled

Secretary Morgenthau -4-

labor was a serious problem, but more plant capacity would be required. Dr. Lubin inquired concerning the greater utilization of plants through using more shifts. Mr. Stillwell indicated that multiple shifts were already in use, but there were some places in the industry where this means could still be used to increase production. The Secretary asked him whether the machine tool industry would increase its plant capacity if the Allies supplied the money. Mr. Stillwell answered in the affirmative, and said there was a tax problem in connection with it which would have to be handled satisfactorily. The Secretary indicated that the representatives of the industry could sit down with Mr. Sullivan, Assistant Secretary of the Treasury, and he felt that matter could be worked out. The Secretary went on to indicate that in connection with powder production, the Bureau of Internal Revenue had worked out a formula which he felt the machine tool manufacturers would think was a fair solution of the problem.

Mr. Stillwell went on to say that he felt that the problem would be solved, but it would take some work to sell the members of the industry on the idea in order to secure the desired step-up. He also pointed out that new plant construction would not be reflected in increased production for three or four months, etc.

Dr. Lubin asked if there were any loose spots in the present distribution of orders. Mr. Berna described the situation at some length in order to indicate that the orders in many instances were not interchangeable from one machine tool company to another, using the situation of Pratt-Whitney Airplane Engine Company as an example. In this instance, he said, the bottleneck involved seven machine tool companies which each specialized in some particular machine tool, and Pratt-Whitney felt that there were no other companies which could make those particular tools with equal precision, etc. He described the situation of a small machine tool manufacturing plant in Philadelphia which would require an increase in plant capacity to meet this particular situation.

The Secretary asked whether the general problem of the machine tool industry would be helped if the automobile companies did not come out with new models next year. Mr. Stillwell questioned whether that would be of much help. Mr. Berna went on to say that the automobile industry took about one-third of the machine tool industry's output, the electrical equipment companies ranked second, the machine tool industry itself utilized other machine tools, and the airplane industry came in for only a small fraction - 3 or 4 percent - of the total output. He indicated that it was not the quantity of machine tools but the kind of machine tools required by the airplane engine industry which caused the difficulty. Mr. Stillwell pointed out that the automobile industry utilized specialists in machine tools which were peculiar to the automobile industry, and that these automobile engine tool manufacturers would not solve the bottleneck in which the Secretary was interested.

Secretary Morgenthau -5-

(The Secretary told the group that the airplane engine people would be on hand the next day, and this would provide a basis for the machine tool people to meet them and work out a program jointly.)

The Secretary asked Mr. Stillwell if he could secure a complete picture of the orders situation in the machine tool industry and bring it to Washington by next Monday. Mr. Stillwell felt that would be too short a time but said he thought it could be done by Wednesday of next week.

Mr. Stillwell again pointed out that the immediate problem was a matter of switching orders on the books. Captain Collins suggested that priority lists might be worked out giving preference first to domestic orders, second to the Allies, with Japan and Russia way down the list. Mr. Stillwell indicated there would be no difficulty if such a list could be developed.

The Secretary pointed out that an embargo was placed on molybdenum and raised the question of the advisability of adding an embargo on machine tools. Mr. Stillwell said it could be done quietly by passing the word around. The Secretary indicated that molybdenum was handled openly. Mr. Berna raised a question about offending some foreigners whom he felt were a great help to the industry in 1932. Mr. Stillwell disagreed and said he thought the problem now was to help the Allies win the war and he did not worry about offending the customers who helped the industry in 1932.

Mr. Stillwell said the machine tool industry would have to do the same thing the airplane industry had done in avoiding sales to certain countries. He indicated that it would be of much help if he had a letter from the Secretary. He said the letter would not be published, but he thought nevertheless it would be helpful in dealing with some of what he called the "rugged individuals" in his industry. He suggested that the method used should be persuasion, and he felt this was a much better way of handling the matter than by ordering the members of the industry to do something.

Captain Collins said he thought an effective way of handling the problem was by means of priorities, as used during the last war, such as (1) American industry (2) French and British (3) South American (4) Russian and Japanese. On this basis he felt that Russia and Japan would not get anything for a long time. Both Mr. Stillwell and Mr. Berna felt that such an arrangement could be worked out 100 percent. The Secretary suggested that members of the industry not be asked to cancel any of the orders but just to stall them.

Secretary Morgenthau -6-

Mr. Berna said he had one thing to take up with Mr. Purvis, which was that he knew of two cases where the French had not paid on time. The Secretary indicated they might hit Mr. Purvis hard on anything.

Mr. Stillwell went on to emphasize again that it was not only a present switching of orders which needed to be done, but that a longer program of requirements should be determined immediately and circulated to the machine tool industry. The Secretary said that the airplane engine people would be on hand the next day, which would furnish the machine tool representatives an opportunity to hear their story. The Secretary indicated that the airplane engine people might also have some hard things to say about the machine tool people. Mr. Berna commented that they could take it.

The Secretary indicated that he felt the Allies should pay for plant expansion and not the domestic industry. In response to a tax question, the Secretary mentioned again that Mr. Sullivan would talk to the industry representatives before they left.

The meeting adjourned temporarily to await the arrival of Mr. Purvis who was expected shortly.

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

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TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE January 30, 1940

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Developments in the High-Grade Securities Markets

SUMMARY

- (1) Domestic high-grade securities markets registered minor weaknesses last week. The average yield of all long-term Treasury bonds increased by three basis points (Chart I), while the average yield on high-grade corporate and long-term municipal bonds increased by one basis point.
- (2) Last week, nine local housing authorities sold \$34 millions of six-month notes under the sponsorship of USHA at prices to yield just under .45 percent. A day or two prior to the offering of these notes, the State of Massachusetts, without a Federal guarantee, sold \$3 millions of one-year notes at prices to yield just under .07 percent.
- (3) The December 31 condition statements of the ten largest banks outside of New York City showed striking differences in the way the funds of these banks are invested (Charts II and III). The Mellon National Bank of Pittsburgh held 64 cents out of every dollar of its deposits in Government securities, while the First National Bank of Boston had only 16 cents per dollar of deposits so invested. Taking cash and Governments together, the Mellon National held 100 cents per dollar of deposits in these two classes of assets.
- (4) Data on changes in the holdings of public debt securities since 1931 bring out in bold relief one of the most important developments in our economic picture in recent years — the growing institutionalization of investment. Banks and large life insurance companies have, together with the Federal Reserve banks, Federal agencies and trust funds, absorbed \$24.5 billions, or 85 percent of the total increase in the direct and guaranteed debt during this period (Charts IV and V).
- (5) Prices of British and French Government securities were practically unchanged last week.

Secretary Morgenthau - 2

I. Domestic Securities Markets

High-grade security markets in the United States registered minor weaknesses during the week ended Monday, January 29. The average yield of all long-term Treasury bonds -- moving inversely to prices -- increased by three basis points during the week, closing on Monday at 2.33 percent (Chart I). The average yield of high-grade corporate bonds and the average yield of twenty 20-year municipal bonds changed even less, both averages increasing by one basis point.

The volume of new long-term security issues publicly offered in the New York market last week was small -- the smallest in two and one-half months, according to the New York Times tabulations. Investment interest centered on the offering of approximately \$11 millions of Pennsylvania Water and Power Company 3-1/4 percent bonds due in 1970. These bonds, offered at 105, were sold immediately, and commanded a fractional premium in the market on the day of offering. Municipal security offerings, with the exception of short-term issues and revenue bills, were limited to small amounts of intermediate-term obligations.

Corporate stock financing played an important part in the week's new security offerings with the issuance of \$6 millions of Lockheed Aircraft common stock. The issue, it is reported, was oversubscribed five times. This is the second time in twelve months that the company has undertaken new financing. Net proceeds of the sale will be applied to new construction, purchase of factory equipment and machinery, and to the development of new airplane models. The syndicate was headed by Blyth and Company, Inc. and G. M.-P. Murphy and Company, and included Emanuel and Company, among others.

Among the interesting market developments of last week was the sale by the RFC to two banking houses of \$20 millions of 3-1/2 percent Philadelphia Gas Revenue certificates at 103. These securities were acquired at par by the RFC only last July, half of the issue being taken by the Corporation, and the remainder by Philadelphia banks.

II. Local Housing Authority Notes

On Thursday, January 25, it was announced that a syndicate of six New York banks, headed by the Chemical Bank and Trust Company, purchased \$34 millions of local housing authority temporary loan notes at prices to yield just under .45 percent. This was the second group of such notes offered

Secretary Morgenthau - 3

under the sponsorship of the United States Housing Authority. The previous group, which aggregated \$50 millions, was offered on November 14, 1939, at prices to yield just under .60 percent. Chemical also headed the previous syndicate, which was composed of a nation-wide group of 52 banks, however.

The repayment provisions of the local housing authority notes are such, it will be recalled, as to make them guaranteed in effect by the United States. They are secured by an irrevocable agreement under which the United States Housing Authority agrees to make available at the Federal Reserve banks three days prior to the maturity of these notes an amount of funds equal to the principal and interest thereon.

The notes just sold were offered by the local housing authorities in nine cities. It is interesting to note that a day or two prior to the offering of these six-month notes, the State of Massachusetts, without a Federal guarantee, sold \$3 millions of one-year notes to the Bankers Trust Company of New York at prices to yield just under .07 percent.

III. Composition of Assets of Banks Outside of New York City

Analysis of the December 31, 1939 condition statements of the ten largest banks outside of New York City shows striking differences in the way the funds of these banks were invested. Chart II shows for each of these banks the dollar amounts of their principal asset items held on December 31 -- cash, United States Government securities, other securities, and loans. Chart III shows these same items expressed in terms of the number of cents per dollar of deposits which each asset represents. The charts also show, for purposes of comparison, the same data for all weekly reporting member banks outside of New York City.

The charts illustrate the sharp differences, both absolute and relative, that exist in the volume of holdings of United States Government securities and cash. The Mellon National Bank of Pittsburgh, it is noted, held the equivalent of 100 cents out of every dollar of its deposits in these assets combined. The Bank of America, on the other hand, held only 46 cents per dollar of deposits in Government securities and cash. A larger proportion of its assets was held in other securities and loans -- the equivalent of 11 cents per dollar of deposits in other securities, and 48 cents in loans.

Among the interesting variances between banks brought out in Chart III is the difference in proportion of deposits held in United States Government securities. Mellon National held

64 cents per dollar of deposits in Governments, while First National of Boston had only 16 cents per dollar of deposits so invested. The latter bank and the Philadelphia National, however, each held more than 50 cents per dollar of deposits in cash.

It is interesting to note the small proportion of loans held by some of the banks shown on the chart. Five banks -- Mellon National, Continental Illinois, Northern Trust, National of Detroit, and Philadelphia National -- each held less than 15 cents per dollar of deposits in loans. This compares with loans equivalent to 28 cents per dollar of deposits held by all weekly reporting member banks outside of New York City.

IV. Who Has Absorbed the Increase in the Public Debt Since 1931

Between June 30, 1931 and June 30, 1939, the direct and guaranteed interest-bearing public debt increased by nearly \$29 billions. Charts IV and V have been constructed to show which classes of investors have, on net balance, acquired the debt issues representing this increase in the public debt on (1) a cumulative basis, and (2) an annual basis.

The charts bring out in bold relief one of the most important developments in our economic picture in recent years -- the growing institutionalization of investment. The primary "saver" -- the individual who saves out of income and invests his savings directly in securities -- seems to be no longer an important source of investment funds, at least in the case of gilt-edge securities. The really important purchasers of gilt-edge securities have come to be institutions -- primarily banks and large life insurance companies. These institutions, it is noted, have, together with the Federal Reserve banks and Federal agencies and trust funds, absorbed some \$24.5 billions (85 percent) of the increase in the Government debt since 1931 (Chart IV).

"All other holders", on the other hand -- a category which includes, in addition to individuals, such investors as life insurance companies other than the thirty-seven for which we have figures, fire and casualty insurance companies, financial corporations other than banks and insurance companies, industrial corporations, fiduciaries and trusts -- have taken only \$4.3 billions of the increase in the public debt during this period. Their absorption has been equivalent to only 15 percent of the aggregate increase in the debt, or 20 percent of the aggregate increase in the privately held debt (i.e., excluding that absorbed by the Federal Reserve banks, Federal agencies and trust funds).

The real significance of these figures -- or, to put it another way, the real insignificance of the direct operations of the individual "saver" in the capital markets of the last eight years -- appears when it is remembered that issuers other than the United States Government and its agencies have, in the aggregate, raised no new money, on net balance, during this period.* Practically all new investment funds, it is evident, have been channeled through institutional investments during recent years.

It is interesting to note (Chart V) that the classes of holders absorbing the increase in the debt have differed appreciably in the various years. Thus banks, which made large net acquisitions of Governments in many of the years covered, actually disposed of Governments, on net balance, in the fiscal years 1937 and 1938. Insurance companies made net acquisitions in all years covered, but their purchases were concentrated in 1935, 1936, and 1937. "Other holders" disposed of market issues of Governments, on net balance, in 1935, 1938, and 1939, but offset these disposals in 1939 by acquisitions of United States savings bonds.

The group called "Federal Reserve banks, Federal agencies and trust funds" made substantial net acquisitions in all years covered. In 1932 and 1933, the acquisitions were made primarily by the Federal Reserve banks, while in more recent years, they were made by the Social Security trust funds.

V. Foreign Securities Markets

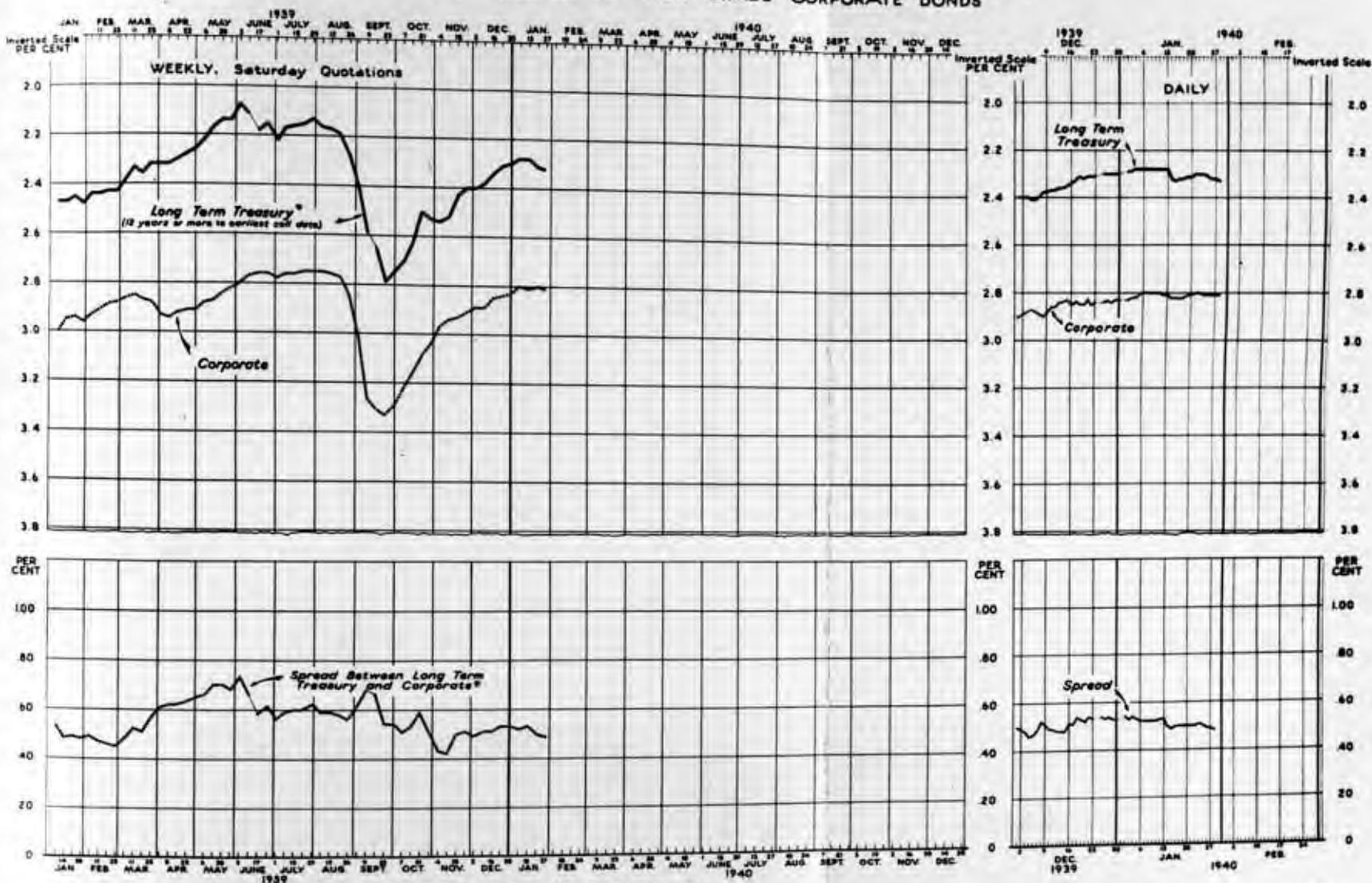
The prices of British Government securities were practically unchanged during the past week. British 2-1/2 percent consols held their gains of the week preceding, and the price at the close on Monday, January 29 (73-3/4) was five points above the price at the beginning of the month.

