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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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A decline of more than two cents in the sterling rate was today's feature in the foreign exchange market. After opening at 3.99-1/4, sterling was under pressure all day and reached a low of 3.97-1/8 at the close.

Sales of spot sterling by the four reporting banks totaled £416,000, from the following sources:

By commercial concerns.....	£ 157,000
By foreign banks (Europe and South America).....	£ 259,000
Total.....	£ 416,000

Purchases of spot sterling amounted to £317,000, as indicated below:

By commercial concerns.....	£ 212,000
By foreign banks (Europe and Far East).....	£ 105,000
Total.....	£ 317,000

The National City Bank reported that it had sold cotton bills totaling £11,000 to the British Control on the basis of the official rate of 4.02-1/2.

The other important currencies closed as follows:

French francs	.0225
Guilders	.5309
Swiss francs	.2242-1/2
Belgas	.1697
Canadian dollars	12-5/8% discount

The Federal Reserve Bank of New York bought 10,000 guilders for account of the Bank of Latvia.

We purchased \$1,012,000 in gold from the earmarked account of the National Bank of Rumania.

We sold \$285,000 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:

\$328,000 from India, shipped by the Comptoir National d'Escompte de Paris, Bombay, to the Chase National Bank, New York.
 77,000 from Canada, shipped by the Bank of Montreal, Ottawa, to its New York agency for account of the Credit Suisse, Zurich.
 14,000 from Canada, shipped by the Bank of Montreal, Montreal, to the Chase National Bank, New York.

\$419,000 Total

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

The State Department forwarded to us a cable stating that Samuel Montagu and Company, London, was shipping \$112,000 in gold to the Bankers Trust Company, New York, for sale to the U. S. Assay Office.

On further local speculative buying, the London fixing prices for silver continued to recover. The spot quotation was 21-3/4d, up 3/8d, and the forward price was 21-11/16d, up 5/16d. The U. S. equivalents were 39.08¢ and 38.72¢ respectively.

The Bombay silver quotation was unchanged at an equivalent of 40.16¢.

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

We made eight purchases of silver totaling 800,000 ounces under the Silver Purchase Act. Of this amount 450,000 ounces represented sales from inventory by two refining companies, and the remaining 350,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 300,000 ounces of silver from the Bank of Canada under our regular monthly agreement.



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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Fletcher Warren, of Mr. Messersmith's office, called me by telephone this forenoon to give me the correct name of the individual who is suspected of directing certain European shipping operations from New York and possibly giving instructions to German vessels, as well as routing goods to Germany via other countries. In an earlier memorandum I gave this name as "Gesner." The correct name is now found to be Edward Carl William Oelsner. This man is an American citizen, born in Wycocki, Poland. He applied in Paris for a renewal of his passport on April 1, 1939. He is said to have been connected with the Hamburg-American Line in New York, and later with the United States Navigation Company. Oelsner is believed to have been in touch with the German liner Columbus when this vessel was at Vera Cruz.

Mr. Warren told me further that the State Department planned to keep Vice Consul Noel on duty at Manzanillo as long as the German freighter Haviland is there. In this connection, the State Department is keeping track of the movements of several German vessels along the West Coast of Mexico.

I let Mr. Warren know that our investigators had been busy in New York, but that no report had yet been submitted. He seemed anxious to arrange for any necessary cooperation on the part of the State Department insofar as an investigation in Mexico is required.

J. M. A.

GROUP MEETING

February 1, 1940.
9:30 a.m.

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

H.M. Jr: Norman?

Thompson: I have nothing.

H.M. Jr: Dan?

Bell: We are still holding the Finnish payment. I am wondering if we shouldn't take some action on that, covering it at the Treasury.

H.M. Jr: Oh, I think I would wait until this legislation goes through one way or the other.

Bell: Apparently the legislation isn't going to affect that payment anyway.

H.M. Jr: I think I would wait.

Bell: You asked us to make arrangements so that we could study both the Congressional matters and press matters.

H.M. Jr: Yes.

Bell: The answer is, we appointed a committee of Mr. Thompson, Harry White, Chick Schwarz, to meet right after this meeting every morning and go over those things. It is still a matter of judgment as to just what you should do at the time the statements or speeches are made. It may be that after we decide that we should do nothing at the time, subsequent developments may require us to do something, so that our first judgment may not be correct on that.

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H.M.Jr: Well now, there is just one thing. You have got this big legislative section of lawyers looking through the Record every morning.

Bell: We get their --

Thompson: Larry Bernard has been.

Bell: He hasn't been, but we thought we would have him, but we do have his slips.

H.M.Jr: I think he ought to be there.

Bell: He will be, after this. He hasn't been, up to this time. We do have his slips and Chick Schwarz gets out the same kind of information on the press that Larry gets out on the Record.

H.M.Jr: But you will have Larry Bernard on it?

Bell: Yes.

H.M.Jr: Good. And then you are going to look up for me how Mr. deValera, of the Irish Free State, sold his bonds.

Bell: I have already looked into that.

H.M.Jr: I feel that if we are unsuccessful on the Hill in getting any legislation, I am thinking of recommending to the Finnish Minister he do what deValera did and make an offer to the people in the United States and in France and Finland to subscribe. I think you have got a good organization, I think he could sell \$25,000.

Sullivan: I think he has already started that.

H.M.Jr: Has he?

Bell: It is Pat Harrison's idea that they would have a Congressional resolution suggesting that and saying that if they did it that it would not be in conflict with the Neutrality Act.

H.M.Jr: Well, they don't need any Congressional Act.

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- Bell: I don't know, would that be considered un-neutral?
- H.M.Jr: Well, let the lawyers take a look at it.
- Cotton: Wouldn't the banks be apprehensive of buying them without something like that?
- Bell: I should think so, and that was Pat's idea, that the national institutions wouldn't buy them because of the Neutrality Act.
- H.M.Jr: I wasn't thinking of the banks.
- Bell: They would get them eventually.
- H.M.Jr: I wasn't thinking of the banks, but somebody take a look at it. I personally think that the sooner he makes up his mind to go that route, the better, for him. I think he would sell a lot if he handled it well. I think he could sell 25 million.
- Bell: The organization is --
- H.M.Jr: deValera sold ten.
- White: No, he would never sell 25 million, Mr. Secretary. If he had some kind of a lottery arrangement attached to it, he might --
- H.M.Jr: If deValera could sell ten --
- White: But the Irish Government is a lot sounder investment.
- H.M.Jr: Oh, the Irish Sweepstakes? I am talking about deValera. When he sold 10 million dollars, there was no Irish Government. He just went out and sold these things to finance a revolution. Am I right, Dan?
- Bell: As I recall, that was the offering. I think he sold close to that figure and they have all been paid off.
- H.M.Jr: Do you remember it?

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Harris: I just faintly remember that it was something along the lines that you described.

H.M.Jr: There was no Government.

Sullivan: I thought there was more than that.

Harris: I should think Ed Foley would know about it.

H.M.Jr: He paid them all off.

Sullivan: Yes, that is right. About four years ago.

H.M.Jr: I am talking about the issue he sold to finance his revolution. Bell is looking up the history. Anything else, Dan?

Bell: The bankers will be here Friday, that is tomorrow morning, and I take it the lawyers, at least some of them, will be here at the same time. I don't know whether you want a general conference or just - you said to have them drop in.

H.M.Jr: Bring them up to date and tell them what you are doing and get their advice. I won't be here.

Bell: Oh, you won't be here?

H.M.Jr: No, I am going up tonight with the President.

Bell: I see. Well, in connection with that conference, if we have one with the Federal Reserve people, Leo suggested a small conference, not one of these big room full of people conferences. Get them around the table for the first conference on this program. Ed knows that Crowley agreed with the program that we have drawn.

Foley: I think if we are going to have a meeting at which we will set forth our program, we should do it before Cushing gets here on Monday.

H.M.Jr: Sure.

Foley: If we are not going to have the meeting, that is something else again and I think we just better sit tight until Cushing gets here, but

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I think the advantage of having a meeting - the point in favor of having it before he gets here --

- Bell: Cushing will be here on Monday, but he has asked for a postponement of the appointment with Delano until Tuesday. He has some other business on Monday.
- H.M.Jr: Well, those people who are in favor of our showing the Federal Reserve our minimum requirements feel that we ought to do it this week, see. Do you have any doubts about that?
- Foley: No, I think it is just a matter of strategy.
- H.M.Jr: Well, Ed, sit down and talk it over with Dan and get up to date on it, will you?
- Foley: I have gotten up to date. I spent yesterday afternoon on it. I think that Whitney Seymour would like to have the meeting before the time when Cushing gets here.
- H.M.Jr: Well, I have got an almost impossible day, but if you fellows want to see me today, you had better talk quick. I don't know when I will do it.
- Foley: Jim Landis can't get here until Saturday morning at 11:00 o'clock. I don't see any reason for him to come down if you are not going to be here.
- H.M.Jr: No.
- Foley: And Eddie Greenbaum --
- H.M.Jr: He will be here tomorrow?
- Foley: He will be here tomorrow. Lloyd Garrison is coming down for the House investigation of the Labor Relations Board.
- H.M.Jr: Well look, stay behind a few minutes after this meeting and let's get down to brass tacks on this.
- Harold?

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Graves: I have had some preliminary reports from the man I sent to Indianapolis to look into this State Procurement Office situation. This man says that he has found nothing that indicates any dishonesty on the part of our people.

H.M.Jr: Good.

Graves: It apparently is a question of our having been asked to buy a particular product according to specifications provided by the Works Progress Administrator. That angle we are exploring. There may be some improper restriction of specifications there for which we were not responsible. Before you go away, I think I should have a few minutes to discuss the Procurement Division situation with you, generally. We are going to have to drop between now and the end of June somewhere between 350 and 500 people over there on account of the appropriation situation.

H.M.Jr: Well, next week.

Graves: I would like to have your approval of our program.

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

Graves: At your convenience.

H.M.Jr: Anything else?

Graves: No.

H.M.Jr: Harry?

White: There are several things in connection with strategic materials and shipments to Russia, and if you have time either today or tomorrow - I will wait.

H.M.Jr: I have got a committee set up on this boat business, stopping at Manzanilla.

White: That is taken care of?

H.M.Jr: Yes. I mean, anything that has to do with Manzanilla, there is a committee with Harris. Right?

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- Harris: Well, Herbert Gaston and I have been working pretty closely on it.
- H.M.Jr: Yes. So if there is anything on that thing - as I understand, this thing they have been doing down in Manzanilla - this is what I got from the English, Herbert. This is what they think it is, that the Russians were afraid that we would put on an embargo on copper. Therefore, they shipped a lot of copper down to Manzanilla. These boats pick this copper up down there and then go on their way. That is what the English think.
- White: Mr. Glasser was up at the docks --
- H.M.Jr: That is what the English think.
- Harris: Yes. They knew immediately what it was.
- White: I think they are probably right if we extend it. Glasser was up to the docks and he saw that the material that is --
- H.M.Jr: Louder, Harry, will you?
- White: The material that is going to that port is so large and it is very - it would be very unlikely that they have facilities for handling it and he thinks that what they are doing is just getting it out of the country, not only copper but everything they possibly can, because the docks are loaded up. There is apparently a scarcity of ships going to Russia and they don't want to leave it in this country because they are probably afraid they may not be able to get it out if they delay too long, so they are shipping everything they possibly can to the Mexican port.
- Harris: In fairness, though, Herbert, to the Russians, you must remember that the mines that ran across the North Atlantic to Russia have had to disband, can't go through that zone, so that now they go around by Vladivostok and you ought to weigh one against the other. I don't know that there is any more going now than went formerly, except it is going through a different route and it might be a little

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more copper or some other material that is going forward.

- Gaston: Yes, they are pushing the shipment from this country. They are using American lines to get them down to Manzanilla and then moving them when they can from Manzanilla.
- White: They are working day and night on it.
- Harris: They have got a boat every 15 days.
- H.M.Jr: They have sent Vice Consul Noel down there now, so he is going to be on the spot.
- Gaston: At Manzanilla?
- H.M.Jr: Yes.
- White: And it is possible in numerous ways to - probably you already know - to delay those shipments interminably if you want to, but there are some other matters that Purvis raised. Whenever you are ready.
- H.M.Jr: I doubt if I can do anything today. I have got this Colombian thing.
- White: There is no hurry. I will just wait until I hear from you.
- H.M.Jr: Unless it is something you want a decision on today.
- White: No. There was a note in the Journal of Commerce (January 31) on the Russian gold sales. You may have seen it. If you haven't, it is very good.
- H.M.Jr: No, I haven't seen it. I never worked so hard to dig the gold out of you fellows. My heavens, what I had to go through was a gold-digging process to get those statistics.
- White: What statistics?
- H.M.Jr: The gold statistics to Russia. It took me three days to get them.

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White: I don't know who you asked or where. We could get them to you in five minutes. Imports of gold from Russia? They are always available.

H.M.Jr: It is a secret from Mr. Bell.

White: I kept them secret from Mr. Bell?

H.M.Jr: Somebody did.

White: Well, the wires got crossed somewhere. You are talking about Russian gold or gold from Russia? They are two different things.

Bell: On the messenger's desk.

H.M.Jr: I see.

White: Yours or mine, Danny?

H.M.Jr: All right, Harry.

White: There is one of the matters that came up at this 10:00 o'clock meeting that Danny Bell speaks of on Canadian currency that Americans seemed to be paying more than 11 cents for them in certain retail stores, et cetera. The thought was that you might be asked about it, in which case you might want to know that --

H.M.Jr: Well, Chick Schwarz is full of it.

White: He was the one who raised the question.

There is also the question that if they come down again you might want to take that up with them, because we are always getting quite a few complaints from people who claim they are being cheated.

Bell: It is a pretty hard thing to control, to tell the storekeeper to charge 15 cents instead of 11 cents.

White: Here is this memo. You might be interested in knowing there was a seminar at the Brookings

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Institute, at which there were some very competent persons, including two men who helped write that book, "The Golden Avalanche," which came out about two months ago and which the thesis was very severe criticism against our gold policy and that all the men present, with the possible exception of Walter Gardner, said that the book was definitely wrong in its reasoning. I thought you might want to know that, because there was a good deal of favorable comment on the book in quarters that don't really understand the problem.

H.M.Jr: One of these days you are going to give me --

White: Yes, I will concentrate on that.

Gaston: I think we need a book, Harry.

H.M.Jr: I think we need something.

White: We will get something out on that. This book might be mentioned to you and I thought you might know that --

H.M.Jr: What else?

White: That is all.

H.M.Jr: You will be interested to know that my talk in New York was very well received. Thank you for your assistance.

Basil?

Harris: There was a bill introduced by one of the Congressmen from Florida, the erection of a new Customhouse in Miami, with a proposed cost of \$750,000. I spoke with him and he said he didn't know anything about it. He had been asked to introduce it by the junior Senator from Florida. I talked with him and pointed out that we had a new Customhouse at Miami and he expressed great surprise, so that is where that ended.

Haas: Like a holding company.

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- H.M.Jr: They want two Customhouses to grow where only one grew before.
- Harris: I only tell that as a matter of interest.
- White: I am sorry, there was another thing that I have to take up this morning. There were two points of difference which developed between the Federal Reserve Board and us. We had two long meetings and it has come to the point, I think, where we will have to ask your opinion on the matter. I can raise it here or you can indicate a time for it, whichever you like.
- H.M.Jr: Well, we will see. We will see how we get along today.
- Gaston: They had a seminar yesterday.
- H.M.Jr: Basil, is that Spitfire on its way now?
- Harris: That English chap came to see me yesterday and he was to go back and call me and give me instructions. They haven't come yet, but it is all ready to go. Did you have a chance to read that memo on shipping that I gave you?
- H.M.Jr: No.
- Harris: One of the interesting features in that memo is that the French today have commandeered 50 percent of all space on ships moving to France, no matter whose they are, Norwegians, or what. If you want to ship to France, the French Government reserves 50 percent of the space for their own account.
- H.M.Jr: From their own standpoint, that is sensible.
- Harris: Yes, and I think it will probably end up a hundred percent. But it will only end up, as I pointed out to you originally, that these warring nations will direct exactly what purchases they want in this country and will only move the commodities that they need the most. The others, they will leave behind.

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H.M.Jr: George? I want you to know that George is a machine tool expert now.

Haas: There is the aviation thing.

H.M.Jr: Thanks.

George, what happened after I left?

Haas: They went down to the conference room and didn't take very long. The three engine manufacturers gave the machine tool people the orders which were really producing the log jam, the bottleneck, and then they are going - the machine tool people are going back and going to get in touch on the phone in Cleveland with the particular machine tool manufacturers and they are going to ask these people to come to New York Monday. In New York they are going to work out this program and come back and see you Wednesday. It went along very smoothly.

H.M.Jr: What we are doing here for them is, we are getting the airplane engine people for the first time in touch with the machine tool people and all we are doing is on existing orders they now have on their books. The orders that you have seen so much about in the newspapers, the billion dollar order from the English and the French, there is no such order, and it may come through but it - take a concern like Pratt & Whitney who have on order seven hundred different tools to take care of the existing business. They have only been able to get delivery of a hundred and fifty. They are going to those tool people themselves and take a look at their books and see where the tools are going and then they are going to set up, on their own accord, priority. I think in a week or ten days that we will have done a job which will be very helpful to the engine manufacturers.

It is interesting - the figures which we have been able to get and which I don't think anybody had before. George has gotten them

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together. Last December there were 24,000 people working in the airplane factories in the United States and this December there are 52,000. In the airplane motors, there were 6,600 and this December there are 12,000. It was fairly constant before that, so in both the airplane and engine companies, there has been just double the employment. I am surprised how few there are in the motor industry. There are only 12,000 people in the whole airplane motor industry in the United States.

- Haas: The Pratt-Whitney man said down in this other meeting that half of their motors are made outside their factories, so you have got that much employment there.
- H.M.Jr: The interesting thing was that there was a committee report made in the Labor Department in June last year and the report just went with the wind. Nothing ever happened. I think in a very quick time we can do something.
- Cotton: I don't know if it would be any help, but Mr. Noble has an assistant who used to be president of one of the best small tool machine companies.
- H.M.Jr: We definitely don't want anybody, please. I have got a good example of working with the other departments on the debt. I am going to do it entirely by myself and in ten days I am going to deliver the goods. I don't want any other department messing in on it. Excuse me.
- Cotton: I just thought, personally - this fellow used to --
- H.M.Jr: There is a chairman in the tool industry on the committee to work with the Government. Then there is an institute, a very fine institute, and they will give me by next Wednesday, of their own accord, 80 percent voluntary compliance and these people - I mean, the thing has been around. The Department of Commerce should have done this job. It isn't my job

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at all. They and Labor should have done it with the War Department. They muffed it and I am not going to work any more with anybody else. When the President asks me to do something, I am going to deliver it to him finished next Wednesday or Thursday. But I have got to do it, because Commerce and Labor and War and Navy have completely muffed it. They have just absolutely muffed it. And they won't work with those people. That is the answer, they just won't. Both Lubin and Lauch Currie tried their darndest to get something done and just couldn't.

- Schwarz: In the light of what you are discussing, it might be of interest that the tool people have been telling some of the trade press and the financial press that what you are trying to do is to divert some of their foreign business for the time being in order to bolster the domestic supply of tools.
- H.M.Jr: Well, that is all right, isn't it?
- Schwarz: That is fine. In the light of the recent background, it is especially good.
- H.M.Jr: Well, if I was in either War or Navy or Commerce or Labor, I would be so ashamed of myself to let this situation develop that I would do one of two things. It is so easy to work with these people if you would just play fair with them and the man who is the head of this committee is one of the most violent anti-New Dealers in the country and now we have made out of him in two days a friend of the Administration, just because the man has been badly handled.
- Haas: He really went to town. You would have enjoyed the meeting in the other room.
- H.M.Jr: He is one of these fellows who prides himself as being an individual tough guy.
- Sullivan: Stilwell? He is a corker.
- H.M.Jr: Isn't he? You know, we two fellows, we are all individualists, we are tough.

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Sullivan: I thought he was swell.

H.M.Jr: He is a nice fellow, but he has been badly handled. Is that right, John?

Sullivan: Well, I don't know about the past. He couldn't have been nicer in any way yesterday in the things where I had to contact him.

White: You were helping him to increase his production?

Haas: He has got so much, that doesn't bother him. He is loaded.

White: Excuse me, I wanted to know if you were helping increase his production.