French Governments were also quiet last week, the price of the 3 percent perpetual rentes remaining practically stationary. In contrast to British security price movements since the beginning of the month, however, the price of rentes at the close on Monday (74.25) was more than two points below the level reached at the beginning of the month.

* See our memorandum of June 5, 1939 entitled "No New Money (Net) Raised by Securities Issues, 1933-38, Except Through United States Obligations."

Chart I

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



U.S. Dept. of the Treasury
Division of Research and Statistics

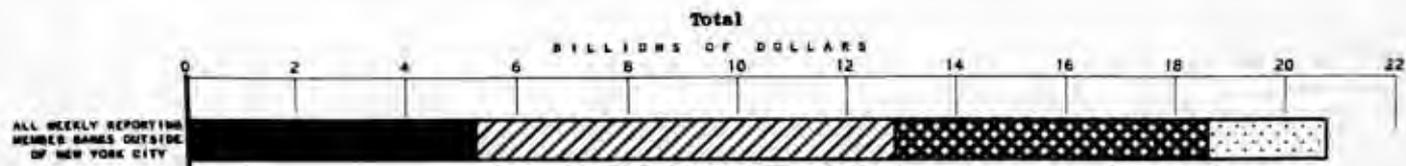
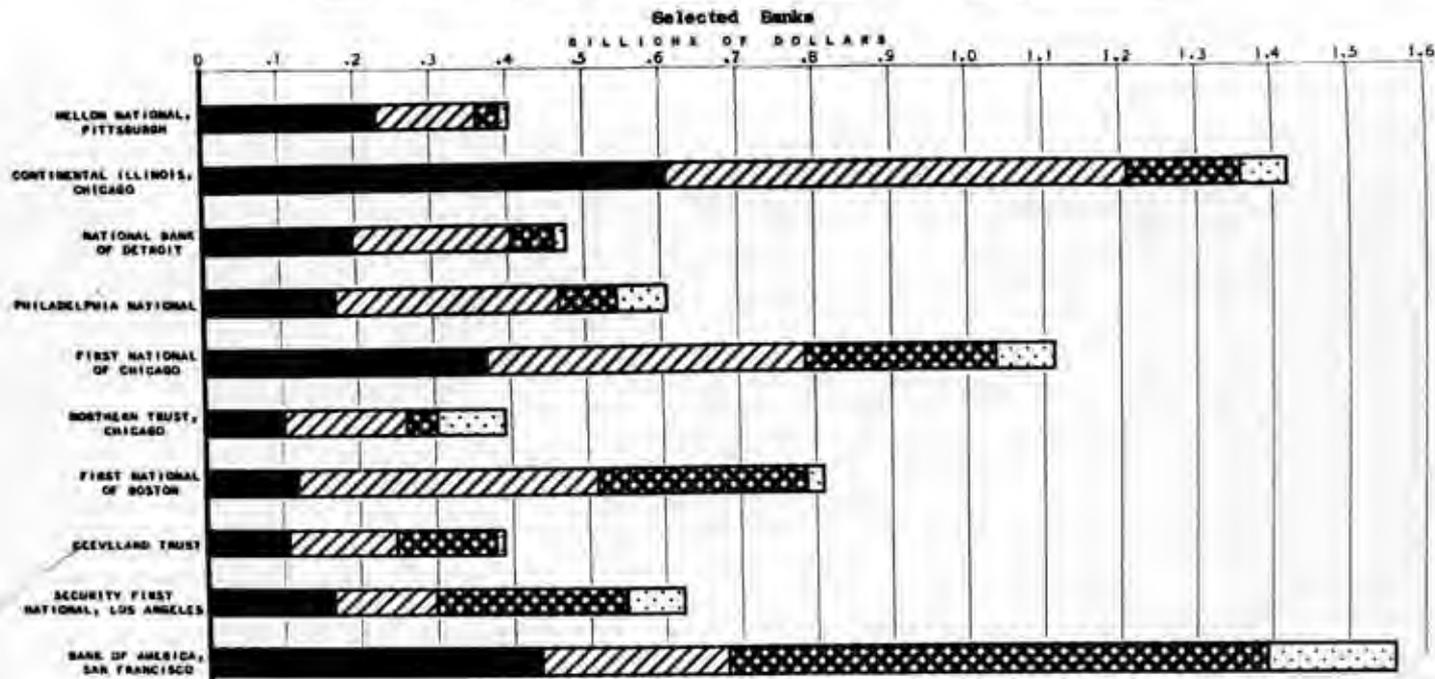
*Break in line indicates change in composition of Long Term Treasury average.

F-50-F

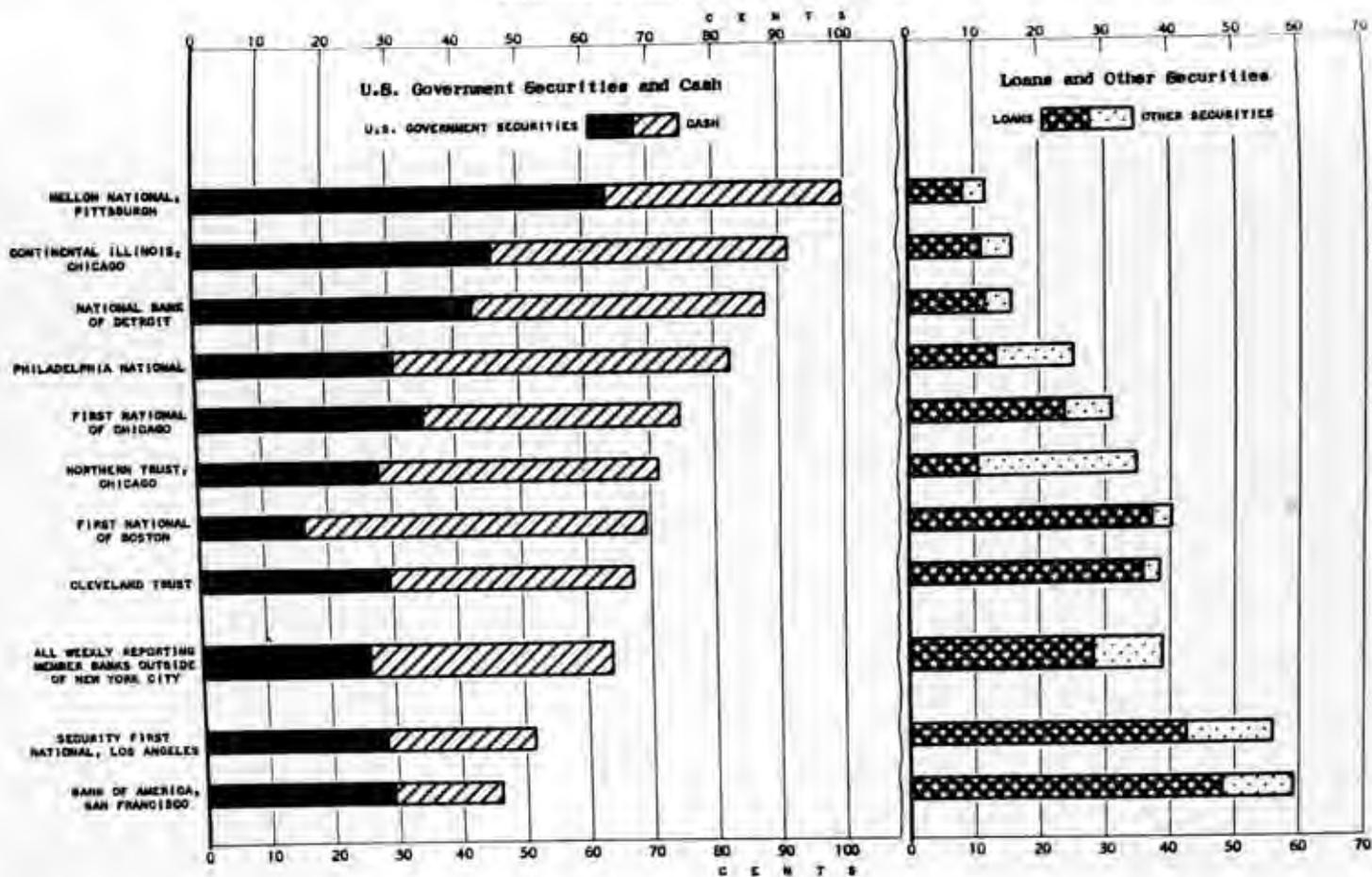
PRINCIPAL ASSETS OF SELECTED BANKS OUTSIDE OF NEW YORK CITY

December 31, 1930

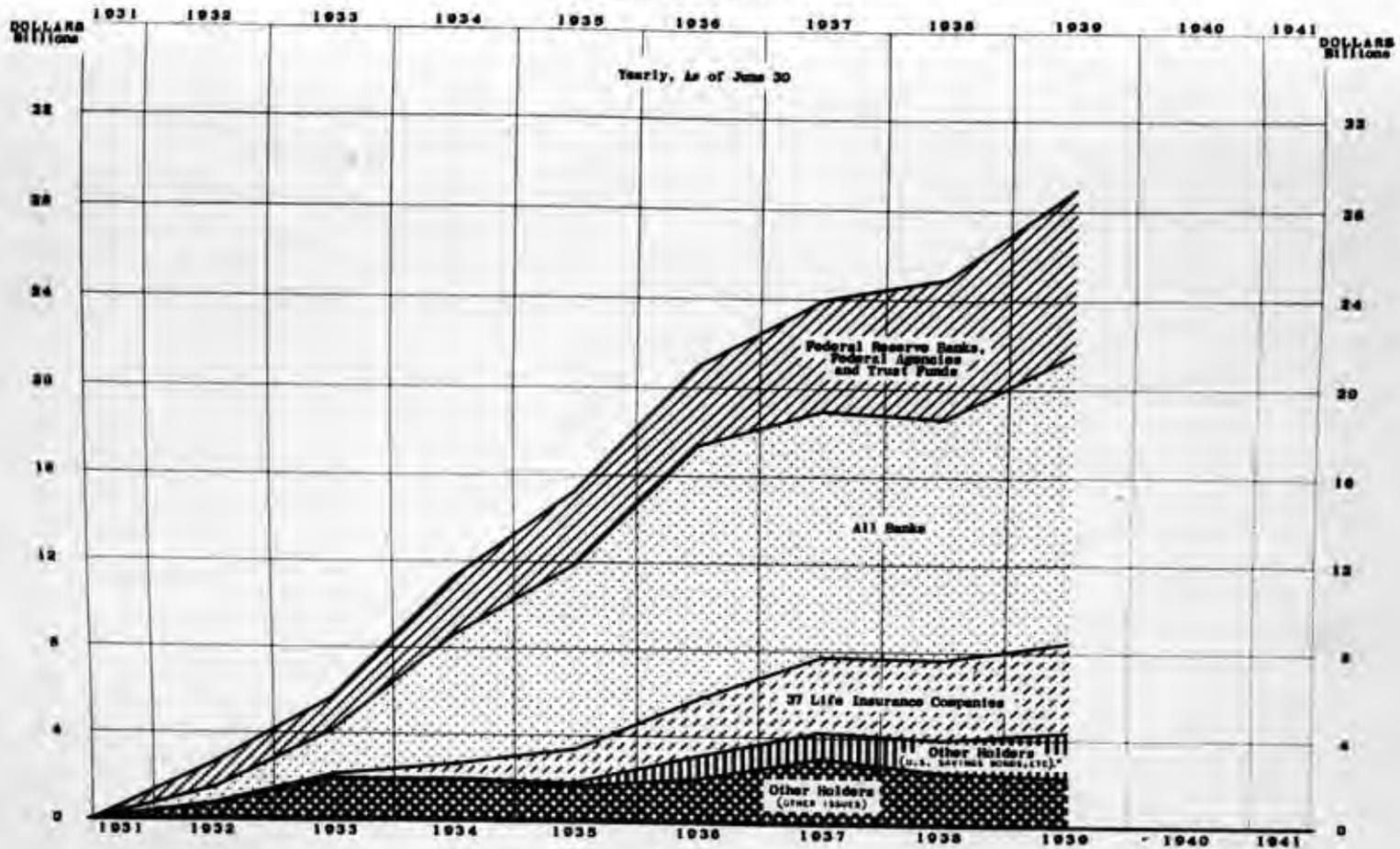
U.S. GOVERNMENT SECURITIES
 CASH
 LOANS
 OTHER SECURITIES



PRINCIPAL ASSETS OF SELECTED BANKS OUTSIDE OF NEW YORK CITY, DEC. 31, 1939
Expressed in Cents per Dollar of Deposits



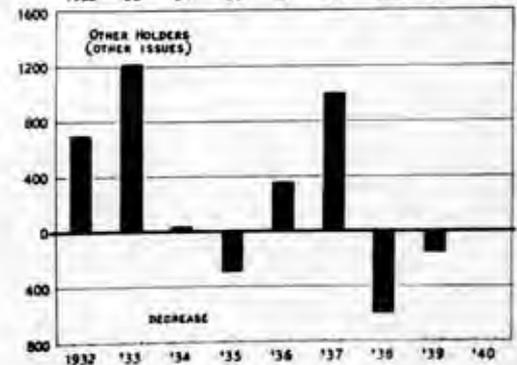
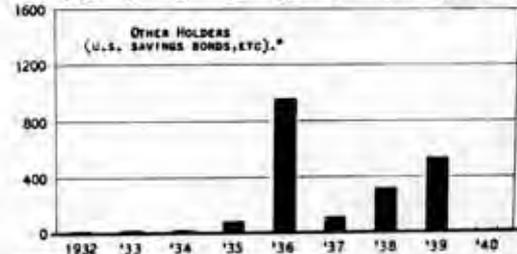
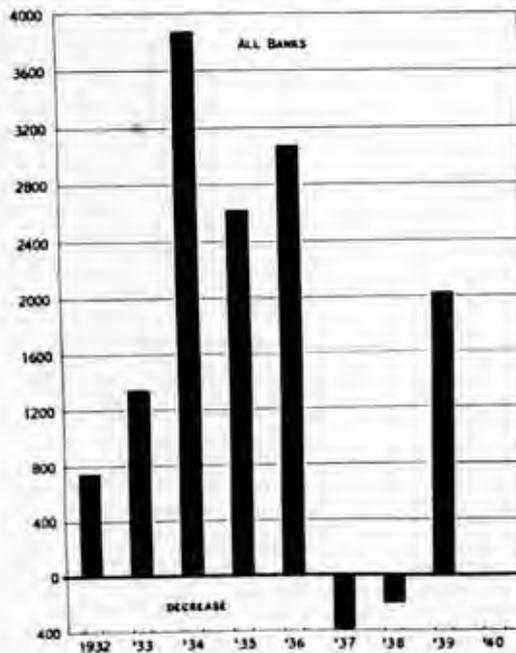
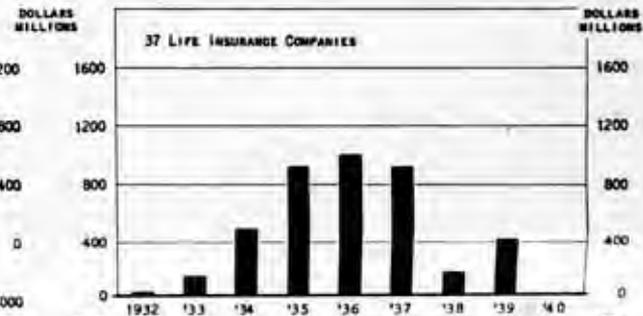
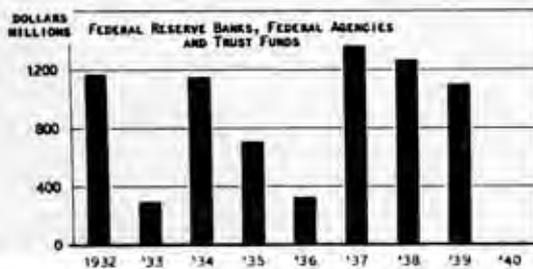
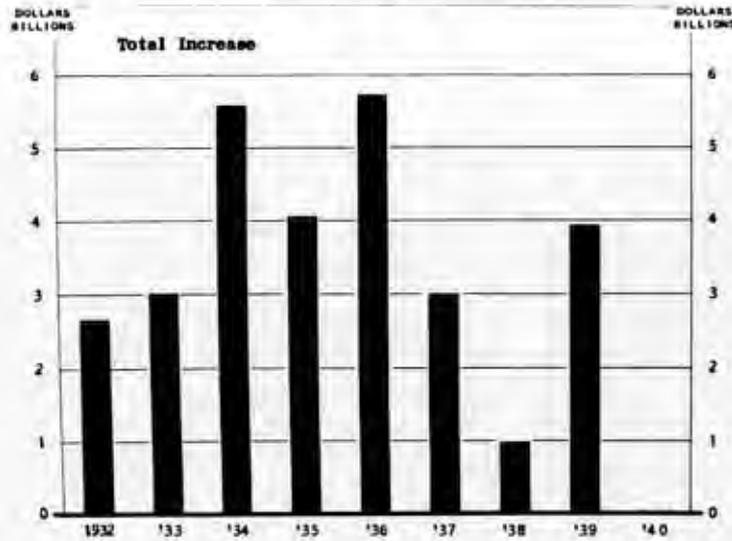
ABSORPTION OF THE INCREASE IN THE PUBLIC DEBT SINCE 1931,
 BY CLASSES OF HOLDERS
 Including Guaranteed Debt



*INCLUDES ADJUSTED SERVICE AND POSTAL SAVINGS BONDS

ANNUAL INCREASE IN THE DIRECT AND GUARANTEED PUBLIC DEBT AND ABSORPTION BY CLASSES OF HOLDERS

Fiscal Years 1932 to 1939



*INCLUDES ADJUSTED SERVICE AND POSTAL SAVINGS BONDS

January 30, 1940
12:36 p.m.

John L.
Sullivan: Hello.

HMJr: John.....

S: Yes, sir.

HMJr: Mr. Purvis is sitting here at my desk.

S: Yes, sir.

HMJr: He said a man from the Atlas Powder Company, German, is now over in the Bureau with a Mr. Riley on a closing agreement or on a ruling.

S: Yes.

HMJr: And he said -- Purvis said it's along the exact lines that you want it.

S: Yes.

HMJr: Now he said, if the Bureau could act quickly on it, that would be a formula and then he could go ahead very rapidly with the -- with the other, and he's blocked everywhere else. Could you call up Riley and post yourself?

S: Yes, sir. Do you want me to call you back?

HMJr: No, it will wait until two o'clock. But he's over there now and if this is what we talked about this morning.....

S: That's right.

HMJr:then there would be no reason to stall would there?

S: No. No.

HMJr: Well, you post yourself, you see? And -- so that by two o'clock when we see you we know what kind of proposal Atlas does bring in and whether it's the kind of thing that we can go along with.

S: Right.

HMJr: Thank you.

S: Thank you.

January 30, 1940
2:38 p.m.

Operator: Go ahead.

Outside
Operator: All right, Mr. Rentschler.

HMJr: Hello. Hello.

Gordon
Rentschler: Hello, Henry.

HMJr: Yes.

R: I just wanted to check with you. You, of course, knew about Don Brown passing out.

HMJr: Yes, I was very sorry to hear about it.

R: Yes, it's too bad. It was a blessing, really, as it turned out, Henry.

HMJr: Yes.

R: Now, Fred will be available any time after this afternoon. Now, what are your plans for tomorrow or Thursday.

HMJr: No, I can't do it because I'm not ready.

R: Oh, I see.

HMJr: What I am thinking of doing is this: The possibility of being in Hartford on Monday.

R: On next Monday?

HMJr: Yeah.

R: I see.

HMJr: That's what I have in mind.

R: Yes. But you have no program before that?

HMJr: Not to go to Hartford, no.

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R: Yeah. Well then -- or for him to come down to see you?

HMJr: No.

R: The reason I'm checking on it is depending on how his wife is he may get on down to Florida again.

HMJr: No.....

R: They let her out of the hospital down there.

HMJr: Well.....

R: She's back home, but he doesn't know what the next step is.

HMJr: Pratt
Well, we've asked/and Whitney through Captain Collins to have somebody here the first thing tomorrow morning.

R: Yes.

HMJr: I don't know who that request went to but to have.....

R: That's right. Gene Wilson has that and that will be done.

HMJr: Well, that -- that's the first thing.

R: In addition, the French fellows are all planning to be up there tomorrow.

HMJr: Where?

R: At Pratt and Whitney.

HMJr: I doubt it.

R: (Laughs) Well.....

HMJr: I mean.....

R:I mean -- they were just in here trying to see whether they couldn't get their permissions to go up there.

HMJr: Well, I don't know what French fellows you mean.

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R: Well this is Captain _____ and a lot of other fellows whose names I can't pronounce.

HMJr: Well that may be perfectly possible, but the head fellows are all down here.

R: Oh, they're there.

HMJr: Yeah.

R: Yes.

HMJr: But that's -- the thing I -- what I'm working at is Wilson will be here, and whoever else.

R: Yes.

HMJr: And then I'm thinking of -- of spending Monday at Hartford.

R: I see.

HMJr: Now.....

R: This special meeting with you and Fred then is not in a hurry at the present time?

HMJr: No, because I can't get to Hartford before then.

R: Yes, fine, and you can't take it up in Washington before.

HMJr: No, because we're doing this tool thing first.

R: That's right.

HMJr: I believe.....

R: Now then, in case he has to go on down then I'll.....

HMJr: Let him go.

R:-- I'll _____ with him for you.

HMJr: Let him go.

R: Yeah, then I'll work with you on it, Henry.

- 4 -

HMJr: That's all right.

R: But I'm going to stay here. I'm giving up any idea of holiday until we get all of these fellows in the clear.

HMJr: I see.

R: So I'm going to be right here. I may not be in the bank.....

HMJr: Yes.

R:but I'll be up at my place or I may be down in the country working with some of these other fellows. But I'll be available if you want anything.

HMJr: Thank you so much.

R: All right, Henry.

HMJr: Goodbye.

R: Bye-bye.

January 30, 1940
3:23 p.m.

HMJr: Hello.
Operator: The Finnish Minister was with Mr. Welles and he's going to call you back.
HMJr: Thank you.
O: Right.

3:54 p.m.

HMJr: Hello.
Sumner Welles: Hello, Henry.
HMJr: How are you?
W: How are you?
HMJr: Fine.
W: Many thanks for your letter.
HMJr: Oh.
W: Which I received while I was away. Incidentally, I hope when you leave next month you'll have better luck than I.
HMJr: Well, I.....
W: I've never known a filthier two weeks anywhere in my life.
HMJr: Why?
W: Why it was as cold as Greenland.
HMJr: For heavens' sakes.
W: And a north wind blowing that made you feel as if you were standing at the corner of St. Patrick's Cathedral in a March day in New York.

- 2 -

- HMJr: Well, I don't -- can't imagine anything worse.
- W: Oh, it was horrid.
- HMJr: I'm calling up about Colombia.
- W: Yes.
- HMJr: I made the suggestion -- I didn't -- on Monday; I didn't know you were back and then I was told you were back, that we try once more to get them together as a last effort.
- W: Fine.
- HMJr: Now, Traphagen is willing. I don't know whether the Colombians are or not.
- W: Well now, the Colombian Ambassador is waiting to see me now.
- HMJr: Oh.
- W: And Duggan or Berle, I forget, one of the two, told me about this.
- HMJr: It would be Berle.
- W: And would you like me to put it up to him?
- HMJr: Yes. I mean, my thought is this: We've been fooling around with this thing for three months now and I asked Traphagen whether he was willing to come down and just sort of sweat this thing through with the idea of yes or no and we'd sort of umpire it, and he said he'd be willing to.
- W: Well I think it's a good idea. Of course, I think the -- the real sweating, Henry, comes in our sitting down together as you and I have agreed from the beginning and being willing to sit, if necessary, for 12 or 14 hours.
- HMJr: That's what I suggested, and that they just keep sitting until they -- they can call -- the Colombian can call his President and Mr. Traphagen can call his committee on the phone and they just get down and quit this stuff at -- at arm's length.

- 3 -

W: Tell me, what would your idea be that both of them meet in your office first and then adjourn and have their talks or.....

HMJr: Yeah, they can have.....

W:-- or first meet and then sit with you?

HMJr: Well, I'm only here Thursday. I'm going up Thursday night with the President.

W: Yeah.

HMJr: I'll do it -- I'd put it up to the Colombian Ambassador, they could meet here at eleven with you and Jesse and myself and then adjourn and we could see them again after Cabinet. I understand they are going to have Cabinet Thursday - or they can meet first, either way.

W: What time is the President leaving?

HMJr: Thursday night. He usually leaves around midnight.

W: Midnight. Well, my suggestion then would be that you have your meeting with them first.

HMJr: Right.

W: With the possibility of their meeting again with us in the afternoon after Cabinet meeting.

HMJr: That's right. They could meet here at eleven.

W: At eleven?

HMJr: Yeah.

W: All right, Henry.

HMJr: Now I've refused -- Cotton has tried his best to get me to say that I'd put the pressure on them. I'm not going to put any pressure on them.

W: I quite agree.

HMJr: I mean.....

- 4 -

- W: I think any idea of that kind is absolutely fantastic and would be fatal to everything that we're trying to do.
- HMJr: Well, I refuse to put any pressure.
- W: I'm very glad.
- HMJr: And we'll do -- I want to do this one and then I'm through.
- W: Why is that?
- HMJr: Oh, well -- did you get a copy of my letter to Mr. Hull on Brazil?
- W: Well, you sent it to me.
- HMJr: Yes. Well, that explains it and I don't want to -- I mean, for reasons I don't know the Department didn't want the Treasury in on the Brazilian thing and I think.....
- W: Well Henry, there's some -- some misunderstanding, some misapprehension there.
- HMJr: Well, no. It's -- it's a long story and.....
- W: What.....
- HMJr: And I -- and I.....
- W: When I see you I can -- I can tell you what the facts there are.
- HMJr: And I -- I've told the President that after the Colombian thing is through to leave me out. And I'm afraid I'm not going to change, Sumner, on this one.
- W: Well, I think that would be a very serious blow because if this thing works that's the way then to handle it.
- HMJr: No, I'm through. I can't -- I can't have happen to me what's happened in the last couple of months -- what happened before. It has nothing to -- I have no complaint against you personally but there are

- 5 -

people in the Department who definitely don't want me to have anything to do with this thing and I can't fight the State Department personnel.

W: No, but I'm perfectly prepared to do that.

HMJr: Yeah. Well, I can't and evidently they can't be controled.

W: I'm perfectly prepared to do that.

HMJr: Well, I -- I.....

W: Well, let me have a chance to talk to you about it anyhow and let's try and get this thing to work, because I think it can.

HMJr: Well, you let me know after the Colombian goes.

W: All right, Henry. How late will you be at the office?

HMJr: Well, if I'm not here -- if.....

W: Well, suppose I leave word at your office tomorrow morning?

HMJr: That's all right.

W: Because I've got a -- we have people coming in after.

HMJr: That's all right.

W: And I'll make them the suggestion that they meet in your office at eleven.....

HMJr: Right.

W:with the possibility of meeting again later in the afternoon.

HMJr: That's right.

W: All right. Fine.

HMJr: Thank you.

W: Goodbye.

HMJr: Goodbye.

STRICTLY CONFIDENTIAL

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 30, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

In accordance with the instructions given me through Lieutenant McKay, there was a meeting held in Assistant Secretary Gaston's office this afternoon, attended by Mr. Gaston, Mr. Harris, Captain Puleston, Commander Thompson and myself.

It was decided that, as the first step in the investigation, Commander Thompson should go up to New York tonight and get in touch with the Customs Agents there, who have been working on this matter under Mr. Harris' instructions, and also with the Collector of the Port. After Commander Thompson reports back here we shall give you our ideas in regard to the manner in which further inquiries should be conducted in Mexico and possibly the Canal Zone.

I have given Commander Thompson copies of the pertinent memoranda.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 30, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was without feature today. After opening at 3.99-3/4, sterling fluctuated within a narrow range until late in the afternoon, then eased to close at 3.99-3/8.

Sales of spot sterling by the four reporting banks totaled £157,000, from the following sources:

By commercial concerns.....	£ 93,000
By foreign banks (Far East, Europe and South America).....	£ 64,000
Total.....	£ 157,000

Purchases of spot sterling amounted to £233,000, as indicated below:

By commercial concerns.....	£ 188,000
By foreign banks (Europe and Far East).....	£ 45,000
Total.....	£ 233,000

The following reporting banks sold cotton bills totaling £72,000, to the British Control on the basis of the official rate of 4.02-1/2:

£ 33,000 by the National City Bank
28,000 by the Guaranty Trust Co.
11,000 by the Chase National Bank
£ 72,000 Total

The other important currencies closed as follows:

French francs	.0226-1/2
Guilders	.5309-1/2
Swiss francs	.2242-1/2
Belgas	.1697
Canadian dollars	12-3/8% discount

We sold \$100,000 in gold to the National Bank of Belgium to be added to its earmarked account.

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

\$ 4,025,000	from Norway, shipped by the Bank of Norway to the Federal Reserve Bank of Denmark.
3,696,000	country from which shipped unknown, consigned to the Federal Reserve Bank of New York, to be earmarked for account of the National Bank of Denmark.
2,351,000	from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.
2,256,000	from England, shipped by the Bank of England to the Federal Reserve Bank of New York for account of the Swiss National Bank.
564,000	from England, shipped by the Bank of England to the Federal Reserve Bank of New York for account of the B.I.S.
<u>\$12,892,000</u>	Total

The disposition of the shipments from Norway and England is unknown at the present time.

The State Department forwarded to us a cable stating that the following shipments would be made from Bombay, India:

\$ 2,239,000	representing two shipments by the National City Bank, Bombay, to the National City Bank, New York.
929,000	shipped by the National City Bank, Bombay to the American Trust Company, San Francisco.
525,000	representing two shipments by a French bank to the Chase National Bank, New York.
347,000	representing two shipments by an Australian bank to the Bank of California, San Francisco.
315,000	shipped by a French bank to the French American Banking Corporation, New York.
297,000	shipped by the Netherlands Trading Society to the Chase National Bank, San Francisco.
<u>\$ 4,652,000</u>	Total

Of the above shipments, those arriving at San Francisco will be sold to the U. S. Mint there, and those consigned to New York will be sold to the U. S. Assay Office.

On the report of January 24 received from the Federal Reserve Bank of New York, giving the foreign exchange positions of banks and bankers in its district, the total position in all currencies was short the equivalent of \$20,611,000, a decrease of \$453,000 in the short position. The net changes in positions are as follows:

CONFIDENTIAL

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<u>COUNTRY</u>	<u>SHORT POSITION JANUARY 17</u>	<u>SHORT POSITION JANUARY 24</u>	<u>DECREASE IN SHORT POSITION</u>
England	\$ 9,914,000	\$ 9,979,000	\$ 65,000 (Increase)
Europe	7,567,000	7,350,000	217,000
Canada	84,000	79,000 (Long)	163,000
Latin America	377,000	238,000	139,000
Japan *	2,553,000	2,517,000	36,000
Other Asia	564,000	576,000	12,000 (Increase)
All Others	5,000	30,000	25,000 (Increase)
Total	<u>\$21,064,000</u>	<u>\$20,611,000</u>	<u>\$ 453,000</u>

* Includes Korea and Manchuria

The prices fixed for spot and forward silver in London underwent an abrupt decline today on small local speculative and Indian selling. At 21-1/16d, the spot price was off 3/4d, while the forward quotation declined to 20-15/16d, off 13/16d. The U. S. equivalents were 37.87¢ and 37.41¢ respectively.

In Bombay, the silver quotation continued to decline and the U. S. equivalent of today's price was 39.06¢, off about 3/8¢. According to a Reuters despatch from Bombay appearing on today's Dow Jones ticker, the Reserve Bank of India is purchasing silver from the Bazaars in order to prevent an undue depression of the price of silver in the Bombay market. It is understood, the Reuters despatch notes, that the Reserve Bank has bought back over 6,000,000 ounces of silver against sales made at an earlier date.

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

We made six purchases of silver totaling 506,700 ounces under the Silver Purchase Act. Of this amount, 222,200 ounces represented sales from inventory by two refining companies and the remaining 284,500 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 125,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 30, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Fletcher Warren, the Foreign Service Officer in Assistant Secretary Messersmith's Office in the Department of State who attends to contra-espionage and related investigations, telephoned me this noon. He stated that the State Department had not yet instituted any investigations in the United States with respect to the shipments destined to Russia which are being transhipped at Mexican ports, particularly Manzanillo. He said that if the Treasury Department was planning any investigation through its agents in this country, the State Department would hold off; otherwise the State Department would consider calling in the F.B.I. I told Mr. Warren that since the Treasury Department has the facilities itself for making certain inquiries, and particularly since our first information came from data based on inquiries of our own agents, the Secretary of the Treasury would presumably be disposed to utilize his own services. Mr. Warren said this would be entirely agreeable to the State Department, but asked that I confirm this with Secretary Morgenthau and call back the State Department so that the latter will know the proper course to follow.

I have learned that there has been no Consul stationed at Manzanillo since the office there was closed in January, 1930. Mr. Warren said there was a possibility that a Foreign Service Inspector might be travelling in Mexico within the near future. It is my understanding that the Standard Oil Company of California, through its Mexican Agency or subsidiary, provides oil bunkering facilities at Manzanillo.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 30, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Chen called on me this afternoon at 3 o'clock. He left with me for handing to the Secretary the attached copy of the treaty between Wang Ching-wei and the Japanese regarding the set-up of the so-called Puppet Government in China.