Sullivan: No.

H.M.Jr: Chick?

Schwarz: That is all, thank you.

Cotton: Traphagen is going to be here at 10:00. I didn't know whether you wanted to see him before 11:00.

H.M.Jr: Here is the situation. I have been calling up Mr. Welles. I said that it had been indicated to me that we should put pressure on the Colombians to get in line and Mr. Welles got quite excited and said that is the last thing he wanted anybody to do and I said I agreed with him, so if you don't mind, I think I am just going to take this thing cold and when they come in, I am simply going to say to these gentlemen, "Now, I am here. I am available once more, but this is the last time, gentlemen, and if you want to - it is too bad. You are so close together that you can't get together. Well, we will go along with you today and tomorrow and just as long as you want to sit here in Washington, but this session is the last one, as far as I am concerned. I will just sit here and listen."

Cotton: Mr. Jones called me last night and said that although he had planned to come to the meeting at 11:00, he thought he ought to be up on the

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Hill again on this bill and he wouldn't be able to come. He said to tell you that yesterday the State Department brought Jaramillo to see him to talk about credits. They asked for 25 million dollars and he told them - he said he was forced to talk turkey to them and told them that was an outrageous sum and he would possibly consider ten, but he didn't even know about that. He said to tell you that by way of background for the meeting this morning.

I also take it there was some indication that Turbay will come forward with some proposition today on his own.

H.M.Jr: Well, I sincerely hope we get them together today. Who all is going to be here? Bell?

Bell: Yes.

H.M.Jr: Harry? Gaston? Have you been here (to Foley)?

Foley: No.

H.M.Jr: I don't see any need for it. Anything else, Joe?

Cotton: No. I will bring Mr. Traphagen here at 11:00.

H.M.Jr: If you please.

Cochran: There was a story on the ticker yesterday that Dr. Schacht was in India working for the Bank of England. But he is at the Suvretta House in St. Moritz, Switzerland, now. A friend of mine in New York heard the story on it last week.

H.M.Jr: Anything else?

Cochran: Donald Heath came back this morning and is just going to be here today. You could tell him goodbye.

H.M.Jr: Right after the press conference, I will tell him goodbye. Sometime before 11:00 o'clock.

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Cochran: All right, sir.

H.M. Jr: John?

Sullivan: That ruling --

H.M. Jr: Is that window too much for anybody there?
You can close it, if it is.

Sullivan: That ruling was all ready yesterday and Mr. Purvis
came down and we got in touch with --

H.M. Jr: Did you locate him?

Sullivan: Finally. Just as soon as I got back from leaving
you, I called and his office said he was in
New York and they didn't know when he was re-
turning, and later on in the afternoon I de-
cided to call New York. I called up to see
where we could reach him in New York and they
said he was right there and then he came down
and I told him that is the sort of thing that
is causing trouble and I think we got things
fairly well worked out. But we got hold of
the counsel for the Atlas Powder Company and
told them we would want a waiver on publicity
on this ruling and he talked with his clients
and then called back and I think his clients
came down and I suspect that contract was signed
last night, but they are somewhat afraid of
sabotage. This plant is right next to a plant
that is making powder for our Government and
they don't want the amounts or the location
disclosed. This particular location has nothing
to do with the type of - or with the source of
supply for the type of powder they are making,
which you inquired about yesterday. But I
have inquired about the possibility of getting
this ruling published in the bulletin that is
to be issued next Monday morning and that
paraphrases the situation, "X" Company is being
lent "Y" dollars from such a source, and so on,
and I think we had better - they are holding
that up, pending your decision this morning,
if you want that in.

H.M. Jr: Want what in?

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- Sullivan: The ruling published Monday morning.
- H.M.Jr: Definitely.
- Sullivan: That would be published anyway, eventually, and I think we had better suspend our decision as to whether you want to give them any more publicity until after we see whether that Monday morning bulletin attracts any attention.
- H.M.Jr: What bulletin is it?
- Sullivan: Internal Revenue bulletin. That gets wider circulation than some others.
- H.M.Jr: Since the story has been going, I think it is very important to have it publicized. What is the raw material that goes into that?
- Sullivan: T.N.T. There isn't anything that comes from that particular section - they have a plant there for mining purposes.
- H.M.Jr: For what?
- Sullivan: To supply mines in that general area. There isn't any significance about its being located in that particular spot.
- H.M.Jr: I see.
- Sullivan: There has been a good deal of complaint upon the publication of the salary list, people writing in and saying, "Well, I know that this company pays more than \$70,000 to Mr. Jones and his name isn't on the list." Every year there is a supplementary list. Mr. Bell and Mr. Schwarz and I have been discussing the advisability of issuing a list on the basis of a fiscal year and not having an earlier one and a supplementary one. We think it would save a lot of trouble.
- H.M.Jr: Do it any way you want to.
- Bell: Either that, or say there is a supplementary, because this list looked as though it was final.

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H.M.Jr: Whatever you decide.

Bell: All right.

Sullivan: As near as we can find out on the Hill, there is to be no change in the Vinson-Trammell Act and that was found out indirectly and they don't even know for sure.

H.M.Jr: Fine. Well, how many turkeys?

Foley: One.

Bell: The report I got said "some". One is not some.

Foley: Some of the party got none, Dan.

H.M.Jr: What are those blindfolded ones?

Foley: That was on my desk when I got back. Legs tied and blindfolded.

H.M.Jr: Is it hard to creep up on a sleeping turkey?

Foley: You sit in a blind.

H.M.Jr: You or the turkey?

Foley: The shooter. You get out there very early in the morning before the sun comes up and it is very dark. The blind is made out of palmetto leaves. One fellow slept in his and a cow came along and ate all the leaves. When he woke up he was right out there in a chair.

Klotz: That is a good story.

H.M.Jr: It is wonderful. How long before we read about that in the columns, or is it already out?

Foley: I don't know.

H.M.Jr: What else?

Foley: Back in '35, the President asked the Treasury and the Attorney General to make a study of the Customs port up in New York. We employed

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the New York Law Society to do our part of it and we have done about as much --

- H.M.Jr: I love to see this pressure come out.
- Foley: We have done about as much as we can. Herbert and I thought it would be a good idea if we went over and talked to Bob Jackson about good candidates for those two vacancies.
- H.M.Jr: I have been telling Magill and Eddie Greenbaum to put the pressure on you two boys and I see it has taken effect finally.
- Gaston: We don't expect to win a hundred percent, but we thought perhaps we could get Jackson to stand with us on the demand there would be no political appointments on that court.
- H.M.Jr: It has taken months to get you fellows stirred up. Anything you do is all right with me.
- Foley: I talked to Murphy while you were in Europe and asked him if he would give us a chance to look at the candidates he was going to submit to the President and he promised me he would, but I never heard anything more about it. I think we ought to take a shot at Bob Jackson.
- H.M.Jr: Yes. After all, if you want to have any standing with the New York Law Society, you had better get busy.
- Anything else?
- Foley: Nothing.
- H.M.Jr: It is wonderful to see how they come here and go right down the hall to see these two men.
- Foley: They do.
- Gaston: Thompson was in New York yesterday on this Russian ship thing. I think he has pretty well cleared up all the information available there. I don't suppose we could send him to Mexico unless we - well, we would certainly

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have to talk to the State Department. It looks to me as though the President, through the State Department, is getting what is available.

H.M.Jr: Yes, they have sent a Vice Consul down there.

Gaston: If we should need more information, we could talk to them about sending somebody down there. We might get some help from the Mexican side, because if there is any funny work going on there it may be against the Mexican Government.

H.M.Jr: Those who are interested in the Bank of America, stay a few minutes.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me at 11:15 this morning. He stated that the British and French Embassies had now received replies from their Governments in answer to the inquiries which had been made at the instance of the Secretary of the Treasury. The French reply is still of a preliminary nature, a fuller answer to be brought from Minister Reynaud by Leroy-Beaulieu when the latter arrives here about February 15. Pinsent stated that the British Ambassador and the French Counselor of Embassy would like to call on the Secretary Friday to present the replies now in hand. I explained to Mr. Pinsent that the Secretary would not be in town on Friday, and that his schedule today was crowded, especially considering the Cabinet meeting. The British Ambassador also has a full day.

When I told Pinsent that the Secretary would be glad to have the answers for possible reading over the week-end, Pinsent and the French Counselor, who was with him, agreed to come down to the Treasury this afternoon and hand me the two memoranda. If, after the Secretary sees the memoranda, it may be found desirable to have a talk with the British Ambassador and the French Ambassador or Counselor, these two officials could meet with the Secretary some time early next week.

I shall, therefore, endeavor to deliver the two memoranda to the Secretary before he leaves Washington this afternoon.

Pinsent stated further that he expected Mr. Gifford to report upon his inquiries in New York at the end of this week. I told Pinsent it would be most desirable for us to have any information which Mr. Gifford may be able to provide us by the middle of next week.



February 1, 1940
10:58 a.m.

HMJr: Guy.....

Guy
Helvering: Hello.

HMJr: Guy.....

H: Yes.

HMJr: I've got one of these terrible days.

H: Yes.

HMJr: This isn't something you could do on the phone?

H: Well, it's a matter concerning this investigation
in -- in Indiana.

HMJr: Yeah.

H: Now, we sent some attorneys out there with the idea
of having a hearing.

HMJr: Yeah.

H: Well, it developed that Mr. Foley didn't think it
was a wise thing to do.

HMJr: Yes.

H: Now there are three attorneys from the office out
there and they are conducting an investigation.

HMJr: Yeah.

H: It isn't any hearing.

HMJr: Yeah.

H: I don't think it's within their province to do that
and what I wanted to get authority for is to have
the General Counsel, when they -- I don't want to
cut them right off right this minute, but they're
down in Louisville and the only work they're doing
is investigating work.

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HMJr: I see.

H: And that is a province of Ireys outfit.

HMJr: Yeah.

H: And -- and I think can be done better than they are doing it.

HMJr: Well, now I tell you.....

H: I wanted to have authority to -- have you advise the Chief Counsel when they finish up that investigation on the thing they're right on now at Louisville that they turn whatever information they have over to Sullivan, the investigator, and let him go ahead with the investigation.

HMJr: Well, would it be agreeable to you if I asked John Sullivan to call a meeting with you and Foley and Gaston and thrashed it out?

H: Well, if -- well, we could do that. I would like to have Ireys and Graves there, of course.

HMJr: All right. Supposing I ask Sullivan to call a meeting with you, Foley, Gaston, Ireys and Graves.

H: Yes.

HMJr: Is that right?

H: Yes.

HMJr: And thrash it out.

H: Of course we have to have some direct order.

HMJr: Well, supposing I get a recommendation from the group.

H: Um-hm.

HMJr: You want me there, is that it?

H: Well, I'm sure that you'd look straight through the point to see what I'm getting at.

HMJr: All right. Well then I'll -- would anything happen if I let it go until Tuesday.

H: No, if you'd set down a time Tuesday.

HMJr: Ten-fifteen Tuesday morning.

H: What?

HMJr: Ten-fifteen Tuesday morning.

H: All right. Fine.

HMJr: I'll tell them what it's about. I'll tell everybody I want to -- I want to cut -- official cut hay on that day.

H: Yes. All right.

HMJr: O.K.?

H: You bet.

HMJr: Thank you.

H: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 1, 1940.

TO Secretary Morgenthau

FROM Mr. White

Attached is a list of memoranda and reports which have been prepared in the Division of Monetary Research from July 1, 1939 to January 31, 1940.

Studies and Projects in the Division of Monetary Research

July 1 to January 31, 1940

The work of the Division of Monetary Research includes, among other things, the preparation of economic analyses of problems, and reports and surveys in the following fields:

Gold
Silver
Foreign Exchange and Stabilization Fund operations
Foreign Trade

Administration of the Anti-Dumping Act
Administration of the Countervailing Duty Law
Trade Agreements program
Economic aspects of Customs problems

Monetary problems
Some aspects of fiscal problems
Economic conditions in foreign countries
Financial and monetary developments abroad
Commercial policy of the U. S. and foreign countries

Miscellaneous activities of the Treasury with respect to
Latin American debt settlements and proposed loans by
the Export-Import Bank
Participation in the Government's program of cooperation
with Latin America
Some aspects of the strategic war materials problem
Correspondence of the Treasury on monetary and foreign
matters
Special assignments not included in the above list

The specific memoranda and reports on the above topics which have been prepared are for convenience listed in the following categories:

1. Prepared and submitted to the Secretary from July 1, 1939 to January 31, 1940.
2. To be submitted to the Secretary but still in preparation.
3. Prepared for use in the Division and for other officials in the Treasury (not to be submitted to the Secretary).
4. Memoranda prepared in the Division that may or may not be submitted to the Secretary.

1. Memoranda and reports prepared and submitted to the
Secretary from July 1, 1939 to January 31, 1940.

Sunshine Mining Company

Relating to profits in silver production.

Japanese Currency War in China and the Tientsin Incident.

Treasury Position with Respect to Continued Purchases of
Foreign Silver.

Statement of Secretary Morgenthau before the Senate Committee
on Banking and Currency on S. 2759 (Self-Liquidating Projects
Act of 1939).

Foreign Exchange and Trade Status of "Gold" vs. "Non-Gold"
Countries.

Colombia

(Attaching longer memo on Colombia)

Comment on Plan Submitted to You by Mr. Bullitt, Entitled
"A New Defensive and Offensive Method for Liberal Nations".

Special report on "Scandinavia".

A narrative description of the economic, political and
social conditions in Norway, Sweden, Denmark and Finland.

The Recent Report on the Economic Situation in Japan by the
Department of Commerce.

British Economic Picture.

A survey of the general British economic situation during
the Summer of 1939.

U. S. Action with respect to Foreign Exchange Problems During
the Period of our Neutrality during the Great War.

A study of the action taken by this country to protect
itself against the economic forces emanating from the
Great War in Europe, 1914-17. Submitted to Mr. Hanes.

The Canadian Situation.

An analysis of the economic situation in Canada with
particular reference to the Canadian exchange rate as
preparation for the meeting with the Canadian Finance
Minister.

Section 1 - 2

The New British Economic Trade Policy.

An analysis of the British economic policy inaugurated with the outbreak of war as it will affect the United States economic interests. (Prepared in connection with letter from the Secretary of State dated Sept. 23, 1939.)

The German Oil Situation.

A report embodying all sources of information that could be reached in the government and in private oil circles as to the status of all supplies and sources of supply that might be available to Germany, with an interpretation of this information in the light of Germany's oil needs in the prosecution of the war.

A Possible Needy Case.

Regarding the effects of "cash and carry" provision of Neutrality Law.

Liberian Proposal to Purchase U.S. Currency.

How Fast Will England and France use up Their Foreign Exchange Resources during the Next Twelve Months of War?

For use at meeting in Mr. Hanes' office.

Colombia.

Memorandum (no title) Regarding Senator Wagner's request for information on the Treasury's position on Senator Taft's amendment to Neutrality Bill to limit stabilization fund's holdings. (Sent to Senator Wagner).

Inter-American Financial and Economic Advisory Committee
(Inter-departmental committee set up by Executive Committee on Commercial Policy.)

Has National Socialism weakened or strengthened the Position of Capitalism in Germany?

The Present Situation re Quicksilver.

A short survey of the world stock, supplies and demand for quicksilver.

Gold and Capital Movements in the First Ten Weeks of War.

Utilization of our Gold Holdings (Attaching "The Gold Investment Act of 1940")

A plan to increase the world's use of gold and to initiate an outflow of gold from the United States.

Section 1 - 3

Loan to Colombia.

Foreign Exchange Resources of England and France.

A survey of the foreign exchange resources of the allied powers with an analysis of the degree of liquidity of those resources.

Latin American Background Studies.

Economic studies of all Latin American countries as preparation for participation in Guatemalan Conference of American Treasuries.

Memo for Mr. Silver on the Anglo-Palestine Bank, Ltd.

"Tin Loan" to China.

Investigation of the possibilities of extending additional credits to China on the basis of the tung oil loan of December, 1938.

Information we would like to have about Colombia.

The Fiscal-Social Program for 1940 (Speech for Secretary).

A draft of a possible speech which would set forth a social and fiscal philosophy and program.

Proposed Inter-American Bank.

The Finnish Situation.

An economic survey of Finland with an interpretation of the effects of the possible loss of Finnish independence upon United States economic interests.

Tungsten.

United States Exports to U.S.S.R.

A day to day compilation of U. S. exports to the U.S.S.R. (First report in response to request for this study. Current reports being submitted.)

Exchange Depreciation Article in Proposed Argentine Trade Agreement.

Possible Control of Certain Strategic Metals.

Draft of letter to the President with respect to statement showing actions which might be taken to make funds available to the Treasury to finance a deficit over the next 18 months.

Revision of draft prepared by D. W. Bell.

Argentine Trade Agreement.

Memoranda on this subject prepared for the Secretary and also for the President.

Foreign Economic Developments.

First report in response to the Secretary's request for a semi-monthly report showing business conditions in foreign countries.

Preliminary Report on Columbium and Tantalum.

Exports of Molybdenum to Italy since the outbreak of War.
Mentioned at meeting January 8.

Highlights of Plan for Pan American Bank.

Preliminary Report on Vanadium.

Mentioned at meeting January 9.

Preliminary Report on Cobalt.

Mentioned at meeting January 9.

Preliminary Report on Chromium.

Mentioned at meeting January 10.

Preliminary Report on Industrial Diamonds.

Mentioned at meeting January 10.

Lord Beaverbrook's Article on Gold and War Debts.

In reply to Lord Beaverbrook's comments on gold.

French Economic Report.

A comprehensive report on the French economic situation since the outbreak of war.

Chrome deposits in Alaska.

Mentioned at meeting January 15.

Treasury participation in the drafting of the Supplementary Cuban Trade Agreement.

Domestic Exports to Italy.

(First report in response to request for this study.
Current reports being submitted.)

Brown Bill for Loan to Finland.

Senator Pittman on Treasury Purchases of silver from Japan.

Re-exports and stocks of Tin and Rubber in the United States.

Section 1 -5

Memorandum for Mrs. Roosevelt with respect to letter from
Dr. Sterne Morse.

Current reports in addition to the above:

Daily report on transactions in domestic stocks (compiled from
S.E.C. figures).

Weekly memorandum on "Recent Developments in Gold and Capital
Movements".

Weekly table: "Balances and Earmarked Gold Held for Foreign
Account".

Weekly table: "Net Capital and Gold Movements".

Weekly reports on U. S. exports to Russia.

Weekly reports on U. S. exports to Italy.

Material for monthly Treasury Bulletin.

Correspondence

357 letters replied to, July 1939 through January 1940.

2. To be submitted to the Secretary but still in preparation.

The Future of Gold.

Methods of reducing gold imports.

The economic situation in Germany.

The economic situation in Italy.

The economic situation in England.

Is there danger of inflation in the United States?

The current world coffee situation and probable effect of the war.

Economic program to be adopted in the event war ceases.

How long can unbalanced budgets continue?

Program for permanent recovery.

How Fast will England and France use up their foreign exchange resources during the next twelve months of war?

What has happened to world trade during the first 6 months of war and what are the prospects for world trade in the light of that experience?

Preparation of material on New Deal.

What is the greatest economic gain that we can obtain from our new Latin American program?

Changes in gold and foreign exchange holdings of Latin American countries since the war.

Studies and analyses relating to the capital absorbing possibilities of Peru, Chile and Brazil.

Comprehensive report regarding methods employed by Germany in carrying on foreign trade.

Memorandum on monetary powers of the Government (to be checked with the Legal Staff).

Evaluation of the Trade Agreements Program in the light of the changed international situation.

Division of Monetary
Research

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Feasibility of including in Annual Report of the Secretary an inventory of value of Federal property in the United States.

Statement of recoverable assets of Federal Government to include once a month in Daily Statement.

3. Prepared for use in the Division of Monetary Research and for officials in the Treasury other than the Secretary.

Colombia's Capacity to Pay Dollar Obligations.

The Mexican Situation.

The reported discontinuance of Italian exchange fluctuation "insurance" on clearing transactions with Germany and Portugal.

Depreciation of Cuban Peso.

Department of State's Outline of Tentative Program for the Division of Cultural Relations.

The Semi-Annual Report of the Reichskredit Gesellschaft.

The arguments used on the floors of the House and Senate against the continued purchasing of foreign silver.

Errors involved in the sending of a mission to Venezuela.