Mr. Chen also left the attached copy of a cablegram from Chungking and of a memorandum in regard to a tentatively suggested solution of the silver question in North China. I understand that the memorandum has been submitted by the Chinese Embassy to the Department of State. According to Mr. Chen's explanation, the formula involved constitutes a book entry by the Central Bank paying \$100,000 to the Relief Commission, who will then sell the sterling back to the Central Bank and in exchange obtain Fapi (Chinese National Notes), which Mr. Chen explained will amount to approximately 6,000,000 yuan.

Mr. Chen told me that he had seen Mr. Jesse Jones last week and again today. After the meeting today Chen asked Jones if the latter had any good news for him in regard to a possible loan to China. Jones replied that it was too early for good news, since question was still being debated in Congress and was quite complicated. Jones made no commitment to Chen but let the latter understand that if the Bill increasing the funds of the Export-Import Bank passes, China will get another credit of \$5,000,000. Furthermore, Mr. Jones appeared willing to consider the \$25,000,000 credit now outstanding a revolving one. Mr. Chen is to see Mr. Jones again next week. The Chinese Ambassador saw the President on January 26th and was encouraged by his cordial reception. Mr. Chen will be in town again on Friday. He hoped that I might then have some good news for him from the Secretary of the Treasury.



TELEGRAM FROM CHUNGKING

JAN. 27, 1940

No. 1519 JANUARY 27

REFERRING TO OUR TELEGRAM 1512 AFTER FURTHER CONSULTATION FOLLOWING FORMULA FOR SOLUTION SILVER QUESTION TENTATIVELY AGREED UPON BETWEEN CHINESE GOVERNMENT AND BRITISH AMBASSADOR ON THE UNDERSTANDING BRITISH GOVERNMENT GUARANTEE NO FURTHER DIFFICULTIES IN THIS MATTER WILL ARISE FROM ANY QUARTER (PARA)

(1) AMOUNT OF SILVER EQUIVALENT TO 100,000 POUNDS TO BE SOLD AT WORLD MARKET RATE FOR STERLING WHICH SHALL BE ENTRUSTED TO INTERNATIONAL CHINA FAMINE RELIEF COMMISSION AND USED EXCLUSIVELY FOR NORTH CHINA RELIEF (STOP) COMMISSION TO SELL ALL STERLING FOR FAPI AT OFFICIAL RATE ONE SHILLING TWO QUARTER PENCE ONLY TO CHINESE BANKS WHO ARE OWNERS SILVER (PARA)

(2) BALANCE SILVER TO BE DEPOSITED IN THE NAME OF CHINESE BANKS CONCERNED WITH NEUTRAL BANK (WE HAVE IN MIND NATIONAL CITY BANK OF NEW YORK WHICH ALSO SUGGESTED BY BRITISH AMBASSADOR BEING ONLY NEUTRAL BANK WITH ROOM IN VAULTS SUFFICIENT FOR SILVER IN QUESTION) FOR SAFEKEEPING UNTIL END OF HOSTILITIES (PARA)

BRITISH AMBASSADOR HAS SUBMITTED ABOVE TO LONDON (STOP) CONTACT STATE DEPARTMENT.

WAICHLAPU

FORMULA FOR THE SOLUTION OF THE SILVER QUESTION IN
NORTH CHINA

The following formula for the solution of the silver question in North China has been tentatively agreed upon between the Chinese Government and the British Ambassador on the understanding that the British Government guarantees that no further difficulties in this matter will arise from any quarter:

(1) An amount of silver equivalent to 100,000 pounds is to be sold at world market rate for sterling which shall be entrusted to the International China Famine Relief Commission and used exclusively for North China relief. The Commission is to sell all sterling for Fapi (Chinese legal tender) at the official rate of 1 shilling $2\frac{1}{4}$ pence only to the Chinese banks who are owners of the silver.

(2) The balance of the silver is to be deposited in the name of the Chinese banks concerned with a neutral bank (preferably the National City Bank of New York which is the only neutral bank with room in vaults sufficient for the silver in question) for safekeeping until the end of the hostilities.

The Chinese Embassy,

Washington, January 29, 1940.

CHINESE SILVER IN NORTH CHINA

Tientsin: Approximately 28,000,000 ounces in the vault of the Central Bank of China in the French Concession.

Peiping: Approxiamtely 13,400,000 ounces in the vaults of the French and Belgain Banks.

January 23, 1940

The full text of the agreement signed on December 30, 1939, between Wang Ching-wei and the Japanese revealed by Kao Tsung-wu and Tao Hai-sheng:

Fundamental points for readjustment of the new Sino-Japanese relations:

- (1) The Governments of Japan and China, in accordance with the principles prescribed in Annex One, readjust the new relations between the two countries.
- (2) The Chinese Government recognizing the existing facts accomplished during the incident and prior to the restoration of peace between contracting parties gradually readjust on the basis laid down in the above Article their relations so far as permitted by circumstances.
- (3) The Chinese Government shall recognize the continuance of special state of affairs given rise to by forces of circumstances during the incident.
- (4) The said special state of affairs is to be progressively adjusted according to the principles for readjustment of the new Sino-Japanese relations and in concordance with changing events and general settlement of the incident.
- (5) As to the execution of the two aforementioned Articles the ways and means are to be decided upon separately.

I

The principles for readjustment of the new Sino-Japanese relations with a view to attaining common goal of establishing peace and new order in the Far East, Japan, China and Manchukuo shall maintain among themselves neighborly relations and close cooperation. The basic principles, therefore, are as follows:

- (a) To establish on basis of reciprocity general cooperation between Japan, China and Manchukuo, especially friendly relations common front against Communism and economic collaboration.
- (b) To establish a zone of strongest Sino-Japanese solidarity in North China and Mongolia with regard to national defense and economic development. For the reason of checking the spread of Communism, Mongolia shall be designated as an area where Japanese paramount position both militarily and politically shall especially be established.
- (c) To establish a zone of strongest Sino-Japanese economic solidarity in lower Yangtze Valley.
- (d) To establish Japanese paramount position in certain designated islands along the sea coast of South China.
- (e) As for the details for the execution of the foregoing Articles the contracting parties agree to

take as basis the principles embodied in II

II

The main items for the readjustment of the new Sino-Japanese relations.

- A. Regarding the principle of Friendly and neighborly relations. In order to affirm their respect for intrinsic intimacy of their relationship to achieve general and harmonious cooperation to safeguard peace in the Far East and to prove their neighborliness by concrete facts, Japan, China and Manchukuo shall seek for ways and means to establish a solid block among themselves through mutual assistance and promotion of friendly relations.
 - (1) China shall recognize the Empire of Manchukuo. Japan and Manchukuo shall respect the territory and sovereignty of China. Japan, China and Manchukuo shall establish their new relation.
 - (2) Japan, China and Manchukuo shall abandon all those acts and causes relating to politics, diplomacy, education, propaganda, trade and so forth that are detrimental to mutual friendship. Such acts and causes shall also be prohibited hence for all in future.
 - (3) Japan, China and Manchukuo shall hereafter conduct their diplomacy on basis of mutual cooperation. In their relations with third Powers they shall not act contrary to such basic principle.
 - (4) Japan, China and Manchukuo shall cooperate to amalgamate, create and develop their culture.
 - (5) Japan is to appoint necessary advisers to new Central Government to participate in its work of reconstruction. In those organizations located in zones where strongest Sino-Japanese solidarity is to be maintained and other specially designated areas, Japanese advisers and staff members are to be placed.
 - (6) Following progressive and concrete realization of neighborly relationship between Japan, China and Manchukuo, Japan will accordingly give consideration for restoration of concessions and abolition of extraterritoriality.
- B. Regarding the principle of mutual defense. Japan, China and Manchukuo shall cooperate in checking the spread of Communism and in maintaining common peace and order.
 - (1) Japan, China and Manchukuo shall undertake to weed out in their respective territories Communists and Communist organizations. They shall also cooperate and mutually assist in Anti-Communist propaganda and intelligence work and other related matters.
 - (2) Japan and China shall jointly execute their Anti-Communist program. In order to attain this aim Japan shall station necessary troops at strategic points in North China and Mongolia.
 - (3) Separate Anti-Communist Alliance shall be concluded.

- (4) According to actual situation either in whole or in part those troops stationed outside of areas designated in article two shall be withdrawn as rapidly as warranted by circumstances. But all Japanese troops now stationed in North China and the lower Yangtze Valley shall remain until peace and order are firmly reestablished.
- (5) In order to jointly maintain peace and order, China shall concede Japan the right to station troops and warships at certain specially designated points along the Yangtze Valley and in certain specially designated islands along the sea coast of South China.
- (6) Japan reserved for herself the right to claim and supervise for military purposes those rail-ways, air lines, postal and telegraphic services, important harbors, and water routes in those areas garrisoned by Japanese troops.
- (7) The Chinese police, Army and other armed forces and their equipments and military establishments within the areas garrisoned by Japanese troops should be reduced temporarily to minimum requirement for internal order and national defense. Japan will participate in China's efforts to organize her army and police through appointment of advisers and training officers and supply of arms and munitions.

C. Regarding the principle for economic cooperation. To prove their solidarity of interest and determination for mutual defense by concrete facts and to make up their mutual deficiencies, Japan, China and Manchukuo agree to adopt the guiding principle of reciprocity in developing their industries and promoting their economic welfare.

- (1) To put the afore-mentioned principle as well as the following stipulations into practice, Japan, China and Manchukuo shall conclude necessary agreements with regard to the development of resources, customs, revenues, trade, aviation, communications, postal and telegraphic services, astronomical and general surveys, and so forth.
- (2) In view of economic solidarity and common defense, China shall grant Japan special privileges and facilities to develop and utilize resources especially those underground resources in North China and Mongolia. Again in view of same economic solidarity, Japan should have necessary facilities for development and utilization of specially designated resources even in areas outside of North China and Mongolia.
- (3) In all other industries, Japan will accord China necessary aid for their development. With regard to agriculture, Japan will assist China in its improvement so as to increase its production and stabilize the livelihood of the people.
- (4) Japan will accord China necessary aid for formulation of China's financial and economic policy.
- (5) With regard to trade, China shall adopt appropriate tariff rates and customs system to promote commerce in general between Japan, China and Manchukuo.

At the

At the same time, China shall facilitate and rationalize supply and demand of raw materials between Japan, China and Manchukuo especially with reference to North China.

- (6) With regard to the development of China's communications, postal and telegraphic services, astronomical and general surveys, Japan will lend China the necessary assistance and even active participation. The development of Aviation in whole China, railroads in North China (including Lunghai Line), ocean transportation between Japan and China and that along the Chinese coast, river transportation in the Yangtze, and postal and telegraphic services in North China and the lower Yangtze Valley should be the main items for Japanese active participation in the field of communications.
- (7) Japan and China shall cooperate in reconstructing New Shanghai.

Articles Attached:

- (1) The New Central Government shall indemnify those Japanese nationals who have sustained in China losses in rights and privileges since the beginning of the China incident.
- (2) Prior to the establishment of the new relations between Japan and China the New Central Government shall confidentially consult Japan with regard to all important matters affecting Japan.

Additional stipulations regarding the fundamental points for the readjustment of the new Sino-Japanese relations:

- A. The main provisions regarding the readjustment of relations with provisional government:
 - (1) The term "North China" herein employed is intended to designate in general the Hopei, Shansi and Szechwan Provinces situated south of The Great Wall (The Great Wall itself is not included) and that part of the Honan Province lying north of the old course of the Yellow River.
 - (2) In view of special character of North China, in that it is the zone where absolute solidarity between Japan, China and Manchukuo exists, especially with reference to national defense and economic development, and in accordance with the principles laid down for the readjustment of the new Sino-Japanese relation, the Political Council of North China shall be established for the purpose of settling locally those matters via-a-via Japan and Manchukuo.
 - (3) The matters regarding authority and organization of the said Political Council in North China shall be discussed and determined in the Central Political Council, such matters shall be taken up for agreement between Wang Ching-wai and Wang Ksh-ming.
 - (4) The Authority and organization of the Political Council of North China shall be fixed in such a way as to enable it to accomplish concretely the following tasks when new Sino-Japanese relations have been normalized. Even prior to that time, however, efforts shall be made to bring about the progressively

Desired

*prior, however, to the establishment of the Central Political Council.

desired objective. The name of Provisional Government shall be abolished. The Political Council of North China should temporarily permit the continued existence of those accomplished facts in order to effect smooth transfer of political authority so that the people will not suffer from sudden change.

1. Regarding common defense especially Japanese participation in checking Communism and maintaining order:
 - a. Relating to the settlement of matters connected with the stationing of Japanese troops;
 - b. Relating to the settlement of matters connected with Japanese participation in checking Communism and maintaining order;
 - c. Relating to the settlement of matters connected with military cooperation between Japan and China.
2. Regarding economic cooperation especially the development and utilization of underground resources and supply and demand of raw materials and commodities between Japan, China, Manchukuo and North China:
 - a. Relating to the settlement of matters raised by the problem of according Japan necessary special facilities in developing and utilizing underground resources;
 - b. Relating to the settlement of matters raised by the problem of rationalization of supply and demand of raw materials and commodities between Japan, Manchukuo, Mongolia and North China;
 - c. Relating to the settlement of matters connected with Japanese participation in regulation of currency and exchange between Japan, Manchukuo, Mongolia and North China;
 - d. Relating to the settlement of matters connected with Sino-Japanese cooperation in aviation, railway transportation, postal and telegraphic services, and ocean transportation along main trade route.
3. Regarding the settlement of matters connected with the employment of Japanese advisers and staff members.
4. During the period when there is need for perpetuation of Federal Reserve Bank system and other systems therewith connected, the Central Government shall lend to it necessary assistance.
5. The temporary regulations governing the main matters of division of powers between the Political Council of North China and the New Central Government:
 - a. In order to defray necessary expenses and safeguard necessary income, the Political Council of North China shall be temporarily

entitled

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entitled to certain stipulated amount of surplus of customs revenues and of salt tax and salt yields from consolidated tax, though the said revenues and taxes are, in principle, the sources of income for the Central Government; the power of supervision over the above-mentioned national taxes shall be entrusted by the New Central Government to the Political Council of North China;

- b. The Political Council of North China shall be given the right to float loans within certain limits;
- c. The Government properties shall belong to the Political Council of North China as they do at present, but new arrangements regarding those properties shall be made gradually;
- d. The customs, postal service and aviation should eventually be placed under the control of the New Central Government, but the change of the present state of affairs shall be effected progressively;
- e. The administration and the management of transportation on the Lunghai Railway shall be placed under the Political Council of North China;
- f. Excepting officials of Ministerial rank, the authority for appointing all its officials shall be given to the Political Council of North China;
- g. Diplomatic negotiations with third Powers shall be conducted by the Central Government. Negotiations for the settlement of local affairs with Japan and Manchukuo shall, however, be undertaken by the Political Council of North China.

B. Main provisions regarding the readjustment of relations with the Reformed Government.

- (1) Though the Reformed Government should be induced to amalgamate eventually with the Central Government, its stand shall be respected so that it can remain stable and discharge of duties prior to the establishment of the New Central Government.
- (2) Though the establishment of the Political Council after the inauguration of the New Central Government,* the prestige and standing of important members of the latter organization should be given full consideration by Wang Ching-wel.
- (3) After the establishment of the New Central Government and dissolution of the Reformed Government, the former shall temporarily permit the continued existence of the accomplished facts so that the transfer of the political authority will be smoothly made and the people will not suffer from the sudden change.
- (4) In the area of the lower Yangtze Valley where the strongest Sino-Japanese economic solidarity is to be realized, Japan's special demands are as follows:

1. .

* Not to be spared by virtue of the New Central Government.

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1. Regarding New Shanghai:

- a. Relating to matters connected with Japanese participation in reconstructing a New Shanghai;
- b. Relating to the settlement of matters connected with the stationing of Japanese troops in New Shanghai;
- c. Relating to matters connected with Japanese participation in establishing and improving aviation, important ocean transportation, and postal and telegraphic services;
- d. Relating to the settlement of matters connected with Japanese participation in other enterprises in New Shanghai.

8. In order to expedite realization of the above-mentioned Japanese demands, necessary arrangements for establishing Sino-Japanese economic consultative organization and the like should be planned and put into effect.