German Barter and the Anti-Dumping Act.

Questions pertaining to Venezuela's Economic Policy.

Rumors of Argentine Peso Depreciation. The Argentine Situation.

Reclamation (In connection with Self-Liquidating Projects Act).

Proposal to Train in the Treasury Young Men from the Latin American Ministries of Finance.

Failure of the Good Neighbor Policy.

Department of Agriculture Expert Report on Brazil's Potential Production of Non-competitive Products.

Brazil: The Token Debt Payment of \$1,000,000 on July 1, 1939.

General Notes and Observations regarding Brazil.

Current developments in capital movements, gold and foreign exchange.

The Northwestern Mutual Life; Testimony of Michael J. Cleary before the T.N.E.C.

The Life Insurance Business: National Problems of Regulation, Investment and Social Security.

Frank Fetter's report on Ecuador.

Proposals for closer relations with Latin American Treasuries that might be profitably pursued at the Guatemala Conference.

Argentine Interest in a Trade Agreement.

The Proposed Lard Barter Transaction and the Anti-Dumping Act.

Economic Implementation of the Good-Neighbor Policy. A review of the policy to date with reference to forthcoming Guatemala Conference.

Four-Power Conference of Finance Ministers held in Montevideo from January 27 to February 3, 1939.

Countervailing duties on Polish Portland cement.

American Position at the Guatemala Conference, as it might be presented by the American spokesman.

Brazil's Capital Requirements.

The proposal by the Metallurgical and Chemical Corporation to use "dividend marks" in payment for imports from Germany.

Recent Trends in Foreign Trade.

The Outbreak of War and the Work of this Division.

Possible Effect of the War on Latin American Exports.

U. S. Commercial Policy and the World War.

Does the use of originally owned "blocked" Reichsmark funds in payment for imports from Germany require the application of countervailing duties?

Results of First Pan American Financial Conference.

War time cancellation of the Standstill Agreement.

Comments on "Gold: An American Dilemma", by Howard Trueblood, Report of Foreign Policy Association, Sept. 1, 1939.

Brazil's proposal to buy gold.

The Japanese attitude towards depreciation of sterling and yen.

Mr. Jacobsson's Statement about relationship between American Exports to and Imports from South American countries.

Should American banks be encouraged to expand their operations in Latin America during the current trade drive?

An Inter-American Bank

Feasibility of an Inter-American Bank

Restrictions on remission of earnings by American companies operating in various named Latin American countries during the 1930's.

Capitalist Institutions in National Socialist Germany.

The current silver situation in British India.

Tables on Trade of Scandinavian Countries and Netherlands with U.K. and Germany in Foodstuffs, 1938; Sweden - Exports of Iron Ore and Steel Products to U.K. and Germany, 1938.

War-time Rations.

Review of "German Financial Policies, 1932-1939", by Kenyon E. Poole.

Effects of an embargo upon the import of silver into British India.

Securities Transactions for Far Eastern Account.

Senate Investigation of money and banking.

Our export trade for September.

Review of "The Structure of the American Economy, Part I."

New Functions Assumed by the Venezuelan Mission, as reported in Spiegel's letter of Sept. 18, 1939.

Mexican Proposal for the United States to buy Silver.

Translation of a memorandum on the Monetary and Economic Situation in Switzerland.

Meat for the Allies.

Feeding of British Army. Meat Rations in World War.

Germany - War-Time Rations for the Civilian Population.

Mr. Alexander Sachs' paper on interest rates.

Peru.

The Economic Position of Germany at War.

Argentina's sale of meats to England and France.

The general provisions in the proposed Turkish Trade agreement.

Significance of the Yen's being pegged to the dollar.

Mr. Galbraith's paper on agricultural credit policy.

U.S.S.R. Gold Production, Gold Exports and Trade Balance.

Ecuador

Table "United Kingdom Trade with Canada and U. S. 1938"

Peru's Economic Potential.

Consular report relative to our sale of Siamese silver coins and purchase of gold with the proceeds.

Foreign Bondholders Protective Council, Inc.

The proposed change to Panamanian registry of 11 ships of the U. S. Lines.

U. S. Exports in October.

The Art of Estimating Silver Production.

Tientsin Silver.

Treasury acquisitions of silver and net imports.

Germany's stock of silver.

Canada's Foreign Exchange Rate Position.

The position of the Treasury with respect to recent exchange control provisions in Trade Agreements.

Comments on "The Full Use of Resources" by Gardner Means.

Comments on pamphlet on "European Order and World Order".

Sir William Beveridge on German Food Supplies.

Comments on the November 20 Business Situation Report.

Present Accounting Procedure with Regard to Seigniorage on Silver.

A "Spending" Program.

Current Developments in Germany (Numerous studies)

Comments on recent "Business Situation" reports.

Britain's Export Drive.

Siam's profit on Silver.

The Current Volume of Investment.

Recent Trends in United States Imports.

Conversation with the Dominican Delegate to the Guatemalan Conference.

Export-Import Bank credits presented by Costa Rican Finance Minister to Mr. Gaston at Guatemala City, Nov. 18.

Questionnaire Relating to Internal Money Markets of Each Latin American Country.

Chart of foreign banks operating in Latin America.

Notes on Preliminary Draft of "The Future of Gold".

The Conference of Treasury Representatives of American Republics, Guatemala City, Nov. 14/21. With some recommendations for the next conference at Quito.

British Unemployment Figures for November.

More on the Czech National Bank Gold and the B.I.S.

Business Situation Report of December 4, 1939.

Argentine, Chilean, Bolivian Exchange

Material for Secretary's Annual Report on Customs.

Estimate of Gold and Foreign Exchange Availability of Peru.

Regarding Announcement in Trade Agreements Committee weekly report re Turkey.

Reprint from Manchester Guardian "Printers' Export Rebate"

British Plan to sell Australian Wool to U. S.

German-Italian Economic Relations.

Peru's Request for Export-Import Bank Credits.

Comments on "The Future of Gold Reconsidered" by J. N. Reedman; and "The European War and the Gold Problem".

Further Information on Income Distribution Under the Nazi Regime.

The December 10 New York Times article on oil and the war.

Ecuador's Request for Export-Import Bank Credits.

United States Foreign Trade in October.

Comment on the questions regarding Inter-American Bank.

The country allocation of the Venezuelan Oil Agreement Petroleum Quota.

A Statement of Latin America's Position.

Dollars liquidated by Allies since outbreak of war.

Canadian business activity.

Memorandum of December 12 concerning Representative Oliver's request on German fiber board.

Recent Changes in Prices of mild coffee and resultant loss to Colombia.

Suggested provisions relating to payment of interest and amortization on the Colombian foreign debt.

A memorandum from the State Department concerning the exchange control provision.

Confirmation of my estimate of French Government expenditures next year.

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- An Economic Program for American Democracy (a la Leonard Crum)
- What will the Supplementary Cuban Trade Agreement cost in Terms of Customs Revenue?
- Organization of the Inter-American Bank
- Meeting on Inter-American Bank, Jan. 3, 1940.
- U. S. Foreign Trade in November.
- Organizational details of the Inter-American Bank.
- Comments on Mr. Gass' and Mr. Wheeler's conclusions on France.
- Wool Exports from Uruguay.
- British war trade agreements.
- German-Italian exchange fluctuation insurance.
- Some suggestions for improvement of capital movement statistics in the balance of payments.
- U. S. Exports during first 22 days of December.
- Inter-American Bank. Suggestions on paper eligible for bank operations prepared by Latin American members of committee.
- Summary of Answers to Questions on Inter-American Bank submitted by Nicaragua, Salvador, Honduras, Guatemala and Haiti.
- Comments on State Department release on status of trade agreements program.
- Weekly Report on Latin America.
- Meeting of the Treasury informal committee on the Inter-American Bank.
- Canada's funded debt.
- Points of interest concerning Brazilian debt negotiations contained in State Department reports.
- The Trade Agreements Act, January 1940.
- Replies to the questionnaire on the Inter-American Bank.

Monetary Policy.

Bases for capital contributions to the Inter-American Bank.

Proposal to restore private gold holdings.

Japan's stock of gold.

Table "Stocks of Tin and Rubber in the U. S."

Leaven's annual review of silver in the Annalist of Jan. 4.

Comments on Annual Report of Aldrich to stockholders of the Chase National Bank.

Meeting with the State Department to consider the Brazilian iron situation.

Brookings Seminar on "Golden Avalanche".

"Our gold elephant" - an article by Congressman Luce reprinted in the Congressional Record of Jan. 23.

Comments on Mr. Randolph Burgess' recent speech.

Soviet and Japanese Gold.

Statement for Senator Barkley's possible use in answering statement by Senator Townsend on the gold and silver problem.

Bureau of Mint operations.

Second meeting for consideration of the Brazilian iron project.

Dumping cases concluded:

Wood Pulp from Germany and other countries.

Ribbon Fly Catchers from Japan, Germany, England and Belgium.

Photographic Dry Plates and Sheet Film from England.

Phonograph Needles from Switzerland.

Phosphate Rock from Morocco.

Fourdrinier Wires from France.

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Motion-Picture Cameras from France.
Sodium Hydrosulphite from Switzerland.
Various Asbestos Products and Engine Packings from England.
Cream Separators from Finland.
Strike-on-box matches from Finland.
Perbunan (synthetic rubber) from Germany.
Haarlem Oil from the Netherlands.
Printed Music from Germany and England.
Wood Pulp since the outbreak of war.
Linen shoe thread from Switzerland.
Glass Tubes from England.
Animal Charcoal from Belgium.
Wheat Bran from Mexico.
Metal Foil Bottle Caps from Belgium and the Netherlands.

Dumping cases begun but not yet completed:

Matches (revocation) from Norway, Finland, Austria and Latvia.
Onion Powder from Hungary.
Arc Screen Glass from England.
Decorated Earthenware from England, Denmark, Finland, U.S.S.R.,
and Japan.
Paper-Beryta Coated from Germany.
Photographic enlargers from Germany.
Photographic lenses from Germany.
Wooden tripods from Germany.
Exposure meters from Germany.

Dumping Cases pending:

In addition to the above, there are 87 cases still pending.

4. Memoranda prepared in the Division that may or may not
be submitted to the Secretary.

A Plan for Reviving the Construction Industry without Direct
Government Subsidy.

Effect of the Subsidy to Domestic Silver Producers upon
Employment.

The Anglo-American cotton-rubber barter deal.

The Life Insurance Business; National Problems of Regulation,
Investment and Social Security.

The Italian-German Clearing Account Balance.

Testimony before the T.N.E.C. on Construction and Housing
(Mortgages and Interest Rates, Building and Loan Associa-
tions, Large Housing Projects, etc.)

Federal Activity in Housing, 1933-1939.

Yield Insurance Plan (Submitted to T.N.E.C. Hearings on
Housing).

The function of Loans in National Finance.

A new method of marketing Treasury securities.

Should the Treasury's buying price for foreign silver be
lowered?

Should we continue to purchase Japanese silver?

What has happened to U. S. exports during the first four
months of war?

Japan's foreign exchange.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau
 FROM Mr. Haas *JA*
 Subject: Retail bread prices

The Retail Price Division of the Bureau of Labor Statistics reports that weekly releases on retail food prices are being discontinued with the current issue. Hereafter data will be available on this basis only once a month.

Preliminary data on average retail bread prices in 13 selected cities, reported as of Tuesday, January 30 by the Bureau of Labor Statistics, are given below. The only change reported, as compared with January 23, was an increase in New York City.

	Actual average prices of bread at retail, Jan. 30 (cents per pound)	Change between Jan. 23 and Jan. 30 in actual average price of bread at retail (cents per pound)
Boston	8.3	0
Buffalo	8.1	0
New York	9.5	+0.1
Pittsburgh	7.9	0
Chicago	6.6	0
Cleveland	8.0	0
Detroit	7.9	0
St. Louis	7.5	0
Savannah	8.8	0
Washington, D. C.	8.6	0
Houston	7.2	0
Denver	7.0	0
Los Angeles	6.7	0

Secretary Morgenthau - 2

Changes reported in the 13 selected cities since the first of the year are as follows:

January 23 - 30	New York	+0.1 cent per pound
January 16 - 23	Detroit	+0.3 cent per pound
	Washington, D. C.	-0.3 cent per pound
January 9 - 16	Boston	+0.8 cent per pound
	Buffalo	+0.4 cent per pound
	New York	+0.6 cent per pound
	Savannah	-0.1 cent per pound
January 3 - 9	No change	

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 1, 1940

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

Jan. 22: Foreign demand was slow and demand for flour was not very encouraging. It was reported that around 120,000 bushels of United States and Canadian wheat in store at Antwerp had been sold.

The United Kingdom bought approximately 3,700,000 to 4,000,000 bushels of Rumanian wheat for shipment beginning in March.

Jan. 23: Sales of flour this week for export on a subsidy basis are approximately 15,000 barrels, with the possibility that some good-sized lots may be worked to North China soon. The big difficulty seems to be booking of boat space.

Export interest in North American wheat was light but about 100,000 to 150,000 bushels of Manitobas were confirmed as sold to Norway. Purchases of about 500,000 bushels of Number 1 hard Manitoba wheat by exporters was believed to have been against recent sales to England.

The break of \$2.00 to \$3.00 a bale in cotton this week is attributed to foreign selling, brought about by the statement that England is planning to restrict imports of all raw materials to conserve foreign exchange for the purchase of airplanes and munitions.

Jan. 24: Sales of Canadian cash wheat were estimated at 750,000 bushels to the United Kingdom. The Canadian government has prohibited the export of wheat to countries adjoining or accessible to Germany. Under

Secretary Morgenthau - 2

this ruling the recent sale of 1,250,000 bushels of wheat from the Pacific Coast to Russia may not be filled. About 100,000 bushels of Manitoba and United States wheat in store at Antwerp were sold.

It was reported that about 1,500,000 bushels of corn had been sold to the United Kingdom. This makes about 8,000,000 bushels of corn that have been sold to various countries in Europe this month.

Jan. 25: Export business in wheat is almost nothing. A 50,000 bushel lot of American wheat in store at Antwerp was reported sold.

Finland purchased 200,000 bushels of American rye and it is understood they were in the market for a total of about 800,000 bushels.

Revised estimates on sales of corn for export the past few days are placed at around 2,500,000 to 3,000,000 bushels.

Jan. 26: Export business was slow but it was reported that around 350,000 to 500,000 bushels of Manitoba wheat in store at Buffalo had been sold.

There were rumors today that Russia might try to buy between 2,000,000 and 3,000,000 bushels of American wheat from the North Pacific coast as a result of the refusal of Canada to permit the clearance of Canadian grain for Vladivostok.

Finland is reported to have bought 400,000 bushels of American rye the past two days and is in the market for that much more.

Jan. 29: The Australian wheat crop was revised upward 18,000,000 bushels today and is now placed at 204,000,000 bushels, the largest since 1933, compared with 154,000,000 the preceding year.

The Turkish wheat crop is estimated at 170,000,000 bushels, 14,000,000 over last year and a new record.

Washington, le 1er février 1940.

1) A l'heure actuelle il est très difficile au Gouvernement français de donner une évaluation définitive de ses dépenses aux Etats-Unis. Les programmes d'achats ne sont pas encore définitivement établis et il y a lieu de tenir compte des possibilités de transport et du rythme de la production américaine.

2) Ces réserves faites, on peut estimer que le montant des achats du Gouvernement français, pendant la première année de la guerre, sera d'environ 35 milliards de francs, dont 6 milliards pour les matières premières, 13 pour l'aviation et 9 pour les machines. Si l'on déduit de ce chiffre environ 4 à 5 milliards, qui constituent le montant des éléments favorables à la balance des comptes, le solde débiteur de la France est d'un ordre de grandeur de 30 milliards. Ce chiffre n'est pas modifié si l'on tient compte des colonies françaises, car leur balance des comptes avec les Etats-Unis est sensiblement équilibrée.

3) Encore une fois, il s'agit d'une évaluation sujette à des modifications substantielles, et ne tenant notamment pas compte des mouvements possibles de capitaux.

4) Le financement de ces dépenses a été assuré jusqu'à présent à la fois par des cessions d'or, par des recettes normales en dollars et par des rentrées de capitaux. On ne peut préciser ces derniers, mais il y a eu, pour des chiffres relativement importants, des cessions

....

de balances françaises en dollars au fond de stabilisation et des ventes à New York de titres appartenant à des Français. Quant aux ventes d'or, elles ont atteint, entre le 1er septembre 1939 et le 1er janvier 1940, un total de 222 millions de dollars.

5) Le problème du financement des dépenses françaises aux Etats-Unis a été examiné avec le plus grand soin avec M. Paul Reynaud, qui est désireux de coopérer aussi étroitement que dans le passé avec la Trésorerie américaine.

6) Au cours des conversations qui ont eu lieu à ce sujet entre les Trésoreries britannique et française, il a été reconnu que le problème se posait pour la France dans des conditions qui ne sont pas les mêmes que pour la Grande-Bretagne, ce qui explique que la ligne de conduite adoptée par les deux pays ne soit pas identique.

M. Leroy-Beaulieu est chargé d'apporter à M. Morgenthau un message personnel de M. le Ministre des Finances sur l'ensemble de la question. Il le remettra dès son retour aux Etats-Unis, c'est-à-dire vers le 15 février.

Washington
February 1, 1940

(1) At the present time it is very difficult for the French Government to give a definite estimate of its expenses in the United States. The programs of purchases are not yet definitely established and one has to take into account the possibilities of transportation and of the rhythms of American production.

(2) With these reservations, one can estimate that the amount of purchases of the French Government, during the first year of the war, will be around 35,000,000,000 francs, of which 6,000,000,000 will be for raw materials, 13 for aviation and 9 for machines. If one deducts from this figure around 4 to 5 billion, which constitute the favorable items in the balance of account, the debtor balance of France is of the magnitude of 30 billions. This figure is not modified if one takes into account the French colonies, since their balance of account with the United States is about in equilibrium.

(3) Still again, it is a question of an evaluation subject to substantial modification, and not taking into account notably the possible movements of capital.

(4) The financing of these expenditures has been assured up to the present both by yielding gold, by normal receipts in dollars and by repatriation of capital. One cannot figure exactly the latter, but there are, for relatively important figures sessions of French balances in dollars to the Stabilization Fund, and sales at New York of securities belonging to French citizens. As to sales of gold, they have attained, between September 1, 1939 and January 1, 1940 a total of \$222,000,000.

(5) The problem of financing French expenditures in the United States has been examined, with the greatest care by M. Paul Reynaud, who is desirous of co-operating as closely as he has in the past with the American Treasury.

(6) In the course of the conversations which have taken place on this subject between the British and French Treasuries, it has been recognized that the problem involved for France in conditions which are not the same as those for Great Britain explains that the line of conduct adopted by the two countries is not identical.

M. Leroy-Beaulieu is charged with carrying to M. Morgenthau a personal message from the Minister of Finance upon the general question. He will deliver this upon his return to the United States, that is to say, around February 15.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 1, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: FOREIGN ECONOMIC DEVELOPMENTS

(Prepared by the Division of Monetary Research)

The Failure of Economic Mobilization in Britain

Notwithstanding the withdrawal from the labor market by mobilization of over a million men, there has actually been an increase in British unemployment since the outbreak of war. At the middle of December the registered unemployed was 1,360,000, compared with 1,275,000 on August 14. This does not include unregistered unemployed -- e.g. domestic servants, professional, agricultural labor, etc. -- doubtless a substantial number.

These figures reveal that the British Government has not yet succeeded in mobilizing all available resources for the prosecution of the war. In this respect the British Government lags ~~far~~ behind the German government. The persistence of a substantial volume of unemployment in the face of the withdrawal of a million men for the army suggests that the British national income will fall substantially this year.

There seems to be no immediate justification for Mr. Churchill's proposal to recruit a million women for Britain's labor force.

Self-sufficiency in the British Empire

The British Empire is much more self-sufficient than it was in the last war with respect to essential war materials.

Empire production of essential war materials

(000 tons)

	<u>1914</u>	<u>Current annual production</u>
Copper	85	600
Lead ore	130	630
Nickel	20	95
Aluminum	13.9	88
Asbestos	98	344

The steel capacity of the Empire is now 18 1/2 ~~tons~~ as compared with 9 million in 1914. Finally the degree of coordination in the production, sale and utilization of these supplies is already much more advanced than it was in the last war.

The Strain of War on British Shipping

As a result of the strain imposed by the war on British shipping, the Government is taking over all ocean tonnage on the United Kingdom and Colonial Registers, excepting the Dominions and India, as from February 1st. The objective is to secure greater efficiency in the operation of ships. England has already lost over half a million tons of shipping in merchant vessels sunk at a time when shipping requirements are much greater than in peace time. The recent purchase of six American ships indicates that England is willing to part with valuable foreign exchange to increase her shipping facilities.

The shipbuilding industry of Britain is now operating near its capacity of 2 million tons; the backbone of shipbuilding activity is the Government's decision to order a larger tonnage of standardized tramp ships. This standardization permits increased efficiency and speed in production.

Italy and Germany

As the result of the sale of the property of German nationals in Northern Italy, Germany has acquired a claim against the Italian Government of about 6 billion lire -- enough to pay for two and a half years of German imports from Italy and to liquidate the whole of the German clearing debt to Italy. The sale of the property of the 185,000 German speaking inhabitants of Northern Italy who will take part in the mass emigration to the Reich has left the Italian Government indebted to Germany to the extent of about 6 billion lire (\$300 million).

The struggle for Rumania

Germany has improved its already strategically dominant position, vis-a-vis the Allies, in the struggle for effective control of Rumanian resources.

In March, 1939, Rumania signed an agreement with Germany providing that the natural resources of Rumania are to be developed, under German direction, to meet Germany's

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import needs. On December 21, a further German-Rumanian agreement was concluded increasing the exchange value of the mark against the Rumanian lei by about 20 percent and obligating Rumania to furnish Germany with 1,820,000 metric tons of oil in 1940. (Germany received about 1,200,000 tons from Rumania in 1939.)

About four-fifths of Rumanian petroleum output comes from the properties of foreign companies -- British, Dutch, French, American and Belgian. It was believed that these companies might refuse to sell oil to Germany. But on January 17, the Rumanian Government announced that a commission would be appointed to administer the petroleum industry, to insure provision for domestic needs and to guarantee the fulfillment of foreign obligations. The press reports that Great Britain and France have retaliated against the policy implied in the establishment of this commission by threatening to break off all trade relations with Rumania.

The Rumanian Government is in a difficult predicament. Rumania must collaborate with Germany. The Allied position in the Balkans is not strong enough to justify the hope of creating a "second front" against Germany there now. So far German steel has proved to be more potent than Allied gold.

German-Allied Trade Warfare

Britain and France completed a trade agreement with Greece involving important supplies of chrome for the Allies.

Germany seems to be making more strenuous efforts to outbid the Allies in several countries. A trade expert arrived in Rome on January 25 to begin commercial negotiations; Turkey was reported the day before to have resumed trade relations with Germany (after a lapse of nearly five months) under a new agreement in which Germany was reported to have purchased goods valued at about \$6 million. The Germans also obtained a new trade schedule with Hungary on the eve of the commencement of Allied-Hungarian trade talks. Germany likewise was reported to have begun discussions with Belgium and the Netherlands for new trade agreements. In the case of the Netherlands, a newspaper report held that Germany had reversed its \$21 million debt to the Netherlands on September 1, to a substantial balance in Germany's favor and that talks had begun concerning the possibility of shipping Dutch East Indian raw materials to Germany via Siberia.

The Germanization of Czech economic life

The German Government and the Nazi party have pushed forward with a ruthless policy of confiscation in occupied Czechoslovakia. Representatives of German firms have visited Czech concerns in the company of Gestapo agents, and the Czech or Jewish directors have been thrown out or arrested. Their places have been taken by the Nazi party or by German businessmen. Landed property has been similarly confiscated.

The German Government intends by this means to destroy the economic basis for Czech resistance to German authority, and to provide wealth for the use of the German Government and the Nazi party.

The Czech economy will be brought into line with the requirements of the German Government, and jobs and other spoils made available for distribution to faithful servants of the German regime.

The United States and Latin American Trade

In the first three months of the war (September, October, November) United States exports to Latin America increased by 46 percent, compared with the same period of 1938, while our imports increased by 30 percent. Brazil, our ninth best customer, increased her purchases in the United States by 64 percent in the first three months of the war as compared with 1938. During the same period Venezuela increased her purchases by 50.8 percent, Chile 43.5 percent, while Argentina increased her purchases by only 15.9 percent.

However, some of this gain represents stocking up in anticipation of price rises and transport difficulties, and dislocation while the British and French were getting their purchase-sale arrangements under way. The ratio of gain may not have been maintained in December-January.

The higher cost of American goods as compared with replaced German goods is being felt in Latin American countries.

Brazil and the War Markets

Brazil rides a wave of unanticipated wartime prosperity. Coffee exports were 2 percent greater in July-December 1939 than in the same period of 1938. Thanks to heavy French

demand and a general European shift to lower-grade coffees, the price decline has been much smaller than that of mild coffee. As of January 15, the decline in Brazilians compared with 1939 was 3 to 7 percent compared with 25 to 30 percent for Colombians. Demand is strong for Brazilian meat, vegetable oils, hides, manganese, chromium. Brazil is optimistic for her cotton, perhaps over-optimistic. Larger markets for her textile manufactures are expected. Diversification of her economy since the World War is proving of great value now.

Gold and foreign exchange resources have been increased to \$70 million. Favorable trade balance was \$60 million for 1939 (of which \$30 million was in last four months), compared with \$0.2 million for the whole of 1938. Her budget for 1940 anticipates 5 percent deficit. Vargas in New Year's Eve speech predicted Brazil would be producing her own steel rails by end of 1940. Meanwhile Brazil attempts to find a basis for resumption of debt service in April 1940 on partial Aranha plan, probably in hope of attracting new capital from the United States.

Remission of profits and dividends totalled \$10 million from April to December 1939. The Brazilian Government has allocated \$3.2 million for January and plans to wipe out the arrears of \$20 million on this item by July 1940.

The Stalling of the Brazilian Steel Project

Brazil has been hoping for decades for a steel industry to utilize her ore resources. The Brazilian Government is anxious to see domestic production pushed but so far it has not been possible to find the necessary capital. For the past six months the U. S. Steel Corporation has been considering the construction of a \$35 million steel plant in Brazil. U. S. Steel experts carefully investigated the project on the spot and wrote a report which characterized the project as being technically sound. Nevertheless the Corporation has finally informed the Brazilian Government that it would not participate in the project.

The refusal to participate at this time is probably based upon the lack of confidence on the part of the U. S. Steel Finance Committee in the Brazilian Government's willingness or ability to fulfill certain conditions which are deemed necessary to the success of the venture and the safety of the American capital invested. It is believed that the U. S. Steel Corporation is still interested in the plan but hopes that the United States Government may be persuaded to assume some of the risks by putting up or guaranteeing a major part of the capital involved.

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The plan recommended by the U. S. Steel Committee called for the construction of a steel plant capable of producing 285,000 tons of finished steel products at the outset. In 1938 Brazil produced only 65,000 tons of iron and steel products and imported 274,000 tons, principally from Germany, United Kingdom and United States.

The technical committee which investigated the prospects for U. S. Steel estimated that the plant could be expected to make profits of 15 percent. The stalling of the plan in spite of the prospect of such attractive profits is a demonstration of the reluctance of private business in these troubled times to make direct investments abroad, especially in countries with a history of exchange difficulties.

The exhaustion of Japan's foreign exchange reserves

With the sale to the United States of \$38 million of gold in January, Japan has less than \$80 million of gold remaining. Other liquid foreign exchange assets will hardly bring the total of foreign exchange resources available to Japan above \$200 million. The Japanese Empire will produce during 1940 from \$50 million to \$60 million of new gold. Therefore, the total foreign exchange assets which will be available to the Japanese Government during 1940 will not be more than \$260 million.

The seriousness of Japan's foreign exchange position is indicated by the fact that Japan has been forced to liquidate \$225 million of foreign exchange assets in each of the past three years. If Japan's foreign exchange position of the past three years is not radically adjusted her foreign exchange resources will be exhausted at the end of this year and she will be forced to make an adjustment in her international position.

China loses her southern railways

The loss of the two southern railway routes from Indo-China is a heavy blow to China's power of resistance. The Japanese capture of Nanning in November deprived China of the use of the Dong Dang-Nanning railway. The use of the second railroad, running from Haiphong to Yunnanfu, was lost on January 5th when a vital bridge was destroyed by bombing.

- 7 -

The Japanese have demanded, with threats of repeated bombardments, that the French Government cease shipping war supplies to China over this route. Reliable information suggests that the French Government is not anxious to resist these Japanese demands. At the end of November there were 190 thousand tons of cargo at Haiphong awaiting shipment including an enormous number of motor vehicles. If the Yunnan railway remains unavailable all of these war supplies will have to be reshipped from Haiphong to Rangoon.

There now remain only two routes over which supplies from the outside world can reach China -- the new Burma road and the caravan route from Russia. The amount of tonnage carried on the Russian route is not known. During the months of November and December \$5 million of war supplies were reexported from Burma to China over the new Burma road. Of this total 65 percent were Russian supplies which would indicate that the caravan route from Russia to China is either more expensive or is at present being utilized to its full capacity.

Deterioration in Scandinavian Currency Situation

The war has brought about a sharp reduction in the gold and foreign exchange holdings of the Scandinavian countries. At the same time they are confronted with a domestic inflationary movement, indicated by the persistent rise in their note circulations.

	<u>December 15,</u> <u>1938</u>	<u>August</u> <u>1939</u>	<u>December 15,</u> <u>1939</u>
<u>Bank of Sweden</u>			
(Millions of kronor)			
Gold and foreign assets	1,484	1,390	994
Note circulation	994	1,126	1,341
<u>Bank of Norway</u>			
(Millions of kroner)			
Gold and foreign assets	399	364	303
Note circulation	448	505	564
<u>National Bank of Denmark 1/</u>			
(Millions of kroner)			
Gold and foreign exchange	236	206	125
Note circulation	414	505	564

1/ Figures for November 1938 and November 1939.

The Bank of Sweden now maintains 50 percent of her foreign exchange assets in the United States, the Bank of Norway almost 60 percent and the National Bank of Denmark 40 percent.

India and the Silver Market

There is little prospect that India will import any considerable amount of silver in the near future. The price of silver in Bombay fell considerably during the past week and the Reserve Bank of India bought 6 million ounces to support the market, in contrast to its action last month when it sold substantial amounts of silver to curb the speculative rise in silver at that time. Silver stocks of bullion dealers in Bombay amount to about 50 million ounces which is abnormally high, and the minimum price (43.2 cents per ounce) at which dealers are permitted to sell imported silver is appreciably above the current market price in Bombay (40.12 cents).

*For Review of PR 2
Sub 242 C. 156*

Note for the Secretary of the Treasury
regarding British dollar requirements.

1. Subject to the difficulty of giving figures which are in any way final, the best estimate which the United Kingdom Government can make at the present stage of the balance of payments between the sterling-using parts of the British Empire on the one hand and the United States and its dependencies on the other hand in the first year of war is as follows:

2. It is estimated that United Kingdom purchases in the United States (including its dependencies and Cuba) during the first year of war will be a little under £200 million. The rough analysis of this figure is as follows:

Raw materials:-

		(million £)
Cotton	26	
Other	<u>22</u>	48

Foodstuffs 13

Oil 30

General manufactures 25

Purchases by Fighting Services:-

Aircraft	23	
Machine tools	43	
Munitions	12	
Other	<u>5</u>	<u>81</u>
		<u>197</u>

Against this the United Kingdom exports are estimated at about £30 million, and the nett balance of invisible exports at £5 million. The United Kingdom adverse balance thus amounts to about £165 million.

-2-

As regards the rest of the sterling area, imports are estimated at £55 million and exports at £85 million, while the nett balance of invisible imports is estimated at £2 million. The result is a favourable balance of about £28 million.

Thus for the sterling area as a whole the nett adverse balance is estimated at about £137 million or (say) \$500 million.

3. These figures are of course no more than estimates. The armament programme is in practice constantly subject to alterations and delays. Further the figure for aircraft takes into account only the orders already notified, and does not allow for the much larger programme of aircraft purchases discussed with M. Plevin, on which no decision has yet been reached.

4. Our actual requirements of dollars cannot however be simply deduced from the figures given above. The reasons for this were set out in paragraphs 4 and 5 of the notes prepared for the Secretary by Mr. Pincet on January 9th, 1940.

5. As regards the financing of dollar expenditure incurred up to the present date, the sales of gold since the outbreak of war amount to \$125 million, while sales of dollar securities amount to \$112 million. There is further the additional factor of the dollar balances surrendered to the British control, the amount of which cannot be estimated as it is part of our day-to-day turn-over. It is thus impossible to give any figure of the amount which remains to be found. The above figure for sales of gold is nett after allowing for the short dollar position of \$107 million existing

-3-

at the outbreak of war, which was immediately closed by a sale of gold; the total gold sales amount thus to \$228 million gross.

6. As regards the future position, His Majesty's Government have in no way changed their intention of financing their needs by sales of gold, but to what extent and when this can advantageously be done depends on the course of the market. It is thus impossible to suggest any figures of expected sales of gold and securities respectively. The position may become clearer after Mr. Gifford has had time to explore and report on the question of the disposal of securities, and His Majesty's Government will of course continue to keep Mr. Morgenthau informed of their plans.

7. This message has been sent after full consultation with the French Government.

Thursday
February 1, 1940
12:35 pm

HMJr: Hello.

Operator: Mr. Doughton.

HMJr: Hello.

Congressman
Doughton: Hello, Mr. Secretary.

HMJr: Yes.

D: This is Bob Doughton.

HMJr: How are you?

D: All right, thank you. How are you getting along?

HMJr: Oh, pretty good for an old man. How about you?

D: Well, you and I can both qualify as young men yet.

HMJr: That's right.

D: Yes. I called you some time ago and I think you said you'd look into - anyway - about a position - a better position for Mills Kitchen. Now he's got an application in down there for an appointment to fill one of the vacancies in the United States Court of Customs in New York.

HMJr: I see.

D: Yes. I believe you said maybe you'd look into it.

HMJr: Yes, I did. I asked the boys to look into it.

D: Yes.

HMJr: And I'll find out what they've done about it.

D: You will find out?

HMJr: Oh, I asked them the same day I spoke to you.

D: I've - I understand confidentially that Senator Reynolds is pushing a man by the name of Hill, from Wilmington, North Carolina, for that job, who I don't think is qualified for it in any sense.

-2-

HMJr: I think he's withdrawn that recommendation.

D: You think he has?

HMJr: Yes.

D: Uh huh.

HMJr: Yes.

D: Well, has he in any way endorsed Kitchen or not?

HMJr: Not as far as I know.

D: Josephus Daniels and Governor Gardner and Senator Bailey and pretty much every- - Lindsay W and pretty much everybody that knows the situation in the State I think, have endorsed Kitchen wholeheartedly.

HMJr: Well, I wasn't aware of that, Bob, and I'll ask again. But I did ask once before. I'll ask again.

D: How's that - you'll ask again?

HMJr: Yes I will.

D: And I - I spoke to the Attorney General about it - he didn't know anything about it.

HMJr: Yes.

D: But I really have a very deep personal interest in it. Of course I wouldn't ask any man's appointment unless he was well qualified.

HMJr: Yes.

D: I understand there are two vacancies there.

HMJr: I think that's right.

D: Yes. When you check on it will you call me back?

HMJr: I surely will.

D: I thank you. Come up and see us.

HMJr: Thank you so much.

D: Thank you. Goodbye.

HMJr: Goodbye.

February 1, 1940
12:38 p.m.

Operator: Mr. Frank had gone to lunch and I have Mr. Jones.

HMJr: Thank you.

O: Right. Go ahead.

HMJr: Hello.

Jesse
Jones: Hello, Henry.

HMJr: How's my Chinese friend?

J: Well, on the ropes.

HMJr: (Laughs)

J: On the ropes.

HMJr: How are you getting along?

J: Fair. Are you -- did you have your meeting?

HMJr: Yes, and they gave us a proposal and I told them to go somewhere in a room and lock themselves in and come back at four-thirty, which they are going to do, and if you are free at four-thirty I'd love to see you.

J: O.K., I'll try to come over.

HMJr: Will you do that?

J: I will.

HMJr: All right, Jesse.

J: I've got another date but I'll ask the office to change that one.

HMJr: Thank you.

J: O. K.

HMJr: Goodbye.

THE WHITE HOUSE
WASHINGTON

February 1, 1940

H.M. Jr.

To speak to me about.

F.D.R.

John T. Gray
John T. Gray
John T. Gray

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 1, 1940

TO Secretary Morgenthau
FROM Mr. Haas *BA*
Subject: Employment in the Aviation Manufacturing Industry

1. Employment in the aviation manufacturing industry aggregated more than 64,000 in December. Of the total, approximately 52,000 were employed in the manufacture of aircraft and 12,000 in the manufacture of motors.
2. Employment in the industry has more than doubled in the last year. The increase has been greater relatively in the case of persons engaged in the manufacture of aircraft than of airplane motors.
3. The Glenn L. Martin Company has the greatest number of employees, 11,200, while Douglas Aircraft is second with 10,400. Martin's employment more than quadrupled during 1939. The employment of the Bell Aircraft Corporation, on the other hand, was far lower in December than it was in June.
4. Employment in the production of airplane engines is concentrated mainly in two companies, Wright Aeronautical Corporation, a subsidiary of Curtiss-Wright Corporation, and the Pratt and Whitney Aircraft Division of United Aircraft Corporation. Employment in these companies has increased sharply in the last three years. Employment in the Lycoming Division of Aviation Manufacturing Corporation, on the other hand, is lower now than in 1937.
5. The attached chart shows total employment in the aviation manufacturing industry and the employment of selected companies since January 1937. The attached tables give the figures plotted in the chart. The figures used for total employment cover almost all of the industry, but do not include the employment of some of the smaller companies for which no data were available.

Attachments

MR. BELL:

The following is an analysis of AIRPLANES estimated for and included in the Emergency Supplemental Appropriation Act, covering funds for neutrality:

WAR DEPARTMENT - No planes requested in Budget
 COAST GUARD - No planes requested in Budget
 NAVY DEPARTMENT:

Budget Estimates, which were approved by House Appropriations Committee and House:

	<u>No.</u>	<u>Unit Cost</u>	<u>Total</u>
For neutrality patrol:			
Observation-scouting.....	100	\$50,000	\$5,000,000
Patrol-bombing.....	37	150,000	5,550,000
Scout-bombing.....	81	75,000	6,075,000
For training:			
Training (primary).....	150	16,100	2,415,000
Fighting.....	50	75,000	3,750,000
Observation-scouting.....	50	50,000	2,500,000
Scout-bombing.....	<u>50</u>	<u>66,120</u>	<u>3,306,000</u>
	518		28,596,000

The Senate Appropriations Committee deleted from the Bill \$6,075,000 covering 81 scout-bombing planes, leaving in the bill \$22,521,000 for Navy planes.

The Emergency Supplemental Appropriation Act is still in conference between the two Houses.

February 1, 1941

E. G. ...

RE COLOMBIAN FINANCE

February 1, 1940.
11:00 a.m.

Present: Ambassador Turbay
Dr. Jaramillo
Mr. Laylin
Mr. Welles
Mr. White
Mr. Cotton
Mr. Gaston
Mr. Traphagen

H.M.Jr: Mr. Jones is very sorry he can't be here, but he is testifying before the Foreign Relations Committee. He will join us later if he can. Mr. Welles and I and Mr. Jones, as you know, have been offering our services to the Republic of Colombia and the Protective Bondholders' Committee to try to be sort of umpires in the settlement of the debt. We are all very hopeful that the Republic of Colombia and the Bondholders' Protective Committee may reach an agreement today.

The thought that we have is this, that if you gentlemen would care to discuss your problem before us and see if at this session this morning, this afternoon or tomorrow, if you can't get together on a basis which is acceptable to your country and to Mr. Traphagen, who represents the bondholders. Mr. Welles and I will sit back and be glad to listen.

Could you add something to it, Mr. Welles?