C. Main provision regarding the readjustment of relations with the United Autonomous Government of Mongolia.

- (1) The term "Mongolia" herein employed is intended to designate in general the territory north of the Inner Great Wall (The Inner Great Wall itself is included).
- (2) In view of the special character of Mongolia in that it is the zone where the strongest solidarity between Japan, China and Manchukuo in matters relating to national defense and economic development exists and in the fields outside of diplomacy (negotiations with Japan and Manchukuo to be excepted), such as administration, legislation, jurisdiction, military affairs, and negotiations with Outer Mongolia, the Central Government shall recognize that Mongolia should possess broad autonomous powers and should form highly Anti-Communist autonomous area on the basis of the accomplished facts.
- (3) In order to establish the relationship between the United Autonomous Mongolian Government and the Central Government prior to the convocation of the Central Political Council, the following items shall be agreed upon in written documents between Wang Ching-wei or his representative and Prince Teh or his representative in conference:
 - a. The Central Government recognizes the fact of the United Autonomous Mongolian Government's being highly Anti-Communist and autonomous.
 - b. Relating to the adjustment of the relations between the two regimes, separate agreement shall be made after the establishment of the New Central Government with the present understanding as a basis.
- (4) After the above-mentioned understanding is made the United Autonomous Mongolian Government shall dispatch delegates to participate in the Central Political Council.

(5)

(5) In the Central Political Council no discussion shall be allowed on matters lying outside of the scope prescribed by the understanding embodied in Article three.

D. Regarding Amoy. Wang Ching-wei shall recognize the fact that Amoy is a special administrative area.

E. Regarding the specially designated islands along the sea coast of South China. Among the specially designated islands along the sea coast of South China, the Hainan Island shall be given a local administrative organization (including departments for military affairs) placed directly under the control of the New Central Government. In view of the paramount position that Japan enjoys in that island the said political organization shall be empowered to dispose of the following matters raised by Japanese demands:

- (1) Those connected with the stationing of Japanese troops;
- (2) Those connected with the development and utilization of specially designated resources indispensable for national defense;
- (3) Those connected with the Sino-Japanese cooperation in military affairs and in the maintenance of order;
- (4) Those connected with aviation, postal and telegraph services, and ocean transportation.

The above-mentioned governing principle will be applied to our demands which should be agreed upon later between Japan and China and also to matters connected with China's internal affairs that should be regulated by herself.

The Chinese Embassy,
Washington, D. C.

JT

GRAY

PARIS

Dated January 30, 1940

Rec'd 4:22 p.m.

Secretary of State,
Washington.

148, January 30, 5 p.m.

FOR THE TREASURY FROM MATTHEWS.

Under Article VIII of the Franco-Turkish agreement of August 23, last (transmitted with the Embassy's despatch No. 4984 of September 9, 1939) it was laid down that payments for imports of Turkish merchandise into France by the "General-Turkish Commercial Company" should be excepted from the provisions for settlement under the clearing arrangement set up under said agreement. Six per cent on these payments was to be paid into a special account in francs opened with the Turkish bank of issue for its free disposal and of the balance 25% was to be applied to the settlement of commercial arrears owing by Turkey and 75% to the settlement of certain non-commercial debts.

(END OF SECTION ONE)

BULLITT

NPL

JT

GRAY

PARIS

Dated January 30, 1940

Rec'd 3 p.m.

Secretary of State,
Washington.

148, January 30, 5 p.m. (SECTION TWO)

A rider dated January 8, 1940 to the Ambassador referred to above (published in the JOURNAL OFFICIEL of January 28, 1940) reduces from the foregoing 25% to 10% the amount to be applied to the settlement of commercial arrears and also modifies the basis of settlement of commercial arrears owing by Turkey as defined under article 9 of the payments agreement of August 23, 1939.

The securities market was again inactive and dull and most securities including rentes showed moderate recessions. Official exchange rates are not at the same level.

(END MESSAGE)

BULLITT

CSB

January 31, 1940

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during January 1940.

RB

Attachment

Monthly report on projects in the Division of Tax Research,
January, 1940

1. War profits and excess-profits taxes

A memorandum has been prepared outlining several research projects which might be profitably undertaken in connection with the study of the war profits and excess-profits taxes. A bibliography relating to these taxes has also been prepared. (Mr. Shoup)*

2. Special defense taxes

The technical problems involved in the suggestion that a flat percentage increase in the present income and other taxes might be imposed are being analyzed. The analysis will include a summary of the congressional history of similar suggestions and of the procedures used by some of the foreign countries and our States in levying temporary taxes. (Mr. Mills, Mr. Copeland and Mr. Atlas)

*Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

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3. Possible revenue sources

Memoranda have been prepared on various methods of raising additional revenue including the possibilities of (a) increasing the annual revenues from the income, estate and gift taxes by \$500 million and (b) raising \$500 million from additional taxes collectible in the fiscal year 1941 for defense tax purposes. (Mr. Shere, Mr. Atlas and Mr. Mills)

4. Inventory of tax proposals

An inventory of proposals for raising revenue and improving the tax system which have been considered in the Treasury from time to time is in final stages of preparation. This compilation contains the revenue estimates so far as available, a brief appraisal and references to the research memoranda that are available in the files. (Mr. Shere, Mr. Mills and Mr. Gordon)

5. Taxpayers' opinions

The report summarizing recommendations submitted by taxpayers at conferences in the Treasury during the months of October, November and December was submitted to Mr. Hanes on December 29, 1939. Revision of the manuscript has continued during the present month (January). (Revisions by Mr. Ecker-Racz and Miss Wells)

- 3 -

6. Cosmetics tax

Pursuant to the request of the Subcommittee on Taxation of the Committee on Ways and Means a study of the cosmetics tax has been prepared. This report is now being edited. (Mr. Shere, Mr. Farioletti and Mr. Campbell)

7. Certificate plan for a processing tax

A revised report based on memoranda covering the economic, financial and tax aspects of the income certificate plan for agriculture was completed and submitted by the Secretary to the President. (Mr. Ecker-Racz)

8. Income tax study (WPA)

The study of income tax returns carried on at Philadelphia with WPA funds since October 1938 is continuing. During the month special consideration was given to the portions of the study relating to an analysis of dividends and capital gains and losses. (Mr. Blough and Mr. Shere)

9. Tax-exempt securities

Work is continuing on a report to show the distribution of tax-exempt securities by net income brackets with particular reference to holdings of such securities by persons in high income brackets. (Miss Coyle)

10. Income tax

- (a) Personal exemptions, the credit for dependents and the earned income credit.

A report analyzing the levels of personal exemptions, credit for dependents and the earned income credit and the economic and social bases for such allowances together with the effects of various methods of changing them has been prepared and is being edited. (Mr. Shere, Mr. Atlas, Miss Coyle, Mr. Mills and Miss Hughes)

- (b) Capital gains and losses

Studies of available statistics relating to capital gains and losses and also of the desirability of changing the holding periods by shortening the period for long-term capital gains and losses to one year have been prepared and are being reviewed. (Mr. Shere and Miss Coyle)

11. Estate tax

Work is continuing on a report comprising a description of the problem of illiquidity of estates and possible solutions, together with an analysis of proposals to exclude from gross estate (a) insurance used in payment of tax and (b) special securities issued by the United States Government used in payment of tax. (Mr. Shere and Mr. Mills)

- 5 -

12. Incentive taxation proposal

The proposal to reduce income tax rates of taxpayers investing certain amounts of their income in enterprise is being analyzed. (Mr. Ecker-Racz and Mr. Farioletti)

13. State and local finance

Information on State and local laws, rates and collections is being kept current so far as practicable. Material is being collected with respect to (a) the flow of Federal, State and local automotive funds and (b) Federal grants in aid to States. (Mr. Ecker-Racz, Miss Wells and Mr. Mannen)

14. Data on public employees

The Division has published in the Treasury Bulletin for January 1940 a report showing the estimated number and compensation of Federal, State and local public employees by size classes of compensation, 1937-1938. (Mr. Ecker-Racz. The basic data for the study were prepared by Mr. Kilpatrick who is no longer an employee of the Division.)

15. Foreign taxes

The Division is continuing to compile information on foreign taxes and foreign tax systems. Brief reports

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are prepared from time to time on recent changes in the tax systems of major foreign countries. (Mr. Shere, Mr. Atlas and Miss Hughes)

16. Articles

(a) The Division supplied Mr. Schwarz, at his request, with factual data to be used in connection with a reply to an article by Senator Byrd entitled "Your Children's Debts." (Mr. Shere and Mr. Atlas)

(b) At the request of the Accounting Forum, New York, there is in preparation an article relating to averaging devices and the net loss carryover under income tax law. (Mr. Blough and Mr. Atlas)

17. TNEC studies

Pursuant to our earlier agreement the Division submitted comments to Mr. Willard Thorp, Department of Commerce, at his request, regarding the chapter on "Consolidated income tax returns by inter-affiliated corporations" prepared by Mr. C. J. Hynning in connection with the TNEC studies of corporation taxes. (Mr. Blough and Mr. Shere)

18. Reviews of publications, etc.

The Division reviewed Statistics of Income for 1937, Part 2. (Mr. Shere and Miss Hughes)

RB

- 7 -

19. Statistics

In connection with its supervision of the statistical work of the Bureau of Internal Revenue the Division reviewed and examined several proposals for special statistical tabulations from income and estate tax returns. (Mr. Blough, Mr. Shere and Mr. Campbell)

20. Correspondence

The Division handled correspondence pertaining to tax problems. (Staff members)

JT

GRAY

PARIS

Dated January 31, 1940

Rec'd 5:29 p.m.

Secretary of State,
Washington.

153, January 31, 7 p.m.

FOR THE TREASURY FROM MATTHEWS.

Governor Fournier of the Bank of France presented his annual report at a meeting of the shareholders today. He reviewed the great progress made by France in the financial, monetary, and economic fields up to the outbreak of war - - emphasizing the small degree of exchange fluctuations, the successful operations of the stabilization fund, mass repatriations of capital, and the consequent increases in bank and savings banks deposits and expressing satisfaction with the Bank of France's open market operations inaugurated in 1938. Governor Fournier took justifiable pride in the bank's handling of developments just preceding the outbreak of war and during the remainder of the year in the face of the great mechanical difficulties resulting from moderation of personnel, et cetera. (END SECTION ONE).

BULLITT

NPL

JT

GRAY

PARIS

Dated January 31, 1940

Rec'd 5:48 p.m.

Secretary of State,
Washington.

153, January 31, 7 p.m. (SECTION TWO)

He says: "In those critical hours the French credit mechanism gave proof of its strength and elasticity. Banks and savings banks with windows open assume all reimbursements of deposits which were demanded of them. The assistance which the Bank of England furnished those establishments and the aid in a general way which it gave the national economy to permit it to get through a particularly difficult period resulted in our important expansion of its portfolio: between the 17th of March and the 7th of September the latter increased by 14,000,000,000. At the same time thirty-day advances rose from 400,000,000 to more than 2,400,000,000. He also points out that the discount rarely was maintained at 2% whereas in 1914 it was raised to 6% and remained later at 5% for many years.

BULLITT

NPL

JT

GRAY

PARIS

Dated January 31, 1940

Rec'd 5:18 p.m.

Secretary of State,
Washington.

153, January 31, 7 p.m. (SECTION THREE)

He spoke of the government's ease in financing its rearmament program largely by short term borrowing, of the banks assistance in obtaining subscriptions to armament and national defense bonds, and mildly discouraged the Govern^{ment} from seeking additional advances from the Bank of France. He concluded with a few paragraphs on the wartime necessity for the establishment of a system of exchange control and the difficulties of its inauguration without trained personnel and with a brief paragraph in praise of the Franco-British financial accord.

The application of the domestic price control measures embodied in the decree published in the JOURNAL OFFICIEL of September 16 (my telegram No. 1999, September 16, noon and Embassy's despatch No. 5225 of November 1, 1939) has revealed certain gaps.

BULLITT

NPL

JT

GRAY

PARIS

Dated January 31, 1940

Rec'd 6 p.m.

Secretary of State,
Washington.

153, January 31, 7 p.m. (SECTION FOUR)

To help close them in the battle to keep down prices by legislation a further decree is published in the JOURNAL OFFICIEL of today forbidding merchants and producers (one) to hold back, for speculative purposes, materials or commodities intended for sale, or to refuse to satisfy normal orders of clients; (two) to make the sale of any product, material, or commodity contingent upon the concomitant purchase by the client of other material, products or commodities or to require the purchase by the client of an imposed quantity; and, (three) to limit the sale of certain product, material, or commodities to certain hours when enterprises or shops concerned remain open for the sale of other merchandise. It is further provided that concerns closed by the authorities for infractions of price control regulations must continue for the first month to pay the usual salaries and allowances to personnel. The efficacy of this or similar measures in the long run is open to some skepticism

-2- #153, Jan. 31, 7 p.m. (SEC. FOUR) from Paris

skepticism, though with rigid enforcement it may serve as a helpful temporary deterrent to the upward price march.

BULLITT

NPL

JT

GRAY

PARIS

Dated January 31, 1940

Rec'd 7:27 p.m.

Secretary of State,
Washington.

153, January 31, 7 p.m. (SECTION FIVE)

For various reasons partly because of the restricted scope of powers provided and absence of effective penalties for infractions under the arrete published in the JOURNAL OFFICIEL of September 2 relating to the requisition of the personnel and barges, et cetera, of inland waterway transportation (Embassy's despatch No. 4915 of September 5, 1939) the government published a decree and arrete in today's JOURNAL OFFICIEL conferring necessary powers of requisition of both on the Minister of Public Works and Transport and providing for severe penalties for infractions of the decree.

The securities market was again in the doldrums and the weaker tendency continued. Moderate losses were registered throughout the list. The morthead settlement was effected without difficulties the carryover rate on behalf of official market being one-half per cent, (compared with seven-eighths per cent at January 15 and $2\frac{1}{4}\%$ at the end of December) and 5% on the outside market (compared with $5\frac{1}{2}\%$ at the end of December). (END OF MESSAGE)

BULLITT

NPL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 31, 1940.

TO Secretary Morgenthau

FROM Mr. Haas *HA.*

Subject: Notes on meeting held in Secretary Morgenthau's office on January 31, 1940, from 9:15 A.M. to 11:30 A.M., on ways and means to secure adequate machine tools in order to increase sharply the production of airplane engines in the United States.

Present: For the entire meeting:

Secretary Morgenthau

Mr. J. G. Ward, General Manager,
Pratt-Whitney Engine Company.

Captain Collins

Mr. Haas

Came into the meeting at 10:00 A.M.:

Mr. Charles J. Stillwell, President, and
Mr. McDonald, Vice President and Treasurer,
Warner-Swasey Machine Tool Manufacturers.Mr. Tell Berna, representing the
National Machine Tool Builders' Association.

Came into the meeting at 11:00 A.M.:

Mr. Purvis, and
Mr. Bloch-Laine, representing the
Anglo-French Purchasing Commission.Captain Jay' maillet, and
Mr. Baker, Machine Tool Experts for the
Anglo-French Purchasing Commission.

Came into the meeting at 11:15 A.M.:

Mr. O. T. Kreusser, General Manager,
Allison Company.Mr. Albert Bradley, Vice President,
General Motors Corporation.*Confidential*

Secretary Morgenthau -2-

In order to furnish Mr. Ward with the necessary background, the Secretary explained that for the President he was attempting to work out with the industries involved ways of eliminating the bottlenecks obstructing the production of airplane engines. The first problem, the Secretary said, was to take care of the domestic situation. This having been accomplished, the industries would be in a position to handle such orders as may later come from the Allies.

The Secretary told Mr. Ward that he understood his industry (airplane engines) was having some difficulty in securing the necessary machine tools. Mr. Ward commented that the real difficulty was getting the tools in time.

The Secretary went on to explain that the representatives of the machine tool builders were here yesterday and that they did not have any comprehensive picture of the machine tool requirements of airplane engine manufacturers. In order to work out of the situation, the Secretary said it would be necessary to know from airplane engine manufacturers (1) what their machine tool orders were and when delivery was needed to clear up their current production situation, and (2) what their requirements would be if the additional Allied orders came in. The Secretary explained that the representatives of the machine tool industry were coming back Wednesday of next week, when they would have a clear picture of their whole order situation.

The Secretary indicated that the machine tool representatives yesterday had suggested, as an aid to solving this situation, the postponement of Russian and Japanese machine tool orders. He also said that one of the important questions which the Allies would have to determine was whether they wanted machine tools or airplanes. He also mentioned that Mr. Purvis, in response to a question from one of the machine tool representatives, admitted that there has been some stocking of machine tools in England and agreed to check up on this matter.

The Secretary then asked Mr. Ward to outline his problem. Mr. Ward said that his problem included not only engine production but also propeller production, as both divisions were hindered because of their inability to get machine tools more promptly. Speaking of what he called "Schedule A" (a program exclusive of additional Allied orders), Mr. Ward said his company's problem was about as follows: The company had outstanding about 700 machine tool orders, including those for both engine and propeller divisions. These orders amounted in all to \$3½ millions. Delivery had been promised by February but the present prospect was that not more than ¼ of the total amount would be delivered by February. To alleviate the situation for the engine manufacturers he said that every machine tool was being worked 24 hours a day for 7 days

a week. The employees, however, he said, were given one day a week off. The skilled worker requirements, he explained, were not a bottleneck at the present time as the company was increasing its staff rapidly, using highschool boys who had had preliminary training in a trade school. He explained that the men worked 48 hours a week but were paid for 52 hours, and that all the company's labor arrangements were first cleared with the state labor commission, etc.