Welles: If you will permit me, I would like to make just one suggestion in the nature of an addition to what the Secretary has said. It seems to me from my understanding of the situation that there are certain points, at least in principle, in a rough way, that the Republic of Colombia and the representative of the bondholders might be said to be in agreement upon. There are other points, of course, on which they are not in agreement. It occurred to me that it might simplify matters for the purposes of discussion if the points upon which there is at least an agreement in principle could be set to one side for the purpose of elimination, leaving the points upon which

- 2 -

there is not agreement. If that procedure were adopted, perhaps it would facilitate the course of the conversations this morning and I feel sure that the Ambassador and Dr. Jaramillo and Mr. Traphagen, after the conferences they have had, know very well what the points are upon which there is agreement in principle. I thought possibly those might be mentioned and then the points that are still in disagreement might be brought up in the discussion.

H.M.Jr: I think it is an excellent suggestion. I think if the Ambassador would state the position of his Government at this time, it might be helpful.

Turbay: All right.

H.M.Jr: Please.

Turbay: Very well. I have here a memorandum which will help me to explain accurately the position of the Government of Colombia in an effort to meet the position of the bondholders on what might be called our points of difference.

H.M.Jr: Would you read it?

Turbay: Mr. Cotton?

H.M.Jr: I will be glad to read it

"The Government of Colombia wishes to invite attention to the fact that, since these negotiations were begun, world conditions have changed such that we are now in a period of great international disturbance, the repercussions of which are bearing each day more heavily upon the economy of Colombia.

"The economic problems of Colombia have been growing more and more serious due principally to the decline in the price of coffee, to such an extreme that the value of this principal product is today barely one fourth of what it was in 1929. Concretely, the exportation of

- 3 -

2,800,000 bags of coffee returned to the country in that year , \$84,400,000, while an exportation of 4,200,000 bags in 1938, at an average price of 11-1/2¢ per pound, brought only \$49,000,000. The present decline to 8-1/2¢ per pound threatens to bring about an economic crisis similar to that which in 1932 obliged the country to suspend payments on its external debt.

"Notwithstanding these difficulties, the Government has held to its determination to seek a settlement of its dollar debt. The Government therefore hopes that the strong determination which animates it and the sacrifices involved in assuming the obligations contemplated, which will aggravate the present difficulties, will be fully appreciated and understood.

"With the desire of going as far as possible to reach an agreement, the Government has studied with the greatest care the proposal made in the letter of January 12th by Mr. Traphagen and has confirmed the terms to which I said I would agree in the conference held on January 13th, under the auspices of the Secretary of the Treasury.

"In the light of this same desire and in order to arrive promptly at an understanding which goes as far as is possible in the direction of meeting the Council's position, I am prepared to recommend to my Government the following bases of agreement in the event they are found to be acceptable:

"1) Current interest- Beginning with the year 1940 the Government will pay 3% interest on the principal amount of bonds calculated at \$45,000,000 and will deliver to the Fiscal Agents in each year the amount necessary for this purpose.

"2) Interest in arrears- The Government undertakes to deliver to the Fiscal Agents each

- 4 -

year, for ten years, \$225,000 to be applied to the interest in arrears, so that the Fiscal Agents will be in a position to pay each year against the surrender of the coupons, for a half yearly period, one-sixth of the face amount of such coupons.

"3) Amortization- The Republic undertakes to amortize throughout the entire period of the service of the loan an annual amount in bonds of a face value equal to 1% of the \$45,000,000 principal amount. That is to say: the Government will deliver annually to the Fiscal Agents bonds, for amortization, in the face amount of \$450,000. The bonds that the Government now owns and which amount to about \$5,900,000 will not be used for this purpose, but will be cancelled at the time of entering into the settlement."

That means six from forty-five leaves 39 million?

Laylin:

No, it was fifty-one, Mr. Secretary.

H.M.Jr:

"4) Total service moneys- The Government agrees that, beginning with the year 1941, it will apply to the service of the loan not less than \$1,800,000; and \$2,000,000 beginning with 1950 or so soon thereafter as the value of the exportations from Colombia (exclusive of petroleum and 60% of the gold, platinum and banana) equals by at least 120% the value of such exportations for the year 1938.

"5) Additional amortization.- In the event and to the extent that the requirements for current interest and interest in arrears and the cost to the Government of the purchase of the \$450,000 face amount of bonds do not exhaust the total service moneys of \$1,800,000, or \$2,000,000 as the case may be, the Government undertakes to apply the difference to the purchase of bonds for delivery to the Fiscal Agents for amortization, or to deliver said difference in cash to the Fiscal Agents for the purchase of bonds for amortization. It is understood that the Government may and hopes to amortize bonds more rapidly than here contemplated if conditions permit;

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and may redeem the bonds at par on any interest payment date, in whole or in part.

"6) The Government will agree that, if a better settlement is made with the foreign holders of any other external bonds of the national Government now outstanding, like better treatment will be extended to the holders of the bonds covered by this settlement.

"7) So soon as an agreement in principle is reached, on the direct dollar debt, the Banco Agrícola Hipotecario will send a representative to the United States with instructions to negotiate an immediate settlement of the dollar debt of that Bank guaranteed by the Government of Colombia."

Well, at least that is a concrete statement, anyway. Do you care to comment on it, Mr. Traphagen?

Traphagen: Well, I will be very glad to give my impressions of it.

H.M.Jr: Would you, please?

Traphagen: You understand, I haven't consulted with my associates in the Council and it is only my individual opinion.

H.M.Jr: But could I interrupt?

Traphagen: Yes.

H.M.Jr: What I hope will happen is this, that at this meeting today, it will be figuratively that you and the Colombians will be behind locked doors and that if there is something that comes up this morning or this afternoon or tomorrow that you would be able to consult with your committee by telephone and that they, if there is some point, would call up the President of Colombia and do the same, so that this thing would now really move and that we would come to a happy conclusion.

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- Traphagen: You would like to lock us up together and not let us out until we agree, is that it?
- H.M.Jr: Yes. There is a very nice room downstairs and we will serve lunch to you and bring you clean towels and a sponge bath, if necessary, but we would like to lock you up so that this idea - if they say they have to present it to the President of Colombia, we will even pay for the telephone call to the President of Colombia and we will pay for your telephone calls.
- Traphagen: If the meals are very good, we may not want to get out.
- H.M.Jr: Then we will put you on bread and water. But that was the idea that Mr. Welles and I had, that if, you gentlemen being willing, that you just would stay at this thing now until you came to a conclusion.
- Turbay: We have no objection. We would be delighted.
- Traphagen: Well, I - my reaction to this plan is this, Mr. Secretary, that it provides for a 3 percent interest which, frankly, is less than we had contemplated, by quite a little. It provides, as I see it, for the payment of one-sixth of the back interest. The back interest amounts to approximately $13\frac{1}{2}$ million dollars and it would contemplate paying $2\frac{1}{4}$ million dollars or $2\frac{1}{2}$ million dollars of that $13\frac{1}{2}$ million dollars over a period of ten years. That would be $2\frac{1}{4}$ million if they pay us \$225,000 a year over a ten-year period, which I am afraid would - I am quite certain wouldn't be acceptable. And then it provides for the purchase of \$450,000 face amount of bonds a year, which, if figured at 50 cents on the dollar, I think you get far less than that under any such plan as this. I think you get them for about 35 cents on the dollar, but figuring it at 50 cents on the dollar, would amount to a total of a million eight a year and you agree to a minimum of a million eight.

- 7 -

Now, frankly, I had had the feeling all along that the Colombian Government was willing to make a payment of two million dollars a year with the exception of the first year, in which they had put in the budget \$1,750,000, and I was in hopes that if we could get up to a sum a little above the two million dollars which I have been discussing with the Ambassador and Dr. Jaramillo, that we weren't so very far apart, but I am frankly a little bit disturbed in my hopefulness at the thought of this reduced figure of a million eight. The memorandum speaks of two million dollars in 1950 if the exports at that time are 120% of what they were in 1938. I am a little afraid, Mr. Secretary, that this offer brings us further away from each other than I had hoped we were before, and as much as I am willing to go into that room that you speak of and stay there, I am afraid it is going to keep us an awfully long time.

- H.M.Jr: Well, Mr. Traphagen, here is the memorandum and I make this suggestion, that you go and talk it over with whoever your associates are and then whatever time you need, then we will meet right after lunch with these gentlemen again. Would that be all right?
- Traphagen: Yes, I can telephone my people in New York if that is what you had in mind.
- H.M.Jr: That is what I had in mind, and then say, "Now, we have got this --"
- Traphagen: I know pretty well what they will say, but I will talk to them.
- H.M.Jr: If you could come back with a statement and then the Colombians could, in turn, telephone that down to Colombia and that would keep the thing going. That was the way I was going to suggest that it move and keep doing that until we get together. Would that be all right?
- Traphagen: It is all right with me.

- 8 -

H.M.Jr: Is that all right with you gentlemen?

Turbay: Perfectly.

Traphagen: The only qualification I make is that I do have to be in New York tomorrow morning.

H.M.Jr: Then you can settle it today. That makes it easier for everybody.

Jaramillo: A good solution.

H.M.Jr: How would this be, if we give you a place, an office where you could be by yourself and phone, and that when you are ready, you let these gentlemen know. Where would you like to be?

Laylin: We can wait right here in the Treasury.

H.M.Jr: Fine. We will give you each a room. There is lots of room.

Turbay: We could meet later.

H.M.Jr: How long do you think it will take you?

Traphagen: I don't think it will take me a very long time to get my people on the phone.

H.M.Jr: Could you be ready by 12:00 o'clock?

Traphagen: Oh, I think so.

H.M.Jr: Well, we will be ready by 12:00, so why not just wait. Would that be all right?

Turbay: It would be all right, yes.

Traphagen: I would like very much if the Ambassador and Jaramillo would have lunch with me, and Mr. Laylin, and Mr. Cotton, or anybody else, and maybe we can talk it over at lunch, and then would you like us to report to you later in the day?

H.M.Jr: Well, Mr. Welles and I were holding ourselves at Cabinet until 4:30, so you could all come

- 9 -

back then and tell us you were all together, or maybe we could meet here again at 4:30, but in the meantime you people could be meeting with each other. Is that what you had in mind?

Welles: Yes.

H.M.Jr: Will that be all right?

Traphagen: I will do anything that you say.

H.M.Jr: Then you people are going to meet at 1:00 o'clock for lunch, is that it?

Jaramillo: That is all right.

Traphagen: Suppose I endeavor to get my principals on the phone and talk with them and maybe you gentlemen would come to the hotel and have lunch with me, at the Mayflower, would you, at 1:00 o'clock?

Turbay: We would be delighted.

H.M.Jr: And then we will all see you again at 4:30. If, during the day, you want to meet here in the Treasury, I mean if there is any question you would like to put up, Mr. Bell is available all day on this. And you (Mr. Welles) are available.

Welles: I will have to be at the White House immediately after Cabinet.

H.M.Jr: Could you be back at 4:30?

Welles: It depends on how long I have to stay.

H.M.Jr: If anything comes up during the day, will you speak to Mr. Bell?

Traphagen: Yes.

H.M.Jr: And I will hold myself in readiness at 4:30.

Traphagen: All right.

EMBAJADA DE COLOMBIA
WASHINGTON

The Government of Colombia wishes to invite attention to the fact that, since these negotiations were begun, world conditions have changed such that we are now in a period of great international disturbances, the repercussions of which are bearing each day more heavily upon the economy of Colombia.

The economic problems of Colombia have been growing more and more serious due principally to the decline in the price of coffee, to such an extent that the value of this principal product is today barely one fourth of what it was in 1929. Concretely, the exportation of 2,800,000 bags of coffee returned to the country in that year \$74,400,000, while an exportation of 4,200,000 bags in 1938, at an average price of 11-1/2¢ per pound, brought only \$49,000,000. The present decline to 6-1/2¢ per pound threatens to bring about an economic crisis similar to that which in 1932 obliged the country to suspend payments on its external debt.

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With the desire of going as far as possible to reach an agreement, the Government has studied with the greatest care the proposal made in

- 2 -

the letter of January 12th by Mr. Traphagen and has confirmed the terms to which I said I would agree in the conference held on January 13th, under the auspices of the Secretary of the Treasury.

In the light of this same desire and in order to arrive promptly at an understanding which goes as far as is possible in the direction of meeting the Council's position, I am prepared to recommend to my Government the following bases of agreement in the event they are found to be acceptable:

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- 3) Amortization- The Republic undertakes to amortize throughout the entire period of the service of the loan an annual amount in bonds of a face value equal to $1\frac{1}{2}\%$ of the \$45,000,000 principal amount. That is to say, the Government will deliver annually to the Fiscal Agents bonds, for amortization, in the face amount of \$450,000. The bonds that the Govern-

- 3 -

new ones and which amount to about \$5,900,000 will not be used for this purpose, but will be cancelled at the time of entering into the settlement.

- 4) Total service moneys- The Government agrees that, beginning with the year 1941, it will apply to the service of the loan not less than \$1,800,000; and \$2,000,000 beginning with 1950 or so soon thereafter as the value of the exportations from Colombia (exclusive of petroleum and 60% of the gold, platinum and banana) equals by at least 120% the value of such exportations for the year 1936.
- 5) Additional amortisation.- In the event and to the extent that the requirements for current interest and interest in arrears and the cost to the Government of the purchase of the \$450,000 face amount of bonds do not exhaust the total service moneys of \$1,800,000, or \$2,000,000 as the case may be, the Government undertakes to apply the difference to the purchase of bonds for delivery to the Fiscal Agents for amortisation, or to deliver said difference in cash to the Fiscal Agents for the purchase of bonds for amortisation. It is understood that the Government may and hopes to amortise bonds more rapidly than here contemplated if conditions permit; and may redeem the bonds at par on any interest payment date, in whole or in part.
- 6) The Government will agree that, if a better settlement is made with the foreign holders of any other external bonds of the national Government now outstanding, like better treatment will be extended to the holders of the bonds covered by this settlement.

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7) So soon as an agreement in principle is reached, on the direct dollar debt, the Banco Agrícola Hipotecario will send a representative to the United States with instructions to negotiate an immediate settlement of the dollar debt of that Bank guaranteed by the Government of Colombia.

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WASHINGTON

-MEMORANDUM-

The Government of Colombia wishes to invite attention to the fact that, since these negotiations were begun, world conditions have changed such that we are now in a period of great international disturbance, the repercussions of which are bearing each day more heavily upon the economy of Colombia.

The economic problems of Colombia have been growing more and more serious due principally to the decline in the price of coffee, to such an extreme that the value of this principal product is today barely one fourth of what it was in 1929. Concretely, the exportation of 2.800.000 bags of coffee returned to the country in that year \$74.400.000, while an exportation of 4.200.000 bags in 1938, at an average price of 11-1/2¢ per pound, brought only \$49.000.000. The present decline to 8-1/2¢ per pound threatens to bring about an economic crisis similar to that which in 1932 obliged the country to suspend payments on its external debt.

Notwithstanding these difficulties, the Government

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has held to its determination to seek a settlement of its dollar debt. The Government therefore hopes that the strong determination which animates it and the sacrifices involved in assuming the obligations contemplated, which will aggravate the present difficulties, will be fully appreciated and understood.

With the desire of going as far as possible to reach an agreement, the Government has studied with the greatest care the proposal made in the letter of January 12th by Mr. Traphagen and has confirmed the terms to which I said I would agree in the conference held on January 13th, under the auspices of the Secretary of the Treasury.

In the light of this same desire and in order to arrive promptly at an understanding which goes as far as is possible in the direction of meeting the Council's position, I am prepared to recommend to my Government the following bases of agreement in the event they are found to be acceptable:

- 1) Current interest- Beginning with the year 1940 the

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Government will pay 3% interest on the principal amount of bonds calculated at \$45,000,000 and will deliver to the Fiscal Agents in each year the amount necessary for this purpose.

2) Interest in arrears- The Government undertakes to deliver to the Fiscal Agents each year, for ten years, \$225,000 to be applied to the interest in arrears, so that the Fiscal Agents will be in a position to pay each year against the surrender of the coupons, for a half yearly period, one-sixth of the face amount of such coupons.

3) Amortization- The Republic undertakes to amortize throughout the entire period of the service of the loan an annual amount in bonds of a face value equal to 1% of the \$45,000,000 principal amount. That is to say: the Government will deliver annually to the Fiscal Agents bonds, for amortization, in the face amount of \$450,000. The bonds that the Government now owns and which amount

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WASHINGTON

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to about \$5.900.000 will not be used for this purpose, but will be cancelled at the time of entering into the settlement.

4) Total service moneys- The Government agrees that, beginning with the year 1941, it will apply to the service of the loan not less than \$1.800,000; and \$2.000.000 beginning with 1950 or so soon thereafter as the value of the exportations from Colombia (exclusive of petroleum and 60% of the gold, platinum and banana) equals by at least 120% the value of such exportations for the year 1938.

5) Additional amortization.- In the event and to the extent that the requirements for current interest and interest in arrears and the cost to the Government of the purchase of the \$450.000 face amount of bonds do not exhaust the total service moneys of \$1.800.000, or \$2.000.000 as the case may be, the Government undertakes to apply

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the difference to the purchase of bonds for delivery to the Fiscal Agents for amortization, or to deliver said difference in cash to the Fiscal Agents for the purchase of bonds for amortization. It is understood that the Government may and hopes to amortize bonds more rapidly than here contemplated if conditions permit; and may redeem the bonds at par on any interest payment date, in whole or in part.

6) The Government will agree that, if a better settlement is made with the foreign holders of any other external bonds of the national Government now outstanding, like better treatment will be extended to the holders of the bonds covered by this settlement.

7) So soon as an agreement in principle is reached, on the direct dollar debt, the Banco Agrícola Hipotecario will send a representative to the United States with instructions to negotiate an immediate settlement of the dollar debt of that Bank guaranteed by the Government of Colombia.

RE COLOMBIAN FINANCE

February 1, 1940.
4:30 p.m.

Present: Mr. Welles
Mr. Bell
Mr. Cotton
Ambassador Turbay
Dr. Jaramillo
Mr. Laylin
Mr. Traphagen

H.M.Jr: Well, Mr. Ambassador, where are we this afternoon?

Turbay: We had lunch and spent a very pleasant hour.

Jaramillo: The lunch was good but the conversation was not so good.

H.M.Jr: I see.

Traphagen: We agree on food, Mr. Secretary, but on very little else.

H.M.Jr: I see.

Traphagen: I am sorry to say. I was able to get in touch with the Executive Committee of the Council on the telephone but I wasn't able to persuade them to make any better offer than what they felt was their minimum offer, which I communicated to the Ambassador on January 12th, and that offer contemplated the annual payment of \$2,300,000 a year and after the first five years it contemplated a 4 percent coupon. The Executive Committee were quite unanimous that they feel they couldn't go below that.

H.M.Jr: How do you people feel after lunch? How is the price of coffee today, any improvement?

Jaramillo: No, it hasn't improved yet. We have now 8 $\frac{1}{2}$ ¢ per pound from 30¢ four months ago.

H.M.Jr: What do you want to do, just let the thing drop?

Turbay: (The Ambassador stated in heavily accented English that he was extremely anxious, personally, to reach a satisfactory agreement

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with the Bondholders' Protective Committee and that the Colombian delegation had expected Mr. Traphagen to be in a position to put forward a new proposition at this meeting).

Traphagen: I am very sorry, Mr. Secretary, that we haven't been more successful. I realize that you and Mr. Welles and everyone else who has had anything to do with this has done everything they could to help us and I am still hopeful that somehow, some way, we can get together with a little more time.

I suppose the price of coffee has something to do with it.

Jaramillo: (Unintelligible).

Laylin: Yes, $3\frac{1}{2}$ percent represents - with the depreciation, the $3\frac{1}{2}$ percent paid, Mr. Secretary, it would cost in pesos what 6 percent would usually cost.

Cotton: That is right, too.

H.M.Jr: Could I just talk a minute here with Mr. Welles and Mr. Bell?

(Discussion off the record)

Am I correct that in the budget they now have - how much money allocated for debt retirement or for debt interest, rather, interest on the debt?

Laylin: As I understand it - yes, 3,250,000 pesos.

Turbay: About.

Laylin: For the American and English debt for the year 1940.

H.M.Jr: Three million how much?

Laylin: Two hundred fifty thousand pesos. Now, the peso is 57¢. How many dollars is that?

Bell: It ought to be around three million seven or eight.

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Turbay: It amounts to about \$3,900,000.

H.M.Jr: Is that all available for the United States?

Turbay: No.

H.M.Jr: Is a million nine available?

Turbay: 45 million for settling of the debt.

Cotton: It would be about one million seven, wouldn't it?

Laylin: That is for the 45 million of dollar debt, only.

Bell: There is some more in there, though.

Laylin: But that they allocate to the English debt.

Bell: I see.

H.M.Jr: In order that Mr. Welles and Mr. Jones can earn their salary and not have nothing come out of this conference, as a sort of last suggestion - in fact, a last suggestion - we offer this to you people, that you consider a temporary arrangement for one year; that you take \$1,350,000, which would be 3 percent on the 45 million, and pay half of that immediately and the other half in six months; that you agree to take \$400,000 and as rapidly as possible retire \$400,000 worth of bonds. I mean, you spend \$400,000 to retire - buy as many bonds as you can for \$400,000, and that as soon as that is announced you continue your negotiations for a permanent settlement, but do this for one year.

Laylin: Would you mind repeating? In the first six months you spend half of the million seven fifty?

H.M.Jr: Well, I take it you pay semi-annually.

Laylin: Yes.

H.M.Jr: You would take a million three fifty, which

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would be \$675,000 - I mean that you take half of it and pay immediately $1\frac{1}{2}\%$ interest on 45 million debt and in six months you pay another $1\frac{1}{2}\%$ and that the Colombian Government agree to spend \$400,000 cash and buy as many of the bonds as they can for that money, doing that as rapidly as possible.

Welles: During the twelve months' period.

H.M.Jr: During the twelve months' period. But after that is announced, that you continue with the Council to work toward a permanent settlement. The reason we suggest that, that is what you have got in your budget and before your next budget is made up you put in something which would be agreeable and it gives you ample time, but I am not making this suggestion for trading purposes, you see.

Jones: Would that be acceptable to the Committee, do you think?

H.M.Jr: Which committee?

Jones: The Traphagen Committee.

H.M.Jr: Well, there it is.

Traphagen: Mr. Jones, I did discuss with my Committee today this whole question.

Jones: First I want to apologize. I didn't even recognize you.

Traphagen: Didn't you? I said, "Hello, Mr. Jones," and I thought you did.

Jones: I thought you were another man here. I couldn't recall your name.

Traphagen: Your apology is certainly accepted.

The Council said this to me, that if it were impossible to agree on a permanent settlement, that they would be willing to consider a temporary settlement that would envisage the

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payment of interest at $3\frac{1}{2}\%$, which would take \$1,575,000 and that over and above that, they would expect the Colombians to pay \$225,000 toward the sinking fund, which would mean annual payments of \$1,800,000 during the life of this temporary settlement. They would be very loath to go under $3\frac{1}{2}\%$ coupon in the temporary settlement, but they would agree to a temporary settlement over one year or two years or three years.

I think that we recognize that Colombia is having a hard time at the moment with the price of coffee where it is.

- H.M.Jr: Well now, have you got the authority to say yes or no to the suggestion that we made?
- Turbay: Yes.
- H.M.Jr: You can say yes - have you the authority?
- Turbay: I would have to speak to my Government because --
- Jaramillo: They have not contemplated that solution.
- Turbay: In order to avoid any difficulty with the Council, the Council - I would wish to speak to my Government in regard to your suggestion, Mr. Secretary.
- Jones: I didn't hear it. Will somebody interpret that?
- H.M.Jr: The Ambassador is going to take the suggestion of the three of us and I take it either telephone or telegraph it down and get the yes or no for his Government on that.
- Jones: That is our suggestion?
- H.M.Jr: Our suggestion.
- Jones: And then that would be submitted to Mr. Traphagen?
- H.M.Jr: And I am going to ask Mr. Traphagen if he would take this suggestion which we have made here and submit it to the Council.

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- Laylin: Mr. Traphagen, I should say that Francis White suggested to Ambassador Lopez and me a three-year temporary settlement on a 3% basis, way last August.
- H.M.Jr: I didn't even know that. What was his suggestion?
- Laylin: He wasn't specific on the amount of the sinking fund, but it was for three years and 3 percent interest.
- Traphagen: Well, of course, these suggestions that have been made in the past, they have been made on your side and they have been made on our side and you made the so-called Laylin suggestion and Francis White may have made some other suggestions. The suggestions that were made in the past have been put in the discard. We are willing to agree to the Laylin settlement.
- Laylin: I mentioned this so that you could use it in your discussion when it comes.
- Traphagen: Yes.
- Welles: I would like to repeat what the Ambassador has just added to that in Spanish. He prefers the idea of a one-year settlement along the lines that you have proposed, with the clear understanding that it is only for one year, but that during that year the Council and the Colombian representatives maintain a close contact with a view to negotiating a permanent settlement.
- H.M.Jr: Well, that is what you and I and Mr. Jones were talking about, a one-year settlement, but immediately continue these discussions, looking toward a permanent one.
- Jones: And not wait until the end of the year to start.
- H.M.Jr: No, continue right now.
- Welles: That was the Ambassador's suggestion.
- Traphagen: I didn't hear the first part of Mr. Welles' interpretation. The Ambassador preferred a one-year settlement?

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Welles: A one-year settlement, Mr. Traphagen, yes.

Traphagen: I will be very glad to submit that to the Council and I will try to get an answer for you just as soon as possible.

H.M.Jr: Will you?

Traphagen: I will.

Jones: Can we ask both of these gentlemen to agree to recommend it?

Welles: The Ambassador said that he will be willing to recommend it to his Government as a means of avoiding a breakdown of negotiations, although he would prefer to have the negotiations continue with a view to reaching an agreement for a permanent settlement, but if that proves impossible, or if that proves impossible for the present time, he would be disposed to recommend this suggestion to his Government as a means of avoiding a breakdown and as a means of continuing negotiations with a view to a permanent settlement.

The Ambassador repeats what I have already said, that is, that on three or four occasions, the Colombian Government has objected to a temporary arrangement, preferring a permanent arrangement.

Jones: Then they would prefer to continue the negotiations now in an effort to make a permanent arrangement, rather than to make the temporary arrangement, is that correct?

Welles: That is the Ambassador's desire, but in order to avoid a breakdown of negotiations or to avoid indefinite continuation and inability to get together, he would be disposed to recommend this as a solution for one year.

H.M.Jr: Mr. Jones would like to go in a corner with us again.

(Discussion off the record)

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- H.M.Jr: One thing that Mr. Cotton drew to my attention was this, that in the continuation of a permanent settlement, the Colombian Government, as part of that, would immediately send up somebody representing the agricultural bank to negotiate that.
- Laylin: Along with the negotiation for the permanent settlement?
- H.M.Jr: Yes.
- Welles: The Ambassador says, in reply to your request, that he would, of course, agree that a representative of the mortgage bank come immediately and take a hand in negotiations for the settlement of that debt, but that he does not conceive of a settlement of that debt being possible until a permanent arrangement for the 45 million has been found, but that he is willing to have the representative come immediately nevertheless to undertake those negotiations.
- H.M.Jr: Wouldn't he be willing to say this, that in consideration of the permanent settlement, the one on the mortgage bank, that the two would be along together simultaneously?
- Welles: That is exactly what he says.
- H.M.Jr: That is the point. Do I understand, gentlemen, that you will now recommend this suggestion to your Government, is that the idea?
- Turbay: Yes.
- H.M.Jr: How about you, Mr. Traphagen?
- Traphagen: I am afraid I will have to.
- H.M.Jr: That is something. Could I possibly hear from you Monday or Tuesday?
- Traphagen: I think so. I think I can let you know by Monday.
- H.M.Jr: By Monday?

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Traphagen: Yes.

H.M. Jr: Do you think you gentlemen could let us know by Monday?

Turbay: Yes.

Traphagen: It might be late Monday, but sometime before midnight.

H.M. Jr: Then we just will hope for the best.

Traphagen: All right. I will do the best I can with it.

H.M. Jr: Have you anything to say?

Welles: I merely want to clear up one point so there won't be any misunderstanding. It is my understanding that if this temporary agreement is reached as a result of the recommendations that have been made by both sides, that negotiations for the permanent settlement will be resumed immediately thereafter. Am I right in that understanding?

Turbay: Yes. And I go a little farther, that if, between now and Monday or Tuesday, Mr. Traphagen's Committee can propose another suggestion, we will consider the new suggestion, because my hope is for a permanent settlement at all times.

H.M. Jr: Do you get what he suggested? He said if between now and Monday and Tuesday the Council has a suggestion for a permanent settlement, he would be very glad to entertain it.

Turbay: Exactly.

Traphagen: Yes. I am a little doubtful if I could work that out before Monday or Tuesday, but if we should - if the Ambassador and myself should see some hope of working out a permanent settlement, would it be agreeable to you gentlemen in that event to postpone the announcement of a temporary settlement for a few weeks?

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H.M.Jr: Sure.

Traphagen: If we see some real hope of doing it.

Jones: It would be our desire.

Traphagen: I suggested to the Ambassador while you gentlemen were discussing those things between yourselves - Dr. Turbay said to me that he was a little loath to think about one-year settlements. I am a little loath to think about it, because I visualize I am going to be spending quite a little time down here over the next year if that is the case.

H.M.Jr: It is a lovely climate.

Traphagen: And I would like to get it through as soon as possible and I suggested that perhaps if we could have a period of two weeks to see if we can't possibly work out a permanent settlement, that that might be a very wise thing to do.

H.M.Jr: Well, the matter is up to you gentlemen. I got the feeling after you came back that the thing was hopeless, so therefore as a final gesture I suggested one year, but if you people think that in one or two weeks' time you can come to a permanent thing, I am sure everybody here would be delighted.

Traphagen: I think, Mr. Secretary, if we keep it down to a fairly short time and have it understood that if we can't do this in the way of a permanent settlement within two weeks --

H.M.Jr: That would be the 15th of February.

Traphagen: That then the alternative is to agree to this temporary settlement for one year, that then we will go to it very hard and see what can be done.

Welles: The Ambassador says he would like this arrangement, that the two sides would obtain the agreement of their principals as to the temporary arrangements suggested by you for

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one year with the understanding, however, that no announcement to that effect will be made within the period of two weeks beginning today, with the hope that a permanent arrangement, as Mr. Traphagen has suggested, may be found within those two weeks, but if at the end of those two weeks, no permanent arrangement has been found possible, that then the temporary arrangement for one year would go into effect and negotiations would continue for a permanent arrangement.

H.M.Jr: What do you think?

Traphagen: I think that is very good.

H.M.Jr: Between now and the 15th of February.

Turbay: Between now and the 15th of February.

Traphagen: That is all right.

Turbay: Meet each day.

Traphagen: I didn't quite understand you.

Laylin: He is giving you two weeks because he needs only a day for a settlement.

Traphagen: Well, he has only one principal to bother with and I have seven or eight.

H.M.Jr: Then, as I understand it, sometime Monday Mr. Welles will hear from the Colombian Government as to the one-year settlement, whether that is agreeable, and I will hear from you.

Traphagen: Very good.

H.M.Jr: And then if you can come to a one-year agreement, that is put into your side pocket and you people - no announcement, but continue until the 15th of February trying to come to a permanent settlement.

Traphagen: I think that is excellent. It will be announced on the 15th of February if we have come to a permanent settlement.

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- H.M.Jr: And if it is a one-year settlement, then the $1\frac{1}{2}\%$ will be paid immediately on the announcement of the settlement.
- Turbay: Yes.
- Traphagen: And half of the sinking fund would be a million seven.
- H.M.Jr: No, $1\frac{1}{2}\%$ would be paid immediately on --
- Cotton: Six hundred twenty-five thousand dollars.
- Welles: On the 15th of February, the Ambassador says.
- H.M.Jr: Would be paid on the 15th of February.
- Traphagen: Then there was the sum of \$400,000 --
- H.M.Jr: Which they would go into the market and buy as rapidly as possible outstanding bonds.
- Traphagen: Within a year?
- H.M.Jr: Within 12 months.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau
FROM Mr. White

CONFIDENTIALSubject: FOREIGN ECONOMIC DEVELOPMENTS

(Prepared by the Division of Monetary Research)

Britain

Notwithstanding the withdrawal from the labor market by mobilization of over a million men, there has actually been an increase in British unemployment since the outbreak of war. At the middle of December the registered unemployed numbered 1,360,000, compared with 1,275,000 on August 14. This does not include unregistered unemployed -- e.g., domestic servants, professional, agricultural labor, etc.

The persistence of a substantial volume of unemployment, in the face of the withdrawal of one million able-bodied men, indicates that the British real national income fell substantially during the last quarter of 1939 and suggests that the real national income may be smaller in 1940 than in 1939. The part of the national income available for consumption and productive investment will be much smaller than in 1939 because a higher proportion of total output will consist of armaments. In terms of sterling, the national income will be higher because of rising prices. Wholesale prices are already about one-fourth higher than last January.

Estimated budgetary expenditures indicate that roughly half of the British national income in the year 1940 will be paid out by the British Exchequer.

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The British Empire is much more self-sufficient than it was in the last war with respect to essential war materials.

Empire production of essential war materials:

	<u>1914</u>	<u>Current annual production</u>
Copper	85,000 tons	600,000 tons
Lead ore	130,000 "	630,000 "
Nickel	20,000 "	95,000 "
Aluminum	14,000 "	88,000 "
Asbestos	98,000 "	344,000 "
Steel pro- duction (capacity)	9,000,000 tons	18,000,000 tons

The strain of war on British shipping has led to extreme control measures. The British Government has just taken over all ocean tonnage on the United Kingdom and Colonial registers (except the Dominions in India) as from February 1. They have also taken over the British shipbuilding industry and are making plans for the development of the shipbuilding industry in Canada. The objective is to secure greater efficiency in the operation of ships and an increase in the rate of new construction.

Over half a million tons of British merchant shipping has been sunk in the past five months. New British construction has not quite offset the lost tonnage. However, shipping requirements are now greater than during peace time and the efficiency of existing tonnage has been reduced through the operation of the convoy system and contraband control.

The merchant shipbuilding industry of Britain is operating near its capacity of 2 million tons per year. The Government has decided to order a larger tonnage of standardized tramp ships which will permit increased efficiency and speed in production.

Italy and Germany

As the result of the sale of the property of 185,000 German nationals in Northern Italy who have agreed to migrate to Germany, Germany has acquired a claim against the Italian Government of about 6 billion lire. This 6 billion lire would suffice to liquidate the whole of the German clearing debt to Italy and to pay for over two years of German imports from Italy. However, it is not yet certain how this debt will be applied to the current balance of payments between the two countries.

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Reports indicate that the property left by the German emigrants is supposed to be paid for by December 31, 1942. But Italy will be very reluctant to export to Germany without receiving imports currently in exchange, particularly German coal which is essential to Italian industry. Germany will wish to decrease her exports to Italy, while increasing her imports, but it is doubtful whether Italy will agree to a change of the trade balances of the magnitude of 6 billion lire (\$300 million) during the next three years. Negotiations on these matters are taking place in Rome at the present time.

The struggle for Rumania

Germany has improved its already strategically dominant position, vis-a-vis the Allies, in the struggle for effective control of Rumanian resources.

In March, 1939, Rumania signed an agreement with Germany providing that the natural resources of Rumania are to be developed, under German direction, to meet Germany's import needs. On December 21, a further German-Rumanian agreement was concluded increasing the exchange value of the mark against the Rumanian lei by about 20 percent and obligating Rumania to furnish Germany with 1,820,000 metric tons of oil in 1940. (Germany received about 1,200,000 tons from Rumania in 1939.)

About four-fifths of Rumanian petroleum output comes from the properties of foreign companies -- British, Dutch, French, American and Belgian. It was believed that these companies might refuse to sell oil to Germany. But on January 17, the Rumanian Government announced that a commission would be appointed to administer the petroleum industry, to insure provision for domestic needs and to guarantee the fulfillment of foreign obligations. The press reports that Great Britain and France have retaliated against the policy implied in the establishment of this commission by threatening to break off all trade relations with Rumania.

The Rumanian Government is in a difficult predicament. Rumania must collaborate with Germany. The Allied position in the Balkans is not strong enough to justify the hope of creating a "second front" against Germany there in the near future. So far German steel in the shadow of the Russian Bear appears to be more potent than Allied gold in keeping Rumania a source of supply for Germany.

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German-Allied Trade Warfare

Britain and France completed a trade agreement with Greece involving important supplies of chrome for the Allies.

Germany seems to be making more strenuous efforts to outbid the Allies in several countries. A trade expert arrived in Rome on January 25 to begin commercial negotiations; Turkey was reported the day before to have resumed trade relations with Germany (after a lapse of nearly five months) under a new agreement in which Germany was reported to have purchased goods valued at about \$6 million. The Germans also obtained a new trade schedule with Hungary on the eve of the commencement of Allied-Hungarian trade talks. Germany likewise was reported to have begun discussions with Belgium and the Netherlands for new trade agreements. In the case of the Netherlands, a newspaper report held that Germany had liquidated its \$21 million debt to the Netherlands of September 1, and acquired a substantial balance in her favor. The report also indicated that talks have begun concerning the possibility of shipping Dutch East Indian raw materials to Germany via Siberia.

The Germanization of Czech economic life

The German Government and the Nazi party have pushed forward with a ruthless policy of confiscation in occupied Czechoslovakia. Representatives of German firms have in many cases visited Czech concerns in the company of Gestapo agents, and the Czech or Jewish directors have been thrown out or arrested. Their places have been taken by the Nazi party or by German businessmen. Landed property has been similarly confiscated.

The German Government intends by this means to destroy the economic basis for Czech resistance to German authority, and to provide wealth for the use of the German Government and the Nazi party. The Czech economy will be brought into line with the requirements of the German Government, and jobs and other spoils will be distributed to faithful servants of the German regime.

The United States and Latin American Trade

In the first three months of the war (September, October, November) United States exports to Latin America increased by 46 percent, compared with the same period of 1938, while

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our imports increased by 30 percent. Brazil, our ninth best customer, increased her purchases in the United States by 64 percent in the first three months of the war as compared with 1938. During the same period Venezuela increased her purchases by 50.8 percent, Chile 43.5 percent, while Argentina increased her purchases by only 15.9 percent.

Brazil and the War Markets

Brazil rides a wave of unanticipated wartime prosperity. Coffee exports were 2 percent greater in July-December 1939 than in the same period of 1938. (January 1940 exports are down somewhat however.) Thanks to heavy French demand and a general European shift to lower-grade coffees, the price decline has been much smaller than that of mild coffee. As of January 15, the decline in Brazilians compared with 1939 was 3 to 7 percent compared with 25 to 30 percent for Colombians. Demand is strong for Brazilian meat, vegetable oils, hides, manganese, chromium and cotton.

Gold and foreign exchange resources have been increased to \$70 million. Favorable trade balance was \$60 million for 1939 (of which \$30 million was in last four months), compared with \$0.2 million for the whole of 1938. Her budget for 1940 anticipates 5 percent deficit. Vargas in New Year's Eve speech predicted Brazil would be producing her own steel rails by end of 1940.

Meanwhile Brazil attempts to find a basis for resumption of debt service in April 1940 on partial Aranha plan, probably in hope of attracting new capital from the United States. The Brazilian Government has allocated \$3.2 million for the remission of profits and dividends in January and plans to wipe out the arrears of \$20 million on this item by July 1940.

The Stalling of the Brazilian Steel Project

Brazil has been hoping for decades for a domestic steel industry to utilize her ore resources but so far the necessary capital has not been forthcoming. For the past six months the U. S. Steel Corporation has been considering the construction of a \$35 million steel plant in Brazil. U. S. Steel experts carefully investigated the project on the spot and wrote a report which characterized the project as being technically sound. Nevertheless the Corporation has finally informed the Brazilian Government that it would not participate in the project.

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The refusal to participate at this time is probably based upon the lack of confidence on the part of the U. S. Steel Finance Committee in the Brazilian Government's willingness or ability to fulfill certain conditions which are deemed necessary to the success of the venture and the safety of the American capital invested. It is believed that the U. S. Steel Corporation is still interested in the plan but hopes that the United States Government may be persuaded to assume some of the risks by putting up or guaranteeing a major part of the capital involved.

The plan recommended by the U. S. Steel Committee called for the construction of a steel plant capable of producing 285,000 tons of finished steel products at the outset. In 1938 Brazil produced only 65,000 tons of iron and steel products and imported 274,000 tons, principally from Germany, United Kingdom and the United States.

The technical committee which investigated the prospects for U. S. Steel estimated that the plant could be expected to make profits of 15 percent. The stalling of the plan in spite of the prospect of such attractive profits is a demonstration of the reluctance of private business in these troubled times to make direct investments abroad, especially in countries with a history of exchange difficulties.