The Secretary explained that Dr. Lubin was working with him on the labor angle of the problem. Mr. Ward commented that his company had had only one labor complaint from an employee. This was taken to the state labor commission and proved to have been the result of a misunderstanding on the part of the employee. The employee thought his paycheck was one day short, but this turned out to be a mistake on his part.

The Secretary asked Mr. Ward how many machine tool companies were involved in the 700 machine tool orders which his company had placed. Mr. Ward, after examining the list of orders, said that the orders which were the key to his company's bottleneck position come from perhaps 15 or 20 machine tool companies. Mr. Ward, at the Secretary's request, agreed to make up a list of these key orders and the companies involved.

Mr. Ward went on to say that his company's present business, plus replacements, would not permit it to accept any new orders for delivery of airplane engines prior to April, 1941. Any additional orders would require construction of new plant capacity. The Secretary asked explicitly whether he meant his company could not take a dollar's worth of additional business to be delivered before April, 1941. Mr. Ward said he could not make a commitment with the belligerents for delivery before April 1941 without constructing new plant capacity.

Mr. Stillwell, Mr. Berns and Mr. McDonald came into the meeting.

Mr. Stillwell said that if Mr. Ward could supply them with the 15 or 20 machine tool companies involved in the key orders mentioned, he thought something could be done to take care of the situation. At least, he said, he had worked out a fast and furious plan which he would like to put to work. Mr. Ward said he would furnish Mr. Stillwell with the list, and Mr. Stillwell said that he would have the representatives of the 15 or 20 companies in New York on Monday.

Secretary Morgenthau -4-

Mr. Stillwell asked the Secretary whether he might state at this meeting in New York that if the industry did not work out priority on these orders the Government would probably have to establish a priority system. He asked the Secretary if he could quote him somewhat to that effect. The Secretary said that his name might be used in saying it was important for the industry to fix up some system of priorities, but that he did not feel the Government should dictate to the industry. The Secretary added that he hoped the industry could do its own policing, and he assumed this was the way the industry would prefer to handle the situation. However, the Secretary continued, his office was at their disposal, with the backing of the President. He did not want to put pressure on the manufacturers, but they might put pressure on him for help. He added that if as a last resort the industry wished the State Department to establish a moral embargo on machine tool exports to certain countries he would take the matter up with the President. The Secretary then asked Mr. Stillwell if his remarks answered his question. Mr. Stillwell replied that they did, and that he would do a little interpretation on his own part but would not quote the Secretary any further than he had indicated.

Mr. Stillwell suggested a priority schedule somewhat as follows: England, France and the other allies, then Japan and Russia. Captain Collins suggested putting South America before Japan and Russia. This was satisfactory to Mr. Stillwell, but he said there was not much business from South America anyway. The Secretary asked Mr. Stillwell to bring in a priority export schedule for the industry next Wednesday, and at that time he might have some hints.

Mr. Stillwell asked if it would be possible to get the "B Program" (so-called October program) of the engine manufacturers in advance. The Secretary said he did not think the machine tool industry had been taken into confidence heretofore, but hereafter they would be informed just as soon as anybody else. He said he would call them to Washington when any new developments took place. Mr. Stillwell commented that that procedure would help tremendously. The Secretary suggested the first problem was to take care of the program now on hand and then take care of the "B Program" when it eventuated.

The Secretary indicated that Mr. Purvis and Mr. Bloch-Laine would come into the meeting in a few minutes, and they would be available for questioning. Mr. Stillwell said he would like to ask them what they were going to need for the next year. He added that as far as he could tell they apparently did not know, but he would hate to think that if this country were at war such a question could not be answered.

Secretary Morgenthau -5-

Mr. Purvis, Mr. Bloch-Laine, Captain Jay' maillet and Mr. Baker joined the conference.

The Secretary told Mr. Purvis and Mr. Bloch-Laine that they should analyze their American machine tool orders so as to provide a breakdown which would indicate the part absolutely necessary for airplane production and that which was going into stocking, etc. Mr. Bloch-Laine said there was no stocking involved in the French machine tool orders. Mr. Purvis was not so confident about the British situation but said he was having the matter checked.

Mr. Purvis said that he realized the British and French Governments themselves should attempt to establish a priority list on orders for American machine tools. The Secretary asked if the list would be ready by Wednesday next at 9:15 A.M. Mr. Purvis and Mr. Bloch-Laine both said they thought it would be ready. The Secretary commented that the sooner they knew what they wanted the better off they would be.

Mr. Berna asked Mr. Purvis if he could say now which they wanted - planes or tools. Mr. Purvis said that he could not as the airplane program over there was very important. The Secretary explained to Mr. Bloch-Laine that the first thing to accomplish was to get the present French orders out before any new orders were taken. He added that he had not realized the situation was as bad as it was. Mr. Purvis said that he was now really getting his first picture of what the actual situation was with regard to deliveries. He said the Secretary's approach to the problem was the only way he knew of for working out a solution.

At 11:15 Mr. Bradley and Mr. Kreusser arrived.

Mr. Kreusser outlined his problem and said that his company's difficulties were minor as compared with those of Pratt-Whitney, for example, but that he would also furnish a list of machine tool companies involved in orders which were slowing up their activity. He pointed out that, unlike Pratt-Whitney, for example, his company's situation was not that of adding another peak load when they were already operating at peak production.

The Secretary suggested that the representatives of the machine tool industry and the airplane engine manufacturers might meet in the Secretary's conference room to review in detail the machine tool order requirements.

PARTIAL PARAPHRASE OF TELEGRAM
RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 45

DATE: January 31, 1940, 1 p.m.

Reference is made to my telegram no. 35 dated January 22, 4 p.m.

The representatives of the British bondholders are greatly opposed to the plan which the Ministry of Finance is considering at the present time, under which payments would be made on the basis of the relative positions of the final year of the Aranha plan (that is, paying 41.25 percent, 42 percent, 44 percent and 50 percent respectively of the Aranha plan during the next four years instead of paying 50 percent of each successive year of the Aranha plan). The Minister of Finance has received a memorandum from the British representatives which states that the plan is totally unacceptable to them and that they would protest strongly against it. The memorandum went on to say:

It is quite inconsistent with the whole basis of the Aranha plan, as accepted by the Americans in 1933, and takes no account of the priority rights and superior security of the loans in grades 1 and 2, as established in their respective contracts and confirmed by Articles 1 and 4 of the Aranha plan decrees.

If

-2-

If contractual rules are to be thus ignored, there is no justification for not giving grade 4 as good terms as grade 3, and all grades would again be subject to further debate.

Grades 1 and 2 would already be making a heavy sacrifice by giving up 50% and any further reduction, in respect of either interest or sinking fund, is out of the question.

The proposal would involve depleting grades 1 and 2 by pounds 418,000 the first year, pounds 385,000^{000!} the second and pounds 298,000 the third; all of which would be diverted to inferior and partly municipal grades.

We attach great importance to sinking funds of grades 1 and 2 and in no circumstances could agree to further reduction of these."

CAFFERY

TO THE SECRETARY
TECHNOLOGY SERVICE
DEPT. OF THE

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RECEIVED
RECEIVED

EA:EB

January 31, 1940
11:30 a.m.

Operator: Mr. Alsop.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Joseph
Alsop: Hello, sir.

HMJr: I'm breaking my own rules by phoning because I happen to be leaving town for the rest of the day.

A: Oh, I knew you were and I feel like a monster to bother you and perhaps you would rather have us talk to someone else.

HMJr: Well, if you'll just give me a sketch.

A: Well, I'll give you an exact sketch of what it is.

Bob picked up in the Treasury a very strong indication that you weren't altogether contented with the way the British and French have been handling their general purchasing policy. I don't mean by that the specific details of purchasing, but the general policy because you were represented as feeling that behind the policy there was an effort to, as it were, crowd the Treasury into helping them somehow or other to get credits. And I was -- the story was.....

HMJr: No.

A:that you felt that they had ample supplies of easily mobilizable dollar exchange in the neighborhood of five to eight billion dollars and that instead of worrying and fuming and saying that credits would be inevitable and so on and so on that they ought to go to work and mobilize their exchange and start spending it and stop talking. And so I looked into the thing on the other end.....

HMJr: Yes.

- 2 -

- A:and I -- I in making your view consistent in my mind with what seemed to be the situation because I was told that probably in the first twelve months they would spend in the neighborhood of two billion dollars of their exchange, and that's, on the basis of your estimates, which they don't seem quite to accept, how well over a quarter and perhaps over a third of their total available supply of dollar exchange.....
- HMJr: No.
- A:and the possibility of a long war in sight, and no way that they can presume that if they run out of exchange we'll be willing to help them.
- HMJr: Now, Joe, what you've got is bits of truth but you haven't got the whole pattern. Now, I'll be back tomorrow and.....
- A: Perhaps it would be better for us to -- to wait and get the whole pattern.
- HMJr: I think so because you've only got bits of it.
- A: Yeah. Yeah.
- HMJr: And if -- let me when I get in -- I -- it's -- I'll give you a ring the first thing in the morning.
- A: All right, sir. Fine.
- HMJr: We'll fix it up sometime during the day. But you've got bits and you haven't got the pattern.
- A: I see.
- HMJr: And I -- I don't think it'll do anybody any particular good to write it.....
- A: Well, that was why I was so anxious. I felt it was a terribly important subject and I wouldn't have troubled you except that I was awfully anxious to avoid going wrong.
- HMJr: I appreciate it and -- and what I'll do is I'll tell you the whole story and then we'll decide what you can use.

- 3 -

A: All right, sir. Fine.

HMJr: How's that?

A: That's perfectly grand and -- and early in the morning I'll be at my house and I think I'll be at my house until you call me.

HMJr: Well, I'll give you a ring just as soon as I see what my schedule is.

A: All right, sir. Well, that's splendid.

HMJr: Thank you for calling me.

A: Fine.

HMJr: Goodbye.

A: Thank you very much, sir.

HMJr: Goodbye.

JAN 31 1940

My dear Mr. President:

In your note of December 1, 1939, in connection with the Self-Help Exchange, you asked for the following figures:

- (a) Man-year cost to the Government as a member of the Self-Help Group

Washington Self-Help Exchange

\$131.00 — Actual cost per worker per year

\$326.00 — Estimated cost for full time worker per year

Figures for other exchanges are not available.

- (b) The cost to the Government of WPA work to the same individual.

\$732.00 — Average cost per worker per year

- (c) Cost to the D. C. Government for home relief for the same individual.

\$313.00 — Average cost per year of all cases on general relief excluding Social Security (Fiscal year 1939)

It is difficult to make a comparison between cost of maintaining a worker in the Self-Help Exchange (as organized on the basis of the Washington, D. C. Exchange) and the cost of a W. P. A. worker. I am informed that the difference between actual cost per worker, and estimated full-time cost, is due to

- 2 -

the fact that the new self-help program as followed in Washington puts emphasis on getting workers back into private employment, for every hour or day for which private cash employment can be found. Also it tries to provide, not full-time employment, but compensatory employment. Some workers leave the Exchange very quickly and do not come back for months, while the old men and the "half-sick" may work nearly full-time.

I understand the cost figures for the Washington Exchange include all expenditures for overhead and materials, and that they are a little too low to serve as a standard of costs for a national program because the expenditures for supervision were not high enough. Additional expenditures for management and supervision should result in a more rapid return to private employment.

The average cost of a W. P. A. worker per year is based upon figures furnished earlier in the year by Colonel Harrington to the Appropriation Committee in connection with the current work relief appropriation.

The figures for the District of Columbia relief cases under the Social Security program are much higher than indicated above, being over \$300 a year for single persons and about \$550 for families.

Sincerely yours,

(Signed) W. M. C. Harrington

Secretary of the Treasury.

The President.

The White House.

WHR:vf
December 26, 1939

369

This copy sent to this office by
Thompson 12/30/40 - to be taken to
White House by Secy on 2/1/40.

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2/8 2

Through the Bureau of the Budget.

Dear Mr. President:

I transmit herewith a copy of a proposed Reorganization Plan under the Reorganization Act of 1939, together with an appropriate message of transmittal to Congress, and recommend that the Plan receive your approval. The proposed Plan is designed to abolish the offices of the comptrollers of customs (sewn in all), the office of surveyor of customs at New York City, and the office of appraiser of merchandise at the same port, and transfer their functions, property, and personnel, other than the head of each office, to existing positions in the customs service. The provisions of the Plan, however, would not become effective with respect to any office until the expiration of the term of its present incumbent. The total annual reduction in expenditures which would result from this Plan is \$59,600. Of this saving \$43,100 would result from the elimination of the seven comptrollers of customs, \$8,500 from the elimination of the surveyor of customs in New York, and \$8,000 from the elimination of the appraiser of merchandise in New York. You will remember that I recently discussed this Plan personally with you.

In practice, substantially all of the work of the offices abolished by this Plan is performed by experienced subordinates who have spent many years in the customs service and are civil service

employees. The nine officers, the abolition of whose offices are proposed, contribute little or nothing to the operation of their offices and they involve an unnecessary overhead expense which should be eliminated. I am setting out in more detail below my reasons for this recommendation:

(a) Comptrollers of Customs.—There are seven comptrollers of customs. These officers are located at Boston, New York, Philadelphia, Baltimore, New Orleans, San Francisco, and Chicago. The salary is \$6,500 at New York, \$5,600 at San Francisco, and \$5,800 elsewhere, a total of \$43,100. The personnel of the various comptrollers' offices is as follows: Boston, 22; New York, 131; Philadelphia, 21; Baltimore, 12; New Orleans, 17; San Francisco 1 and Chicago, 21. The comptroller of customs is a presidential appointee subject to confirmation by the Senate. He is the chief executive of the comptroller's office and may lawfully direct and supervise all the activities of that office.

The offices of the seven comptrollers of customs collectively contribute the instrumentally through which the Commissioner of Customs and the Secretary of the Treasury maintain proper administrative control over the fiscal affairs and transactions, and the classification of merchandise for duty purposes in the forty-seven collection districts.

Broadly speaking, the chief function of the comptroller's office is to audit and review actions taken and reported by the collectors. The persons performing this work must of necessity be well versed in customs laws, regulations, and procedures, and the comptroller's

- 3 -

employees performing the more important duties have had many years of service and experience.

To be truly effective each comptroller should be trained in governmental accounting and fiscal work and be an expert on customs laws, regulations, and procedure. There are no policy-forming problems or contacts with other public or private interests to demand the attention and action of the comptroller.

In each comptroller's office there is an assistant comptroller of customs who is an experienced and qualified customs employee. This assistant comptroller can and does supervise and direct the business affairs of the office ordinarily without the advice or assistance of the comptroller. Consequently, there are no duties which the comptroller must necessarily perform. There are several instances where a comptroller of customs has been absent from his office long periods of time. During these periods the business of the offices affected was carried on in a normal manner without loss of efficiency. Notwithstanding any general qualifications he may possess for an executive position, the usual term of office of a comptroller is too short to enable an appointee to the position of comptroller to acquire such qualifications.

Therefore, notwithstanding a limited working force and the small budget under which it must operate, each comptroller's office is carrying one high-salaried position which contributes nothing to the effective operation of the office and constitutes an unnecessary overhead expense which could be eliminated.

- 4 -

(b) The Surveyor of Customs at New York.—The surveyor of customs at the port of New York is a presidential appointee subject to confirmation by the Senate. He is the outdoor executive of the port and, under the direction of the collector, is required by law to superintend and direct all inspectors, staff officers, weighers, guards, and such laborers and other employees as are placed under his direction by the collector.

At the present time some 93 per cent (1469 out of 1577) of all employees assigned to the surveyor's office are collector's employees; that is, the collector of customs pays them, recommends their appointment and promotion, and is responsible for their discipline. These employees are detailed to the surveyor's office and upon the surveyor rests the responsibility of directing and supervising their work. Among the remaining 7 per cent of the employees assigned to the surveyor's office are found the principal supervisory officers and his clerical force. They are carried on the surveyor's payroll.

By force of law as well as of administrative necessity the collector of customs is responsible for promulgating all decisions and orders regarding policy and administration for the surveyor's office at the port of New York, while the surveyor, the collector's subordinate, is responsible for putting into effect and carrying out these decisions and orders. Both of these officers are appointed by the President.

The work of the surveyor's office is so essential to the proper performance of the duties imposed by law upon the collector and is so closely interwoven with the essential work of the collector's office that it would be extremely difficult to administratively segregate the functions of these offices and still conduct either office efficiently. This situation must have been recognized by Congress when it enacted the statute specifying that the surveyor should be subject to the direction of the collector.

In 1932 Congress abolished the offices of surveyor in all collection districts except New York (section 1 of the Act of July 9, 1932; U.S.C., title 19, sec. 3a). The loss of the presidential officers occasioned no difficulties whatsoever. There appears to be no administrative reason for the exception of New York.

It is desirable to eliminate the dual authority and division of responsibility that now exists at the port of New York. Greater efficiency will result should one officer be charged with the responsibility for the collection of revenues and the enforcement of all customs laws and regulations to the extent that these duties are now imposed upon the collector and surveyor of customs at that port.