The exhaustion of Japan's foreign exchange reserves

With the sale to the United States of \$38 million of gold in January, Japan has less than \$80 million of gold remaining. Other liquid foreign exchange assets will hardly bring the total of foreign exchange resources available to Japan above \$200 million. The Japanese Empire will produce during 1940 from \$50 million to \$60 million of new gold. Therefore, the total foreign exchange assets which will be available to the Japanese Government during 1940 will not be more than \$260 million.

The seriousness of Japan's foreign exchange position is indicated by the fact that Japan has been forced to liquidate \$225 million of foreign exchange assets in each of the past three years. If Japan's balance of payments is not radically adjusted, her foreign exchange resources will be exhausted at the end of this year.

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She has already cut her imports to the bone and any further reduction will seriously hamper her export capacity and war effectiveness. She may be able to increase her exports because of the European War. Unfortunately for her, the position of raw silk in the United States market is being jeopardized by substitutes, and the price has begun to fall.

China loses her southern railways

The loss of the two southern routes from Indo-China is a heavy blow to China's power of resistance. The Japanese capture of Nanking in November deprived China of the use of the Dong Dang-Nanking road. The use of the second route, the railroad running from Haiphong to Yunnanfu, was lost temporarily at least on January 5th when a vital bridge was destroyed by bombing.

The Japanese have demanded, with threats of repeated bombardments, that the French Government cease shipping war supplies to China over this route. Reliable information suggests that the French Government is not anxious to resist these Japanese demands. At the end of November there were 190 thousand tons of cargo at Haiphong awaiting shipment including an enormous number of motor vehicles. If the Yunnan railway remains unavailable all of these war supplies will have to be reshipped from Haiphong to Rangoon.

There now remain only two routes over which supplies from the outside world can reach China -- the new Burma road and the caravan route from Russia. The amount of tonnage carried on the Russian route is not known. During the months of November and December \$5 million of war supplies were reexported from Burma to China over the new Burma road. Of this total 65 percent were Russian supplies which may indicate that the caravan route from Russia to China is at present being utilized to its full capacity.

Deterioration in Scandinavian Currency Situation

The war has brought about a sharp reduction in the gold and foreign exchange holdings of the Scandinavian countries. At the same time they are confronted with a domestic

inflationary movement, indicated by the persistent rise in their note circulations.

	<u>December 15,</u> <u>1938</u>	<u>August</u> <u>1939</u>	<u>December 15,</u> <u>1939</u>
<u>Bank of Sweden</u>			
(Millions of kronor)			
Gold and foreign assets	1,484	1,390	994
Note circulation	994	1,126	1,341
<u>Bank of Norway</u>			
(Millions of kronor)			
Gold and foreign assets	399	364	303
Note circulation	448	505	564
<u>National Bank of Denmark 1/</u>			
(Millions of kronor)			
Gold and foreign exchange	236	206	125
Note circulation	414	505	564

(1/ Figures for November 1938 and November 1939.)

The Bank of Sweden now maintains 50 percent of her foreign exchange assets in the United States, the Bank of Norway almost 60 percent and the National Bank of Denmark 40 percent.

India and the Silver Market

There is little prospect that India will import any considerable amount of silver in the near future. The price of silver in Bombay fell considerably during the past week and the Reserve Bank of India bought 6 million ounces to support the market, in contrast to its action last month when it sold substantial amounts of silver to curb the speculative rise in silver at that time. Silver stocks of bullion dealers in Bombay amount to about 50 million ounces which is abnormally high, and the minimum price (43.2 cents per ounce) at which dealers are permitted to sell imported silver is appreciably above the current market price in Bombay (40.12 cents).

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The proposed agreement between the Atlas Powder Company, called the seller, and the British Purchasing Commission as agent for the United Kingdom of Great Britain, called the purchaser, provides as follows:

A.1. Seller agrees forthwith to commence erection of plant at Atlas, Missouri, for the manufacture of T.N.T. to have an approximate monthly capacity of 750,000 pounds and an estimated cost of \$959,000.

A.2. The plant is to be completed and in production on or before the 180th day.

A.3. To assist the seller in financing the erection of the new plant, the purchaser has lent the seller the sum of \$887,000, evidenced by seller's non-negotiable promissory note to purchaser of even date herewith payable in 10 years or upon the termination of this agreement (by cancellation or otherwise), whichever shall first occur.

A.4. Nothing in this agreement shall be construed to create in favor of the purchaser any present or future right, title, claim or interest, legal, equitable or otherwise, to, in or upon said plant.

B.1. The seller agrees to sell and deliver to the purchaser quantities and at the price set forth:

B.2.(a) Quantity. 12,500,000 pounds beginning at smaller installments and reaching, in the fourth month, to 750,000 pounds per month until the 12,500,000 pounds shall have been delivered.

B.2.(b) gives to the purchaser an option to purchase the entire output of the plant for a period commencing immediately after completion of sale and delivery of the first 12,500,000 pounds. However, the obligation of the seller to deliver to the purchaser shall not extend beyond ten years from the date of the agreement.

B.3. This contains specifications for packing the product with provision for an adjustment of the purchase price.

B.4. The price packed for export. F.A.S. United States port of shipment 18¢ per pound plus freight, plus handling and/or other charges arising after the goods have been placed on board cars at plant. Then follows in this same section provisions for adjustment of the price based upon cost of materials and of labor.

B.5. Terms of payment. Cash against seller's pro forma invoice after loading.

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B.6. Title of goods to pass to purchaser on payment therefor. However, risk of loss and damage to goods shall be borne by purchaser from the time placed on cars at plant.

B.7. Inspection. Purchaser to have the right to inspect prior to delivery on cars.

C.1. Purchaser to have the right to cancel this agreement at any time upon thirty days advance notice.

C.2. If such cancellation is prior to completion of plant, construction work shall stop, commitments for material or equipment to be adjusted so far as possible and then seller shall determine and advise purchaser of the total amount of expenses incurred. On date of cancellation purchaser shall pay to seller \$100,000 for engineering expense and contingencies plus an amount equal to the expenses referred to above after deducting a reasonable salvage value.

C.3. If cancellation by purchaser is after completion of plant, production shall cease and purchaser shall reimburse seller for its cost of cancellation of material commitments plus \$10,000, and shall pay to seller an amount equal to the difference between \$687,000 and an amount arrived at by multiplying the total number of pounds of T.N.T. sold and paid for by purchaser by 1¢.

C.4. Seller shall have the right, upon thirty days notice, to cancel this agreement if, in five consecutive months, purchaser shall have failed to purchase and pay for 1,000,000 pounds or more of T.N.T.

C.5. In event of cancellation of this agreement by seller, purchaser shall pay to seller an amount equal to the difference between \$667,000 and an amount arrived at by multiplying the total number of pounds of T.N.T. sold and delivered hereunder by 1¢.

C.6. Any amount payable by purchaser to seller under the provisions of this section may be used by seller as an offset and counterclaim to reduce the principal amount payable by seller to purchaser on said promissory note for \$667,000.

Section D.1. to D.4., inclusive, provide for various operational considerations and reservations of failures or delays caused by Act of God, public enemy, strikes, etc.

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D.5. provides that any tax or other governmental charge levied directly upon the production, sale, and/or shipment of the goods imposed by Federal, State, or Municipal authority shall be added to the price provided and shall be paid by the purchaser.

D.6. provides for reference to a firm of C.P.A.'s for determination of the total amount of seller's expenses.

E. provides that the purchaser shall have the right at any time to assign to the French Government all or any part of its rights under this agreement.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Mr. Thompson

FROM Mr. Haas *HA*

In response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the period December 28, 1939, to the end of January 1940.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under
Way, and the Names of Persons Working on Each,
for the Period December 28, 1939, to
the End of January 1940

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. Reviews of current developments in the high-grade securities markets were prepared, and memoranda were transmitted to the Secretary on the following dates: January 5, 10, 17, 23, 30. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Tickton, Mr. Turner, Miss Eyre

These reviews contained, in addition to analysis of the current situation, special studies, as follows:

- (a) Statements of condition as of December 31, 1939, of nine New York City banks (Review of January 5, page 4). - Mr. Lindow
- (b) Recent shifts in holdings of Treasury bills (Review of January 10, page 3). - Mr. Lindow
- (c) Composition of the public debt by maturity classes, 1930 to date (Review of January 10, page 4). - Mr. Tickton, Mr. Conrad
- (d) Increase in average maturity of the direct and guaranteed public debt during recent years (Review of January 17, page 3). - Mr. Lindow
- (e) Canadian Government finance (Review of January 17, page 3). - Mr. Lindow

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- (r) Composition by maturity classes of holdings of United States securities by nine New York City banks as of December 31, 1939 (Review of January 23, page 3). - Mr. Tickton, Mr. Turner
- (L) Analysis of cash subscriptions to the 2 percent Treasury bonds of 1948-50 and the 1 percent RFC note of July 1, 1942 (Review of January 23, page 4). - Mr. Turner
- (M) Principal assets of the ten largest banks outside New York City (Review of January 30, page 3). - Mr. Tickton
- (1) Absorption of the increase in the public debt since 1931 by classes of holders (Review of January 30, page 4). - Mr. Tickton

Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the preceding day, and the price range since date of issue and also for the years 1939 and 1940 to date. A chart for each issue was kept up to date showing recent daily price and yield figures together with comparative monthly data since 1935 or since date of issue. - Mr. Brown, Mr. Moody, Miss McCoy

6. Prepared memorandum to the Secretary on proposed EVA financing, January 23. - Mr. Haas, Mr. Murphy, Mr. Lindow
7. Examined four proposals of the RFC that the Secretary of the Treasury request that corporation to purchase the preferred stock of banks and one proposal that it be requested to lend on the preferred stock of a life insurance company. - Mr. Murphy, Mr. Lindow, Mr. Tickton, Mr. Turner
8. Tables and charts showing estimated cash income and outgo of the Federal Government were revised on basis of data available in January. - Mr. Tickton
9. A table showing the amount of food-order stamps issued by the Federal Surplus Commodities Corporation was brought up to date as of December 31. - Mr. Tickton
7. Prepared memorandum requested by Under Secretary Bell "Should the Terms of Issuance of United States Savings Bonds be Changed? - A Discussion of the Considerations Involved and of Alternative Proposals," January 16. - Mr. Haas, Mr. Murphy, Mr. Tickton, Miss Eyre

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8. Prepared memorandum to the Secretary on the intercorporate relationships of the Aviation and Transportation Corporation, the Aviation Corporation, the Aviation Manufacturing Corporation, and the Lycoming Manufacturing Company, January 18. - Mr. Haas, Mr. Murphy, Mr. Tickton, Mr. Conrad
9. Prepared memorandum to the Secretary on principal business interests of Victor Emanuel, January 20. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Tickton, Mr. Conrad
10. Prepared memorandum to the Secretary on the business and financial position of Continental Motors Corporation, January 29. - Mr. Haas, Mr. Lindow, Mr. Conrad
11. Analyzed data with respect to employment by aircraft concerns, January 30. - Mr. Haas, Mr. Lindow

II. Projects or studies under way

1. Preparation of summary data and charts on United States securities and on the relation of the market for United States securities to that for other high-grade securities, to preface the charts on prices and yields of individual issues of United States securities. - Miss Eyre
2. Statistical (graphic correlation) analysis of factors affecting high-grade interest rates. - Mr. Turner
3. Study of the relationship between the yields and maturities of high-grade securities immediately preceding prior major bear markets in such securities. - Mr. Lindow, Mr. Conrad
4. Comparison of relative amplitude of price fluctuations of long-term and short-term securities. - Mr. Lindow, Mr. Conrad
5. Study of the effect of the size of the issue on the prices and yields of U. S. securities. - Mr. Conrad
6. Chart and annotations with respect to the factors influencing the movement of interest rates during the last World War. - Mr. Turner
7. Discussion of various problems encountered and solutions devised in connection with war borrowing. - Mrs. Wadleigh
8. Memorandum comparing and contrasting war and depression deficit-financing. - Mrs. Wadleigh

9. Preparation of composite chart on unemployment for the Secretary's chart book. - Mr. Lindow
10. Preparation of a memorandum to Undersecretary Bell regarding the reason for the increase in money in circulation during the past 12 years. - Mrs. Wadleigh

Revenue Estimates

I. Projects or studies completed

1. There was prepared an analysis and comparison of the actual receipts, on a daily Treasury statement basis, with the estimates of revenues for the month of December 1939, and a similar comparison for the fiscal year through December 1939. - Mrs. Stanley
2. Detailed collections of various taxes in the month of December 1939 were compared with the monthly breakdown of the Budget estimates. A new form of presenting these data has been developed. - Mrs. Stanley
3. Budget estimates for each of the detailed taxes contained in the 1941 Budget of the United States were broken down into estimates of monthly collections for use in making the financing plans of the Government. - Mr. O'Donnell, Mr. Driver, Mr. Leashey, Mrs. Stanley, Mr. Wilson
4. During the month of January a detailed write-up of the methods of making the estimates for each of the taxes included in the 1941 Budget of the United States was completed with the exception of the write-up of the customs estimate. - Mr. O'Donnell, Mr. Driver, Mr. Leashey, Mrs. Stanley, Mr. Wilson
5. In connection with customs receipts, an analysis was made of quotas and of the customs receipts by districts to determine the causes of the heavy receipts in the early part of January 1940. - Mr. Wilson
6. The Tariff Commission study entitled, "The influence of reductions in rates of duty made by reciprocal trade agreements up to November 1939, on the average ad valorem equivalents, computed on the basis of imports in 1937" was studied in connection with the broader problem of ascertaining whether or not it would be possible to estimate the revenue effects of the trade agreements. - Mr. Wilson

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7. A memorandum was prepared at the request of Under Secretary Bell containing answers to questions regarding the revenue effects of the Revenue Acts of 1938 and 1939. - Mr. O'Donnell
8. A report was completed and forwarded to the General Committee on Statistics of Income on the concept of income which should be used for size classification in order to make the statistics most beneficial for revenue estimating purposes. - Mr. Driver, Mr. Leahey, Mr. O'Donnell
9. In connection with the proposed revision of tax laws, an estimate was made showing the revenue effect of defining short-term capital gains and losses as those resulting from the sale or transfer of assets held 12 months or less. Work requested by and completed for the Division of Tax Research. - Mr. Leahey
10. In considering alternative ways of raising one-half billion dollars, estimates were prepared of the yield from estate and gift taxes in a hypothetical fiscal year 1941, assuming the full effect of certain proposed changes in the exemptions and rate schedules for the estate and gift taxes. Work requested by and completed for the Division of Tax Research. - Mrs. Stanley
11. In connection with tax revisions and based upon the level of incomes used in the 1941 Budget, estimates were made of the effect on the individual income tax revenues under each of two surtax schedules. Work requested by and completed for the Division of Tax Research. - Mr. Driver

II. Projects or studies under way

1. Request from Division of Tax Research, October 30, 1939.

Revenue effect of:

- (1) With respect to individuals.

- (a) Redefine short-term capital gains and losses to include only gains and losses realized upon sale or exchange of capital assets held twelve months or less instead of gains and losses from assets held eighteen months or less as at present; and correspondingly redefine long-term gains and losses to include in the first statutory period those taken into account upon assets held more than twelve months but not more than twenty-four months instead of those upon assets held more than eighteen months but not more than twenty-four months as at present; assuming all other provisions with respect to the treatment of capital gains and losses remain unchanged. - Mr. Driver

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- (b) Redefine short-term capital gains and losses to include only gains and losses realized upon sale or exchange of capital assets held twelve months or less instead of gains and losses from assets held eighteen months or less as at present; correspondingly redefine long-term capital gains and losses to include those taken into account upon assets held more than twelve months instead of more than eighteen months as at present; and provide for the same treatment of all long-term capital gains and losses as at present accorded capital gains and losses from assets held more than twenty-four months. - Mr. Driver

7. Request from Division of Tax Research, January 17, 1940.

Revenue effect of:

- (1) Each of the four attached individual income surtax rate schedules, giving effect to the suggested changes in the personal exemptions noted on the respective schedules. - Mr. Driver
- (2) An additional 1 percent individual income normal tax rate. - Mr. Driver
- (3) An additional $1\frac{1}{2}$ percent corporation income tax rate. - Mr. Leshey
- (4) An increase in the tax on beer from \$5.00 to \$7.00 per barrel. - Mrs. Stanley
- (5) An increase in the tax on distilled spirits from \$2.25 to \$2.50 per gallon. - Mrs. Stanley
- (6) A one-half cent increase in the gasoline tax. - Mrs. Stanley

8. Request from Division of Tax Research, January 19, 1940.

On basis of calendar year 1940 business levels, revenue effect of:

- (1) A flat rate tax of 35 percent of the present combined individual normal and surtax with a limitation that the added tax should not exceed 35 percent of the net income remaining after present Federal income taxes. - Mr. Driver
- (2) What rate and corresponding limitation for the suggestion in (1) above would yield \$300 million? - Mr. Driver

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- (3) A graduated normal tax on present base (additional to the present 4 percent rate) as follows: 2 percent on the first \$2,000 of taxable base; 4 percent on the next \$2,000; and 6 percent on the balance, with the limitation that in no case should the additional tax exceed 10 percent of the net income remaining after present Federal income taxes. - Mr. Driver
- (4) What bracket rates for the suggestion in (3) above would yield \$300 million? - Mr. Driver
- (5) What would the yield in (3) above be if the rates were made applicable to surtax net income instead of income subject to normal tax? - Mr. Driver
- (6) What bracket rates for (5) above would yield \$300 million? - Mr. Driver
- (7) A flat tax of 1 percent on surtax net income under present law. - Mr. Driver
- (8) A flat 10 percent tax on unearned net income defined as all income which is not at present defined as earned income. - Mr. Driver
- (9) What rate for the suggestion in (8) above would yield \$300 million? - Mr. Driver

Economic Conditions Related to Fiscal
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business and price situation were prepared and transmitted to the Secretary on the following dates: January 2, 8, 15, 22, and 29. - Mr. Haas, Mr. Daggit, Mrs. May, Miss Rastall
2. A table and a chart showing employment under the Works Projects Administration were brought up to date and transmitted to the Secretary on the following dates: January 2, 9, 15, 22, and 29. - Miss Rastall
3. Memoranda summarizing reports from Federal Surplus Commodities Corporation on wheat export sales and market data were prepared and were submitted to the Secretary on the following dates: January 2, 10, 18, and 26. - Mrs. May

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4. Memoranda on retail bread prices were prepared and were submitted to the Secretary on the following dates: January 18 and 25. - Mrs. May

5. A memorandum to the Secretary on the wheat situation, January 5.

This involved an analysis of the current wheat situation with reference to the short domestic crop and the influence on the crop insurance program. - Mr. Haas, Mr. Daggit

6. A memorandum to the Secretary with comments on the "Milk Marketing Plan Proposed by Frederic C. Howe," January 3. - Mr. Haas, Mr. Daggit

7. Memorandum to the Secretary regarding extent to which shortage of shipping facilities was a hindrance to exports of agricultural products, January 5. - Mr. Haas

II. Projects or studies under way

1. Index of unfilled orders.

An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index based on data from individual industries.

As part of this study, there has been almost completed during January a study for estimating unfilled orders and inventories of finished goods for the U. S. Steel Corporation, designed to reveal information about a large and representative segment of the steel industry. - Mr. Daggit, Miss Rastall

2. Indications of business maladjustment.

Various indications of business maladjustments, shown in graphic form, are being brought together for convenient reference. - Mr. Daggit

3. Export trends.

Since the trend of exports is likely to be an important business factor during the coming year, a project has been started which is designed to interpret export movements in terms of their business significance. Some results of this study were mentioned in the business memorandum of January 29. A new study is under way this month to determine the number of points in the FRI index represented by exports of Steel. - Mrs. May, Mr. Chevreux

4. Forces determining trends of basic commodity prices.

This project involves individual price studies for various basic commodities, a number of which have been completed,

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which are intended eventually to be combined into a general index representing the basic price trend, after allowance for the effect of supplies, industrial demand, and other separable factors. - Mr. Daggit, Mrs. May, Miss Restall

5. Trends of individual commodity prices and price factors during the World War period.

This project is patterned after the general study of prices and price factors, 1913 to 1922, made in October, but deals with six individual basic commodities - wheat, cotton, hogs, steel, copper, and zinc. The project is designed to determine the principal price factors associated with the wartime rise and subsequent collapse of prices of these commodities. - Mr. Daggit, Mrs. May

6. Index of commodity stocks.

This project is designed to develop a composite index of basic commodity stocks as a measure of one important factor in the general price level. Stocks of 16 important industrial materials, expressed in terms of their net effect on prices, are being compiled for this index. - Mrs. May

7. Index of goods inventories.

A better index of inventories of finished goods is needed as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. An attempt to develop such an index is under way. - Mr. Daggit, Miss Restall

8. Index of buying on deferred payments.

A study of the volume of installment buying and consumer credit has nearly been completed. This study is designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. - Mrs. May

Actuarial Problems

I. Projects or studies completed

1. Comments on plan proposed by Representative Bloom to extend the widows' benefits under the Foreign Service Retirement Act to widows of officers who died prior to July 1, 1939.