(c) The Appraiser of Merchandise at New York.—The appraiser of merchandise at the port of New York is a presidential appointee subject to confirmation by the Senate. His duties are prescribed by statute and consist of supervising the work of assistant appraisers and examiners, determining the value of imported merchandise subject to ad valorem rates of duty, and the advisory classification of

merchandise for tariff purposes, all in accordance with statutory rules and those laid down by the Secretary of the Treasury. He thus has no policy-forming functions.

The efficient performance of these duties requires an expert knowledge of customs law and procedure which can be acquired only by long experience in customs work. It is obvious that no person appointed to the position without previous customs experience could be expected to perform the duties of the office efficiently, and the usual term of office is too short to permit such person to acquire the necessary qualifications. The consequence is that the work is performed by an assistant appraiser who is an experienced and qualified customs officer.

Prior to 1932 there were fifteen appraisers appointed by the President, in addition to the one at New York, with duties identical with those of the New York appraiser. At ports of entry where no appraiser was appointed by the President, the duties of the appraiser were performed by trained customs officers appointed by the Secretary of the Treasury. The fifteen presidential positions outside New York were abolished, however, by section 1 of the Act of July 5, 1932 (U.S.C., title 19, sec. 5a).

The loss of these presidential officers has occasioned no difficulties or loss of efficiency, and there is no administrative reason why New York should have been excepted.

Since in practice the work of the appraiser at New York must of necessity be performed by subordinates, the discontinuance of

- 7 -

the position of appraiser at that post would result in a substantial saving without loss of efficiency.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

878:ims
1/18/40

77

REORGANIZATION PLAN NO.

Prepared by the President and transmitted to the Senate and the House of Representatives in Congress assembled, _____, 19____ pursuant to the provisions of the Reorganization Act of 1939, approved April 9, 1939.

Section 1. Transfers and consolidations relating to the Treasury Department are hereby effected as follows:

(a) Comptrollers of Customs.—The offices of comptrollers of customs at Boston, Massachusetts; New York, New York; Philadelphia, Pennsylvania; Baltimore, Maryland; New Orleans, Louisiana; San Francisco, California; and Chicago, Illinois; are hereby abolished. The functions of such comptrollers of customs, together with the personnel (except the comptrollers of customs) and the records and property (including office equipment) of their offices are hereby transferred to their respective assistant comptrollers. The Secretary of the Treasury is authorized to designate the titles by which the positions of assistant comptrollers shall be officially known hereafter. The provisions of this subsection shall become effective with respect to each office of comptroller of customs upon the date this Plan becomes effective, or upon the expiration of the term of office of the present incumbent, whichever is later.

(b) Surveyor of Customs at New York, New York.—The office of surveyor of customs at the port of New York, New York, is hereby abolished, and its functions, personnel (except the surveyor of customs), records, and property (including office equipment) are hereby transferred to and consolidated with the office of the collector of customs at New York, New York, and the functions of the surveyor's office shall thereafter

- 2 -

be administered by the collector. The provisions of this subsection shall become effective on the date the term of office of the present incumbent of the office of surveyor of customs at the port of New York, New York, expires.

(c) ~~Appraiser of Merchandise at New York, New York.~~—The office of appraiser of merchandise at the port of New York, New York (now vacant), is hereby abolished and its functions, personnel (except the appraiser of merchandise), records, and property (including office equipment) are hereby transferred to the position of the chief assistant appraiser at the port of New York, New York. The Secretary of the Treasury is authorized to designate the title by which the position of chief assistant appraiser shall be officially known hereafter.

578 lines
1/17/40

TO THE CONGRESS OF THE UNITED STATES:

Pursuant to the provisions of the Reorganization Act of 1939 (Public No. 19, 76th Cong., 1st session) approved April 3, 1939, I herewith transmit Reorganization Plan No. _____, which, after investigation, I have prepared in accordance with the provisions of section 4 of the act; and I declare that with respect to each transfer, consolidation, or abolition made in Reorganization Plan No. _____ I have found that such transfer, consolidation, or abolition is necessary to accomplish one or more of the purposes of section 1(a) of the act.

Plan No. _____ is designed to abolish the offices of the controllers of customs (seven in all), as well as the office of surveyor of customs at New York, New York, and the office of appraiser of merchandise at the same port, and transfer their functions, property, and personnel, other than the head of each office, to existing positions in the customs service. The provisions of the Plan, however, will not become effective with respect to any office till the expiration of the term of its present incumbent. In practice, most of the work of the offices abolished by this Plan is performed by experienced customs officers who are civil service employees, and there is no reason why the heads of these offices should not be in the same category. Moreover, Congress in 1932 abolished the offices of surveyors of customs and appraisers of merchandise at all ports except New York. The loss of these presidential offices occasioned no difficulties whatsoever and there is no administrative reason for the exception of New York.

The taking effect of Reorganization Plan No. _____ will result in an annual reduction of expenditures as follows:

Subsection (a) will result in an annual reduction of	\$43,100.00
Subsection (b) will result in an annual reduction of	\$ 8,500.00
Subsection (c) will result in an annual reduction of	\$ 8,000.00

Total annual reduction	359,600.00
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The White House,

_____, 1940.

TREASURY DEPARTMENT

380

INTER OFFICE COMMUNICATION

DATE January 31, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The dull tone that prevailed in the foreign exchange market yesterday continued today. Sterling opened at 3.99-1/4 and shortly thereafter moved off to the low of 3.99. During the afternoon, the rate recovered to 3.99-1/2. It closed at 3.99-3/8.

Sales of spot sterling by the four reporting banks totaled £209,000, from the following sources:

By commercial concerns.....	£ 154,000
By foreign banks (Europe).....	£ 55,000
Total.....	£ 209,000

Purchases of spot sterling amounted to £183,000, as indicated below:

By commercial concerns.....	£ 152,000
By foreign banks (Europe).....	£ 31,000
Total.....	£ 183,000

The following reporting banks sold cotton bills totaling £45,000, to the British Control on the basis of the official rate of 4.02-1/2:

£ 31,000 by the National City Bank
9,000 by the Guaranty Trust Co.
5,000 by the Bank of Manhattan
£ 45,000 Total

The discount on the Cuban peso improved slightly in the last few days and today it was quoted at 9-3/8% discount. The rate for the Mexican peso has remained steady at .1672 since January 3.

The other important currencies closed as follows:

French francs	.0226-1/4
Guilders	.5308-1/2
Swiss francs	.2242-1/2
Belgas	.1697
Canadian dollars	12-5/16% discount

The Federal Reserve Bank of New York sold 500,000 Swiss francs for account of the National Bank of Yugoslavia.

We sold \$50,000 in gold to the National Bank of Belgium to be added to its earmarked account.

We purchased \$4,912,000 in gold of which \$1,012,000 was released from the earmarked account of the Bank of Finland. The balance, \$3,900,000, was released from the earmarked account of the Bank of Sweden. The proceeds received from the sale of both releases of gold are being credited to the account of the Bank of Finland at the Federal Reserve Bank of New York.

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

\$ 1,235,000 from Peru, shipped by the Central Reserve Bank of Peru to the Chase National Bank, New York, for sale to the U. S. Assay Office.
14,000 from Canada, shipped by the Royal Bank of Canada, Montreal, to its New York agency for sale to the U. S. Assay Office.
\$ 1,249,000 Total

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

\$ 3,380,000 from Sweden, shipped by the Bank of Sweden to the Federal Reserve Bank of New York for account of the Bank of Sweden.
702,000 from England, representing two shipments by Samuel Montagu and Co. to the New York Trust Company, New York.
212,000 from England, shipped by Samuel Montagu and Co. to the Bankers Trust Company, New York.
14,000 from England, shipped by Mocatta and Goldsmid to the Banque Belge pour l'Etranger, New York.
361,000 from India, shipped by the National City Bank, Calcutta, to its head office at New York.
\$ 4,669,000 Total

The disposition of the shipment from Sweden is unknown at the present time. The shipments coming from England and India will be sold to the U. S. Assay Office at New York.

The U. S. Assay Office at New York received today a shipment of gold valued at \$236,000 which was sent to this country by the Royal Bank of Canada, Montreal, for account of Stella Investments Ltd., Panama. We have been advised by the Bureau of the Mint that approximately \$110,900 of this shipment consisted of Russian gold bars.

The Federal Reserve Bank of New York received a cable from the B.I.S. requesting it to apply for a license to transfer approximately 16,000 fine ounces of gold (about \$560,000) from B.I.S. Account #2 to B.I.S. Account #5. Account #2 is gold owned by the B.I.S. Gold held in Account #5 is the property of the Bank of Estonia, Tallinn. The Treasury granted permission to the Federal to make this transfer.

CONFIDENTIAL

The London fixing prices for spot and forward silver experienced a moderate recovery today on small local speculative buying. At 21-3/8d, the spot price showed a gain of 5/16d. The forward quotation was also 21-3/8d, up 7/16d. The U. S. equivalents were 38.38¢ and 38.14¢ respectively.

In Bombay, the downward movement of the silver price was reversed today, the quotation advancing to an equivalent of 40.16¢, up 1-1/8¢. The Reserve Bank of India's recent purchases of silver in the Indian Bazaars, as mentioned in yesterday's report, was probably a factor contributing to the higher quotation.

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

We made seven purchases of silver totaling 775,000 ounces under the Silver Purchase Act. Of this amount, 450,000 ounces represented sales from inventory by one of the refining companies, and the remaining 325,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 175,000 ounces of silver from the Bank of Canada, which raises the total bought from Canada during January to the agreed limit of 1,200,000 ounces.

During the month of January we purchased a total of 12,849,000 ounces of silver under the Silver Purchase Act. The sources of this silver are as follows:

<u>TYPE OF SILVER</u>	<u>OUNCES</u>
New Production from Abroad	
1. From Canada under agreement	1,200,000
2. From foreign countries	7,250,000
Secondary Materials	263,000
Inventory Silver	3,408,000
Trading Silver	728,000
Total	<u>12,849,000</u>

By telephone this afternoon Mr. Knoke gave me the following data with respect to Russian accounts at the Chase Bank. At the time of the last report on January 19, the State Bank of Russia had a balance of \$2,900,000 with the Chase Bank; as of today the balance is \$4,500,000. During the same period the letters of credit of the State Bank of Russia with the Chase Bank declined from \$6,800,000 to \$6,200,000; the balances of Amtorg with the Chase rose from \$900,000 to \$1,000,000; and Amtorg letters of credit appeared for the first time at \$2,100,000. During the period under reference the principal in-payments to the Russian State Bank account included \$5,000,000 by the Rotterdam Bank, \$1,000,000 from Switzerland, and \$52,000 from the Central Bank of China. Out-payments included \$3,500,000 to Amtorg, \$400,000 to the European Bank for Foreign Trade, and \$97,000 to the Skoda Works.

CONFIDENTIAL

Mr. Knoke also mentioned to me that New York banks had received reports from London that the Federal Reserve Bank was now looking into the ownership of gold offered for sale in New York. Knoke thought this question probably arose from the publicity given the past few days to the question of Russian gold. Knoke informed the inquiring banks that the Federal Reserve is not looking into the question of ownership of gold offered for sale. However, it is following its usual practice with regard to satisfying itself as to ownership of gold offered for earmark.

A handwritten signature in dark ink, appearing to be 'B. M. R.', is centered on the page. The signature is fluid and cursive.

CONFIDENTIAL

TREASURY DEPARTMENT

384

INTER OFFICE COMMUNICATION

DATE January 31, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 10 o'clock this morning I received Congressman Kent E. Keller of Illinois, who had asked originally for an appointment with the Secretary of the Treasury. Mr. Keller was accompanied by Mr. Egon Wedell, Ritz Tower, New York, a Danish friend of the Congressman. Mr. Keller brought up the question of financial aid for Finland and wanted to know what the Treasury could do to "stabilize Finnish industry." I explained in some detail the limits placed upon the Treasury, namely, that it could make no loan to Finland without Congressional authority, and that the Finnish situation at present is not such as to warrant any exchange stabilization operation by our Fund. When he asked who could make money available to Finland, I reminded him that this was a matter to which Congress was giving much attention, and presumably would be settled at the Capitol. I explained the way Export-Import Bank loans work, and I also recalled the suggestion made by Senator Harrison at his press conference yesterday in regard to the flotation of a Finnish loan in this country. Our conversation was long and rambling, but the visitors seemed entirely satisfied therewith, and the atmosphere was happy and cordial.



TREASURY DEPARTMENT

385

INTER OFFICE COMMUNICATION

DATE January 31, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Havas, Financial Adviser to the Hungarian Legation, with headquarters in New York, called on me by appointment this afternoon. He had already seen Dr. Feis at the State Department and had talked with Governor Harrison and Mr. Knoke in New York within the past few days. Both Knoke and Feis had mentioned this matter to me, Knoke directly, and Feis through Joe Cotton.

Havas gave in some detail the information contained in the attached cablegram #25 from the American Minister at Budapest and also gave me the attached memorandum summarizing his statement which, in turn, had been based upon a cablegram which he had received from Mr. Kuehn, who is, I believe, an officer of the National Bank of Hungary.



SUMMARY OF THE REGULATIONS
OF THE NEW HUNGARIAN FOREIGN EXCHANGE POLICY

On account of the decline of free foreign exchange receipts during 18 months preceding war, it became necessary to further devalue pengos in order to increase foreign currency receipts.

Therefore, the National Bank of Hungary during September has devalued pengos by about ten per cent, in order to increase exports toward countries with freely convertible exchanges.

Neighbours having no convertible exchanges wanted us to increase rate of their currency which the National Bank of Hungary could not accept on account of reasons of principle and also for practical and economic reasons.

However, it could not give absolute refusal and in order to meet at least neighbours prestige requirements it decided to raise pengos official rate to August level.

This would have affected our exports to countries with freely convertible exchanges and we are therefore applying following method:

In future, Cash Office of Foreign Credits will buy and sell at 110 percent premium twentyfive percent of all free exchange offered or sold remainder of 75 percent being purchased or sold by National Bank at 50 percent premium with the result that average premium will be 65 percent.

Consequently, as hitherto, any importer can obtain free pengos at the rate of \$17.60 - \$17.75 per 100 pengos.

COPY FOR SECRETARY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Budapest, Hungary

DATE: January 29, 1940, 1 p.m.

NO.: 25

Reference is made to telegram of January 19, No. 16, from the Legation,

The President of the National Bank has now confirmed to me the information contained in the above-mentioned telegram. Official decrees have now revalued the pengo to the rate which existed in August of last year. The Hungarian Government has adopted this method to maintain the monetary structure of the country, and ^{it} is merely a fictitious one to satisfy the demand of Germany. Extra premiums will be given to exporters and to tourists, so that they will suffer no loss. Therefore, no real change will take place. The countervailing duty provision of the Tariff Act apparently is not infringed, since all commercial transactions will take place according to the new formula; therefore the Federal Reserve pengo rate will not have to be altered.

Baranyai, the President of the National Bank, asks that the foregoing information be given to the Federal Reserve.

I am sending a full mail report on this subject.

MONTGOMERY.

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

January 30, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information one copy of each of the following telegrams:

Paraphrase, No. 25 of January 29 from Budapest.
No. 67 of January 29 to Paris

TO THE SECRETARY OF STATE
LEGATION OF THE UNITED STATES
OF AMERICA - PARIS

BY MAIL TO WASHINGTON

RECEIVED

From: Swedish Government,
Stockholm

Date: January 31, 1940 7:45 pm

To: Mr. Cochran

Following change in note cover will be published with next weekly statement. Metallic cover to contain all gold abroad. Gold abroad previously counted as metallic cover only up to fifteen percent of total metallic cover. For calculation of note issue gold will be counted at current price. For accounting purposes old price of 2480 kronor per kilogramme maintained. Please send copy to State Department

Rooth Riksbanken

1/14/44
Approved by *Edith Greenbaum*
1/14/44
200

Over twenty-five years ago Henry Morgenthau, Jr. was called upon to aid the work of this Association. In 1914 he was chosen by the Y.M.H.A. and the Educational Alliance to help in eliminating difficulties which had arisen out of their joint operation of a summer camp. He and his associates performed a task which created Surprise Lake Camp and for over 13 years continued the work which has made possible the camp of today.

His other activities have been varied: farmer, publisher, lieutenant in the U. S. Navy, Conservation Commissioner of the State of New York, Governor of the Farm Credit Administration, Under-Secretary of the Treasury, Acting Secretary of the Treasury, and Secretary since January 1934. During this period he has been confronted with problems of unprecedented magnitude. These he has solved by painstaking day-by-day hard work. His diligent devotion to duty, his sense of fairness, his scrupulous honesty, his devoted loyalty, coupled with extraordinary executive ability and sound judgment have earned him the admiration and respect of all, — ~~even of those who have not hesitated to criticize others in high places.~~

Out of a welter of overlapping agencies he succeeded in creating in 1933 a completely coordinated system of farm credits, — an outstanding achievement in governmental organization. In the Treasury Department his management of the public credit and handling of other supremely difficult problems arising in connection with the Nation's finances have been achievements calling for the greatest skill and judgment. The huge Department which he heads, with its 60,000 employees, is charged not only with the important duties of public financing, but also embraces such diverse activities as the Coast Guard and Lighthouse Service, the Bureau of Engraving and Printing and the most important group of law enforcement services in the Federal government. His modesty has prevented him and restrained others from making it generally known that he has put all these services on a new basis of efficiency and made the most important and most diverse Department of the government a model of administrative organization.

Henry Morgenthau, Jr., son of a distinguished father, has won distinction in his own name. After he has laid down the exacting duties of his present office, he should be free to devote himself to many years of useful service to his fellow men. The Association is proud to honor a public servant who has so loyally and faithfully served his state and country.

1-31-40

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Address of Secretary Morgenthau at the annual dinner of the ~~Old Times~~ Timers of the Y. M. H. A. on the occasion of the 66th annual meeting of the Young Men's Hebrew Association, at which citations of honor were awarded to Judge Irving Lehman and Secretary Morgenthau Held in New York City.

attached is copy's
reading copy.

My very good friend, Mr. Greenbaum, has asked me to give you some idea of what we do in Washington. I think I can best do that by taking you behind the scenes and telling you what happens in the Secretary of the Treasury's office during a typical day.

I start the day rather early. During my years in Washington I have been grateful for the habit, formed many years ago, of getting up at half past six. This gives me the chance to glance through the leading New York and Washington papers and finish examining the material I took home the evening before.

Often by seven-thirty I have been in touch with one or more of my assistants by telephone to get something started early.

I'm afraid that doesn't make me too popular with the wives of my staff. And I am quite likely to ask one of my staff to walk with me the two miles to the office in order to talk over some problem which I may not have time to discuss later in the day.

My official day begins at 8:45 when Mr. Merle Cochran, the director of our two billion dollar stabilization fund, reports to me developments in the leading foreign money markets of the world; Mr. Cochran has already been in telephonic communication with our fiscal agent, the Federal Reserve Bank of New York, and with Treasury representatives in the leading financial centres of the world.

It is his business to bring to my attention whatever of importance has arisen with respect to the silver, gold and foreign exchange and capital markets. Together we plan the day's operations of the stabilization fund.

By the time I meet my staff I have a pretty good picture of what is happening in European money markets. Occasionally there are unusual episodes which require immediate action and there are times when it is necessary for me to call up London and Paris in order to give instructions to our representatives in Europe.

At 9:30 I hold my staff meeting which lasts from a half hour to an hour depending upon the kind of problems that come before us.

This meeting is attended by some ten or a dozen of my assistants and advisers. I like to look upon this group as a sort of Treasury Cabinet. It is not a formal cabinet but consists of those whose departments are closest to the special problems of policy which confront the Treasury from day to day, and who are therefore in a position to contribute most.

There are a great many people who think that Treasury activities are confined to the highly unpopular sport of collecting taxes and who fear that when they hear from the Treasury it must be because there is something wrong with their income tax returns. We had an amusing example of that last week. One of the Assistant Secretaries called up an important business firm in Chicago to obtain some needed information.

When the Washington telephone operator announced that the Assistant Secretary of the Treasury was calling, there appeared to be considerable to-do at the other end. After much delay Chicago reported that the President of the firm was out; the three Vice Presidents were out too; everybody was out. Apparently there had been an exodus in the middle of a working morning and one lone stenographer was holding the fort. About a half hour later the Attorney for the company anxiously called back to find out what the Treasury Department wanted from his concern and was much relieved to know it was only some technical information. So the next time you get a telephone call from the Treasury don't run for your lawyer.

The Treasury does a lot of things besides collecting taxes. We collect money and we spend money; we borrow money and we print money; the Treasury engages in gold and silver transactions, and makes the purchases of supplies for the Federal Government.

It runs down smugglers of narcotics and counterfeiters of our currency; it supervises national banks and examines your baggage when you return from abroad. It takes care of lighthouses, patrols almost every mile of our enormous shore line at least once a day; helps boats in distress; enforces the Tariff Act and neutrality legislation, keeps government accounts, and until this year took care of Public Health, and construction of Federal buildings, when under the Reorganization Plan those services were departmentalized.

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We administer the two billion dollar stabilization fund and protect the internal and external value of the dollar. We even print postage stamps.

You might well wonder how so many activities can possibly be administered by one person. ^(Pause) One

of the first things I learned in my government

experience is that a prerequisite of good

administration is to separate the important

from the unimportant; and policy from routine.

I try to carry this out. Only if the less

important and the routine are delegated to

subordinates is it possible to get through *the day.*

at Regency
 of the Dept of
 State
 in the
 early
 1950s

- 8 -

The second prerequisite of good administration is to select a staff of highly competent, loyal and able assistants who will supervise the routine work of the different branches of Treasury activity and will consult the head only on important matters of policy, keeping him abreast of all main developments in their respective divisions. My nine-thirty group is recruited from these assistants.

I think you will be interested in what happens at one of my nine-thirty meetings. Here are a dozen men assembled. I start the ball rolling. If I have any special problems on my mind -- and I usually have -- I lay them before the group in order to get their reaction and advice.

When there is any sharp difference of opinion -- *(Pause)*
"yes" men are of no use to me -- I appoint an
informal subcommittee to meet during the day and
report back. This happens very frequently.

I turn first to Mr. Bell, the Under Secretary,
for his report. Sometimes he will raise questions
on preparation for a bond flotation. Questions
of rates, amounts, and timing must be settled
before we go into the market to borrow. Actually
before a large financing operation is undertaken
many days are devoted to a careful examination
of market prospects which in times like these
involves analysis of the foreign situation. The
economic division always prepares preliminary
reports on the money market in anticipation of
conferences on a bond issue.

All the government borrowing, including those of independent agencies, such as R.F.C. and U.S.H.A., is undertaken with the cooperation of the Treasury to make sure there is no conflict in the money market and that the agencies are borrowing at the best available rate.

Or Danny Bell -- as he is known to all of us -- may have some material pertaining to the national banks or to the questions of the Federal budget. Incidentally, Mr. Bell happens to be an outstanding example of a career man who has risen from the ranks. He started in the Treasury twenty-eight years ago as a clerk and is now one of my most valued assistants.

After he has presented the problems which he wants to raise for my consideration or for discussion by the staff, I turn to Mr. Gaston who has charge of the Coast Guard, Secret Service, and Narcotics, and the enforcement of our neutrality laws. He was one of the men who were with me in the Conservation Commission in New York. These divisions of the Treasury usually have something exciting on foot whether it be a tracing of narcotics out of Marseilles en route to New York which we have learned about from our agent in Shanghai, or whether it be the discovery of a new counterfeiting ring which has been turning out bogus fifty-dollar bills.

Then comes Mr. Sullivan who has charge of the Internal Revenue and Taxation. Needless to say, these bureaus cover a lot of territory.

Mr. Sullivan is apt to bring up a number of problems. It may be a question of a closing agreement with some contractor who is doing business with the War or Navy Department under the provisions of the Vinson-Trammell Act. The Treasury, as you know, makes closing agreements between armament manufacturers and the Government. In this connection, I established a new policy of publishing these agreements in full so that the public will at all times know the arrangements their government is making.

Very frequently there are important tax matters calling for discussion. As a principle of tax collection we have tried at all times to be fair. We have impressed upon the taxpayer that he can always get a hearing himself right in his own district.

He doesn't have to come to Washington. We have de-centralized the Bureau of Internal Revenue so that there are offices in all the large cities where a man can go to iron out his difficulties. The Treasury does not permit any tax case to be settled privately or secretly. The first week I was in the Treasury I gave instructions to all of our six investigating agencies to "let the chips fall where they may". These instructions are carried out irrespective of how much influence a man or a woman may have. It was a shocking experience to me to learn in my first year at the Treasury of the number of people who try to defraud the government in their tax statements. It is an incessant and never-ending fight to run down fraud and eliminate illegal tax evasion.

I think that the public realizes by now that there is no back-door to the Secretary's office.

(FBI) As I go from person to person at the staff meeting I assign each task and problem arising from the previous day's reports or events to the person responsible for that particular field. Many of the assignments call for a report and inter-bureau conferences. These play an essential part in the formation of my opinion.

To give you an idea of the variety of problems that come before me for policy decisions I jotted down the matters which happened to come up for consideration on a single day. Here are some of them:

A loan project to Ecuador;

The Annenberg tax case;

Proposed Argentine trade agreement;

Activities of British and French Purchasing
Mission;

Bank for North and South America;

Colombian debt settlement negotiations;

Plan to finance tin and Tungsten exports from
China to the United States;

Certificate plan for Agriculture;

Weekly report on business situation for the
President;

Purchasing of stock piles of strategic materials;

Port delay of shipments of Red Cross supplies
to Finland;

T.V.A. financing proposal;

These are in addition to the numerous matters
brought up at the nine-thirty staff meeting.

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I then turn to Ed Foley, my General Counsel, who has 445 lawyers working under him. I believe this is the second largest legal staff in the country. I needn't tell this audience that with 445 lawyers there is plenty of trouble.

Of course, only those legal matters involving policy or special decision are brought up at staff meetings. We always have cases pending before the Supreme Court or the Board of Tax Appeals, or the Court of Customs, and before the numerous Federal Courts throughout the country.

Pause)

Next comes Mr. Norman Thompson, my Administrative Assistant.

You may well imagine that it is some job to look after the personnel problems of 73,000 employees when they are engaged in such diverse activities, and there are oftentimes cases which should be brought to my attention. The welfare of the people working for the Treasury is one of my first considerations; I have a rule that if any employee feels he is unfairly treated he can always come to me personally as a final court of appeal.

Another duty that Mr. Thompson has is to investigate all persons applying for the more important positions in the Treasury so that among other things we are always plentifully supplied with good reasons why we do not have to take on political hacks.

(Pause)

Mr. Basil Harris, the Commissioner of Customs, is next. His Bureau is responsible for patrolling our borders and preventing smuggling, collecting import duties, and excluding improper literature and paintings.

Whereas formerly an inspector without any special education used to pass on books and pictures, now we have authorities on literature and painting, so that no real work of art is excluded on "Comstockian" grounds nor can obscene material get by under the guise of art.

(Story of Mrs. Morgenthau -- the picture Ecstasy)

I next come to Mr. Haas and Mr. White who are in charge of economic research.

They keep me posted on current economic developments and prepare reports on domestic and international economic problems with which we have to deal. It may be of interest to the businessmen here that among the numerous sources of economic information, we receive confidential reports from large corporations. Some 28 of them, each one in a separate field, report their weekly orders of new business. This is one of our best indicators for anticipating business conditions. For obvious reasons we cannot publish them. No one sees them except the President and myself.

On the international front we receive literally hundreds of cables, reports, and consular dispatches from all parts of the world each week.

Any important developments are brought to my immediate attention.

(Pause)

I next call on Mr. Harold Graves, our trouble shooter, -- if he happens to be in Washington; his work takes him all over the United States on all sorts of special assignments.

Mr. Schwarz comes next. He heads up our information bureau and keeps us posted on a variety of Congressional and public inquiries with regard to Treasury activities.

Then comes Mr. Cotton, who is the Treasury representative on the Export-Import Bank. He reports on the status of negotiations of loans to various countries, such as Finland, Norway, Sweden, and China. He also assists on matters pertaining particularly to South America.

With reference to the Export-Import Bank a strange case came before the Treasury Department last year which illustrates the ramification of Treasury operations. It involved the investigation of a disease on the China-Burma border that had been ravaging the country year after year. What interested the Treasury in that remote and inaccessible area was the fact that a loan had been extended to the Chinese Government and the repayment was in danger because shipments of tung oil to the United States over the new China-Burma highway were blocked. This tung oil provides the money for servicing the debt. It was impossible to maintain traffic in the wet season because of the prevalence of the disease.

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When it was brought to my attention, I got busy at once and had three U. S. Public Health Service men sent there to investigate the trouble. They discovered that the disease was malignant malaria and initiated steps to stamp out the epidemic. The Treasury was, of course, interested in having the loan repaid. The fact that by facilitating the repayment of the loan we were also saving thousands of lives made that particular task a very gratifying one.

(Pause)

After the morning staff meeting is over the real grind begins. Every minute of the day is filled. There are innumerable telephone calls and conferences.

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Frequently Senators and Congressmen drop in regarding proposed legislation or on Treasury activities and my schedule has to be readjusted accordingly.

Sometimes there are financial representatives of foreign countries who come to take up inter-governmental economic matters.

My regular day is, of course, always subject to call from the President and when that happens my secretary, Mrs. Klotz, has to rearrange my calendar. Any schedule I make for myself is always subject to change depending upon when the President wants to see me.

I usually take advantage of the luncheon period and eat with members of my staff, or men from other Departments, or visitors, in order to discuss problems in a more genial or philosophical mood than would be possible in a more formal atmosphere. I've even had the telephone removed from the Treasury dining room.

Almost every Monday I lunch with the President. We discuss urgent problems and the President frequently assigns to me special duties. This is my opportunity to take up with the President the special matters which he has asked me to take care of. On Friday there is the Cabinet meeting, for which preparation has to be made. What happens there is, of course, confidential.

I'm afraid you will have to continue to rely on the Columnists as your source of misinformation on Cabinet proceedings.

Literally hundreds of plans proposing monetary and fiscal changes are sent to the President and to me. They are all carefully sifted. Most of them are crank panaceas. When, however, one merits the President's attention, a report is prepared for him. You may be interested to know that, as befits a democratic government, we answer every letter. And we receive thousands of letters each week.

Besides conferring with the regular Treasury staff, I have followed the practice of calling in experts from the outside when we have any extraordinary situation arising.

When, for example, we were confronted with the war in Europe, I called in a group of experts to help us handle the new and special problems created by the war. The great advantage of such a procedure is that they frequently bring in fresh points of view.

Again, when we have a legal problem of unusual complexity we have called in some of the leading legal minds of the country -- such as Jim Landis, Dean of Harvard Law School, Lloyd Garrison, Dean of Wisconsin Law School, and Eddie Greenbaum, Dean of the Y.M.H.A. Law School.

There are times when special banking and monetary problems warrant consultation and conferences with the outstanding men in their respective fields.

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I remember one occasion when I had about a dozen of the foremost financiers in the country. They stayed behind closed doors for two solid days giving me their reaction to important currency developments. It is very encouraging to realize how some of the most important men in the country in their respective fields gladly lay aside their own duties, come to Washington, sometimes on a few hours notice, to contribute, generally without pay, to the solution of the nation's problems. I have yet to experience my first failure to obtain their cooperation.

Finally, my day at the office ends finding me faced with the accumulation of the day's mail to sign.

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But even that isn't the end of the day's work. The reports I get are so voluminous and so numerous that I very seldom get a chance to read them during the day, which means that I have to do my homework after dinner. Frequently I am forced also to have conferences in the evening at home.

I think you will have gathered from this outline of my day that working for our government is an arduous occupation. The United States Government unquestionably asks a great deal of its workers. But it also offers a stimulus which is tonic, and which year by year is drawing men of very high calibre into the government service. These men are not being disappointed.

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My seven years in Washington have convinced me that there are great opportunities for men of ability and initiative to rise in the Government service. Government is confronted with problems of such magnitude and complexity that it needs the very best brains in the country. The work is strenuous, but it is also interesting and often challenging. Here is a career which I have no hesitation in recommending to enterprising and patriotic young men. I can assure them that work in the Government will provide them with ample opportunity to use their ability to the fullest extent.

It is the common boast of dictatorship that their governments function more efficiently than democracies. If efficiency means lack of consideration for the individual, if it means acting without due deliberation for the public welfare, then they may be right. But if government efficiency means that it is operating smoothly in response to the needs and demands of the popular will, then democracy as an instrument of government is without peer. But if we are to maintain the supremacy of democracy and continually improve its effectiveness, then Government must increasingly attract to its service men of the highest calibre, both intellectual and moral.

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Government as well as business needs men with initiative. They are just as much the driving force of public administration as they are of private enterprise. Wise policy cannot be made without competent technical assistance and advice. And the best policy can go astray unless you have an efficient government service to administer it. We need a constant stream of recruits from the country's best young men and women. Fortunately there is no scarcity of such. The fact that the United States is well endowed with such material augurs well for the future of Democracy.

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THE WHITE HOUSE
WASHINGTON

January 31, 1940.

Dear Dan:

Thank you for your letter of January 26th in answer to mine to the Secretary of January 12th.

I am afraid I did not make my request altogether clear. I stated that "if an opinion was prepared on the question I raised and on this further possibility I should appreciate very much having an opportunity to study it". By the "question" I meant the authority to sell the shares in question. Was such an opinion prepared and, if so, might I study it?

Yours sincerely,

Frank A. Murphy

Mr. Daniel Bell,
Under Secretary of the Treasury,
Washington, D. C.