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Comments incorporated in a letter to Mr. Hosmer of the State Department, January 6. - Mr. Reagh

2. A memorandum, in response to a request from Under Secretary Bell, transmitting tables showing (1) annuity provided by \$1,000, with interest at 3 percent, under specified conditions, and (2) purchase price of an annuity in specified amounts and for specified periods, assuming interest accrued at 3 percent, January 19. - Mr. Reagh
3. Amortization tables on Colombian bonds.

At the request of Mr. Cotton, Special Assistant to the Secretary, tables were prepared showing the effect of different proposals in connection with the amortization of Colombian bonds, January 17 and 26. - Mr. Brown

II. Projects or studies under way

1. Calculation of joint and survivorship annuity tables.

A recent amendment to the Civil Service retirement law permits retired employees to elect a joint and survivorship annuity in lieu of a single life annuity. The Board of Actuaries has submitted a new mortality table for use in computing the amount of the joint and survivorship annuities payable under the amended law. A major portion of the extensive tables required for this purpose has been computed. The work is still in process. - Mr. Reagh, Mr. Brown

2. Preparation of interest tables for use by the State Department under the Foreign Service retirement law.

The Foreign Service retirement law requires that records of contributions with interest be maintained in respect to each individual coming under the retirement law. Interest tables are being prepared to facilitate the maintenance of these records and to record the data in a form suitable for use in actuarial valuations of the fund. (Under the recent amendment to the Foreign Service Retirement Act actuarial valuations are made by the Treasury Department.) - Mr. Reagh, Mr. Brown

3. Request from Mr. Hosmer, State Department, for an estimate of the cost of lowering the optional retirement age of Foreign Service Officers from 60 to 55 years. - Mr. Reagh, Mr. Brown

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4. Retirement Committee of the President's Committee on Civil Service Improvement.

This Committee is making a comprehensive study of the Civil Service retirement law. Its report will recommend several changes designed to improve the present service. In connection with this study a number of tables have been prepared and the major portion of the report has been drafted. During January, various revisions of the text were made and additional tables were prepared. - Mr. Reagh

5. Study of horse race results.

This study was undertaken at the request of the Legal Division, for use in connection with the Annenberg case.

The results of some thirteen thousand horse races have been recorded on punch cards, which will be tabulated to show the financial results of betting under various systems and of following the selections of different expert handicappers. The results are expected to prove that it is impossible to exercise skill to any important extent in betting on horse races - that is, that such betting is primarily a matter of chance rather than of skill.

By the end of January approximately one half of the tabulating work has been completed. This portion of the project has proceeded slowly due to the fact that the tabulating equipment of the Bureau of Customs, Section of Statistics, is available to us only after regular office hours or during such times as their own work permits. - Mr. Reagh, Mr. Brown

6. Preparation of the draft of a chapter regarding financing of the plan, for incorporation in a report on the Retirement of Governmental Employees being prepared by the Civil Service Assembly of the United States and Canada. - Mr. Reagh

Other Projects or Studies

1. Annual Report of the Secretary.

The final work of editing and review was completed, ready for presentation of the report to Congress on January 8. - Miss Michener, Miss Westerman, Mr. Tickton

2. Treasury Bulletin.

Data were prepared or reviewed for the January issue of the

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Bulletin, as follows:

Prepared -

Average yields of long-term Treasury bonds and high-grade corporate bonds. - Mr. Lindow

Reviewed -

Amount of interest-bearing debt outstanding, the computed annual interest charge and the computed rate of interest - Mr. Lindow

Estimated customs duties and taxes, and value of dutiable and taxable imports, by tariff schedules - Mr. Lindow, Mr. Wilson

Estimated receipts from taxes imposed by various revenue acts on imports - Mr. Lindow, Mr. Wilson

Computed duties collected, by countries. - Mr. Lindow, Mr. Wilson

Treasury criminal cases. - Miss Michener, Mr. Lindow

3. Other material for publication.

(1) The Annual Report of the Central Statistical Board was reviewed, at the Board's request, January 8 - Mr. Haas, Mr. Reagh

(2) An article for the Americana Annual was prepared at the earlier request of Mr. Duffield reviewing, on the basis of the Annual Report, the operations of the Treasury Department in 1939. Article transmitted January 13. - Mr. Tickton

4. Correspondence.

Replies were prepared to letters of inquiry on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Miss Ziegler, and other members of the staff in appropriate fields of work.

During January, 276 letters were received in the Division and 282 were handled as required.

5. Charts.

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of January is attached.

Work completed in the Graphic Section, Division of
Research and Statistics, during January 1940.

Type of work	For Division of R & S	For Others	Total
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Graphic:

New charts completed	38	3	41
Charts brought up to date	745	28	773
Bond book charts completed	57		57
Bond books brought up to date	-		-
Miscellaneous jobs completed	29	20	49

Photographic:Photographs:

Total jobs	51	18	69
Number of-			
Negatives	102	77	179
Contact prints	92	100	192
Enlargements	260	344	604

Photostats:

Total jobs	110	27	137
Number of-			
Lettersize copies	534	1,827	2,361
All other copies	725	56	781

Multilith:

Total jobs	-	2	2
Number of-			
Zinc plates	-	65	65

Miscellaneous:

Total jobs	2	4	6
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STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

128
AA

DATE February 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

By appointment, Mr. Pinsent, Financial Counselor of the British Embassy, and Mr. Truelle, Counselor of the French Embassy, in charge during the illness of his Ambassador, called and handed to me the two attached memoranda.

The French memorandum is of a preliminary character, to be supplemented by a message which Mr. Leroy-Beaulieu will bring directly to the Secretary from Minister Reynaud about February 15, (I have dictated and attached a hurried translation of the French text.) I told the French Counselor that while the memorandum gives some information of interest, which we appreciated, the answer to the Secretary's inquiry as to what portion of the needs for 1940 would be covered by sales of gold and what portion by sales of securities, still remains to be received. He expected that Leroy-Beaulieu would bring the desired information.

In my first reading of the British memorandum I was struck by paragraph 6 on page 3 from which it would appear that it has been and is the intention of the British Government to finance its needs by sales of gold. When I pointed this out to Pinsent, he immediately admitted unofficially and personally that this sentence had surprised him so forcibly that he had immediately requested a confirmation from London. When the phraseology was confirmed he was also asked by London to state why he had, in the first place, questioned the correctness of the phraseology. He has now submitted to his Ambassador the draft of a cablegram explaining this. Pinsent agreed with me that it has been our understanding all along that both securities and gold were to be sold and that the fact that the British Government had been approving of sales of dollar securities since the outbreak of the war should confirm that it has never been the intention of the British Government to depend upon gold sales alone. Pinsent volunteered that it was his recollection that a message had been communicated to us through Ambassador Kennedy along in October that the British Treasury preferred to sell securities rather than gold. I am checking up our messages on this point and Pinsent will also check his memoranda.

When I told Pinsent that I knew the Secretary would question paragraph 6, he said that he would nevertheless go ahead and endeavor to have his Ambassador send the further cablegram mentioned above. Pinsent will let me know as soon as a reply may be received. If there is still a question next week when the Secretary is returned, it may be desirable for the Ambassador to come along with Pinsent to discuss the matter.

When the French visitor asked if he should leave a copy of his memorandum with the State Department when he informed them that he had called here, I told him that, considering the circumstances, it might be preferable to leave these

- 2 -

very confidential documents only with us and simply, if he felt it necessary, let the State Department know that he had called to give us a message anticipating a direct communication from Minister Reynaud to the Secretary of the Treasury to be delivered by Leroy-Beaulieu. Pinsent immediately concurred in this idea, agreeing that the information involved in these documents is extremely confidential, and that the fewer people see the documents the less chance for leaks.

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

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Shipments to U.S.S.R.

Additional cargo for shipment to Russia is now loading:

Ship: S. S. Silvaplane (Norwegian)
 Sailing: Due to sail February 3
 Destination: Vladivostock
 Cargo: To date, as follows:

Domestic Exports:	
Industrial machinery	\$429,175
Refined copper	344,730
Electrical machinery and apparatus	30,710
Nichrome electric resistance wire	16,357
All other domestic exports	21,086
Total domestic exports	\$842,058

Re-exports:	
Copper wire bars	322,344
Bolivian tin ore	52,825
Tin	26,593
All other re-exports	96
Total re-exports	<u>401,858</u>

Total cargo to date	\$1,243,916
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TREASURY DEPARTMENT

131

INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau
FROM Mr. White
Subject: Shipments to U.S.S.R.

Additional cargo loaded on the S.S. Silvaaplana for shipment to Russia is reported as follows:

Loaded prior to February 1st		\$1,243,916
Loaded February 1st:		
Industrial machinery	\$ 327,362	
Wool rags	117,809	
Electrical Machinery and apparatus	33,405	
Wheels of artificial abrasives	31,697	
Aircraft engine parts and accessories	3,632	
All other commodities	3,974	
Total, loaded February 1st		517,879
Total, loaded to date		\$1,761,795

TREASURY DEPARTMENT

132

INTER-OFFICE COMMUNICATION

DATE February 1, 1940

TO Mr. White
FROM Mr. Glasser



Subject: Report on Trip Concerning Exports to the U.S.S.R.

1. The shipping agency which has complete charge of the export operations for Amtorg is the Moore-McCormack Company which is one of the largest and most responsible companies engaged in the business (they are also handling the United States exports to Finland). This company has placed one of its most competent stevedore in charge of the loading operations for the exports to Russia.

Exports are handled at the Lehigh Valley Railroad Terminal along the New Jersey shore. This terminal is more than one mile from any habitation or business. However, the facilities for handling cargo are very good, including modern derricks and cranes capable of handling large items and loading rapidly and efficiently.

There is a large amount of commodities at the terminal awaiting export -- probably enough for two or three shiploads. Huge crates containing machinery are stored in the terminal, in an open lot alongside the pier, and in about thirty freight cars along the siding. In addition, there are large stocks of copper scrap, copper sheets, copper ingots, brass, and about 100 tons of tin.

A lighter with a cargo of aluminum oxide was alongside the pier ready to load. (This will be the first time in recent months that aluminum oxide has been shipped from the Lehigh Valley Terminal.)

2. The Norwegian ship Silvaplane was being loaded. The longshoremen are working day and night in an attempt to finish the job by February 3 when the ship is scheduled to sail. The method of loading is, of course, very efficient and the customs inspector thought that at the rate they were going they would probably finish loading the 9,000 ton boat according to schedule. The boat is scheduled to sail directly to Vladivostock. It has a completely Norwegian crew.

3. Customs inspectors watch the cargo very carefully. However, it is impossible to examine the large crates unless the cargo is to be delayed and the shipper put to great expense in closing the crates.

Division of Monetary
Research

- 2 -

4. It is quite apparent that the Russians are having difficulty in obtaining ships. They are loading in the greatest haste and although the terminal facilities are adequate for five ships and although there is adequate cargo for two or three ships, there is only one loading now.

5. Judging from the type of cargo, consisting of large machinery items, it is doubtful if the boats going to Manzanillo will be able to unload and reload within a period of weeks unless the harbor has modern machinery to work with. Some of the items are too large for manipulation by other than cranes and derricks.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Mint Receipts of Russian Gold

The Mint reports that it has received the following amounts of gold bullion which contain a Russian stamp, and Russian gold coin.

Calendar year	Refined Bullion	Coin	Total monetary value	Total fine ounces
\$	\$	\$	\$	
1934	-	1,672	1,707 ^{1/}	49
1935	-	140	140	4
1936	3,839,360	-	3,839,360	109,696
1937	110,674,690	35	110,674,725	3,162,135
1938	48,941,270	70	48,941,340	1,398,324
1939	42,396,060	6,090	42,402,150	1,211,490
Total				
1934-39	205,851,380	8,007	205,859,422	5,881,698

^{1/} Includes crude bullion in the amount of \$35.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Exports of Copper to Italy

Domestic exports of refined copper to Italy during the first half of January have practically doubled compared to previous months.

Our reports show domestic exports of copper to Italy to be \$1,178 thousand, which is twice our monthly average exports to Italy during the previous 16 months.

Following is a table showing totals and monthly averages for the previous 16 months.

Domestic Exports of Copper and Copper Products

(Values in thousands of dollars)

<u>Total</u>		<u>Monthly Average</u>		<u>Two weeks January 1940</u>
<u>12 months</u>	<u>4 months</u>	<u>12 months</u>	<u>4 months</u>	
<u>Sept. 1938- Aug. 1939</u>	<u>Sept.-Dec. 1939</u>	<u>Sept. 1938- Aug. 1939</u>	<u>Sept.-Dec. 1939</u>	
\$5,505	\$2,381	\$ 459	\$ 595	\$1,178

MEMORANDUM

February 1, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

I am attaching hereto a copy of a memorandum to me from Mr. Tarleau, regarding his conversation with Mr. Vinson on January 31. Mr. Vinson indicated clearly to Mr. Tarleau that no revision of the Vinson-Trammell Act was under consideration.

This afternoon I have received, through a newspaper man, a copy of an amendment which Mr. Vinson this morning told another newspaper man had been tentatively approved by the Committee. This is substantially the same amendment which I was asked first by a representative of the Navy Department to give an opinion upon and then to disregard it.

In the event that you wish to oppose this amendment, the attached letter to Mr. Vinson should be mailed this afternoon.

JLS

FEB 1 1940

Dear Mr. Chairman:

I have been given to understand that your Committee in its consideration of H. R. 8026 has tentatively adopted an amendment to that bill to the effect that "the decision of the Secretary of the Navy as to the necessity and the cost, including the proportion thereof to be charged against the particular contract, of special additional equipment and the facilities acquired to facilitate the completion of any naval vessel or aircraft, or parts thereof in private plants shall be final, subject to review only by the President or by the Federal courts."

If my information is correct, I would appreciate it if your Committee would allow this Department an opportunity to express its views before final action is taken on this amendment or one of a similar tenor.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Carl Vinson,
Chairman, Naval Affairs Committee,
House of Representatives,
Washington, D. C.

(Sent by special messenger at 3:45 p.m. 2/1/40 from
John E. Sullivan's office per Manus.)

File to Mr. Thompson

TWT:ms
2/1/40

February 1, 1940.

My dear Mr. Secretary:

I am sending you herewith a copy of my letter to Chairman Vinson.

Assistant Secretary Sullivan will present the Treasury's viewpoint when he is called before the Committee. Mr. Sullivan will be glad to confer with you, if you so desire, before appearing on the Hill.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Charles Edison,
Secretary of the Navy,
Washington, D. C.

By Messenger 4¹⁵ pm 2/1/40

0401-1040

2-1-40

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Schwarz (C)

Nat Keith of the Wall Street Journal reports that his paper's Hill men were told by Representative Vinson that the clause giving the Navy Department full control over determination of depreciation allowances, etc., on special facilities is still in his authorization bill, that it has been tentatively approved by the Naval Affairs Committee and that Vinson asserts it will stay in.

The clause, as copied from the Committee's print of the bill, says that "the decision of the Secretary of the Navy as to the necessity and the cost, including the proportion thereof to be charged against the particular contract, of special additional equipment and the facilities acquired to facilitate the completion of any naval vessel or aircraft, or parts thereof, in private plants shall be final, subject to review only by the President and the Federal Courts."

Keith says that Vinson added gratuitously that the Navy frequently had made promises to shipyards as to the propriety of writing off cost of new ways within the first year of a contract, only to have the Treasury ignore such a promise later.

HSM

PLAIN

London

Dated February 1, 1940

Rec'd 9:50 a. m.

Secretary of State,
Washington.

288, February 1.

FOR TREASURY FROM BUTTERWORTH.

With reference to my 209, January 23, regarding the attitude of the British monetary authorities to their exchange control, it may be of interest that Sir John Simon was asked in the House of Commons "whether he is aware that, owing to refusal of the British Exchange Control to allow foreign owners to transfer their sterling balances through official channels, transfers are made through an unofficial market without restraint; and what steps he is taking to maintain London as the principal financial center and to enable His Majesty's Government effectively to prevent losses of some of their gold resources and resulting damage to British overseas trade caused by an unofficial exchange market?"

He replied: "The Exchange Control permits foreign owners of sterling balances to make payments for goods and services in the sterling area, and to transfer them to the
accounts

hsm -2- No. 288, February 1, from London.

accounts of other non-residents, and this bring advantages, both to British overseas trade and to the position of London as a financial center. I do not think therefore that under present conditions the injurious results suggested ought to occur."

JOHNSON

RR

H3M

PLAIN

London

Dated February 1, 1940

Rec'd 1:12 p. m.

Secretary of State,
Washington.

290, February 1.

FOR TREASURY FROM BUTTERWORTH.

1. Today's DAILY TELEGRAPH is the only London newspaper to carry this morning a Reuter report from Washington that:

"Treasury Department officials flatly denied today that the Treasury had requested Britain to settle payments by liquidating investments, instead of shipping gold, as had been suggested in some quarters in London."

Bewley of the British Treasury states that Einzig's assertion in the FINANCIAL NEWS of yesterday that "according to Washington reports the United States Treasury has requested the British authorities to settle payments due to the United States as far as possible through a liquidation of British dollar investments rather than through further gold shipments" was made without the Treasury's knowledge or consent and was no doubt an attempt to obtain further information on this general question

hsm -2- No. 290, February 1, from London

question following its failure to smoke out the British authorities as reported in my 178, January 19, 1 p. m.

2. The Chancellor of the Exchequer announced in the House of Commons that since the beginning of December the Ministry of Food has been losing at the rate of £1 million per week by refraining from raising its selling prices for food--chiefly bread, flour, meat and milk. Simon stated that this subsidization policy represented "the Government's contribution" to the avoidance of inflation and reiterated his previous view that wages must not be tied automatically to the cost of living. He added:

"Our policy therefore is to continue for a time at least to make public money available within such limits as were possible, to hold retail prices of staple foods or at any rate to impose delay and check the abruptness of any rise. The House of Commons will observe that this policy benefits not merely wage-earners but also all those with small fixed incomes and allowances."

Simon went on to indicate that 60 percent of the official cost of living index is made up of food, the index of which, due to the subsidization policy, had remained stable during the month of December; that another important part of it is rent which is already controlled and that of the other items the most important

is

hsm -3- No. 290, February 1, from London

is clothing, and the problem of how it can be dealt with is now being considered by a special committee.

By these and other more circuitous means such as the meeting between Keynes and the Trade Union leaders the British Government is attempting to curb the wage raise movement and in particular to unhook the level of wages from the cost of living index. In this connection reference is made to my 81, January 10, 6 p. m., and 2698, December 21, 7 p. m.

JOHNSON

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COPY FOR SECRETARY

*Ms. G. 9
D. 10. 10. 10. 10.*



DEPARTMENT OF STATE
WASHINGTON

February 2, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses one copy of a paraphrase of telegram no. 78 of February 1, 1940 from the American Embassy, Rome.

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FEB 2 1940

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FEB 2 1940

PARAPHRASE OF TELEGRAM RECEIVED

146

FROM: American Embassy, Rome.

DATE: February 1, 1940, 5 p.m.

NO.: 78

CONFIDENTIAL.

A confidential circular has just been issued by the Italian Foreign Exchange Institute, effective today, providing for the payment of an exchange adjustment in connection with:

- (1) the importation and exportation of certain merchandise which involves transactions in free exchange; and
- (2) certain other operations in which receipts or payments in free exchange would be involved.

A premium fixed currently at twenty percent is the substance of the adjustment. Its most notable application, apparently, is that for valuta ceded by exporters of specified articles the equivalent in lire will be paid at the rate of exchange of the day of cession, plus a twenty percent premium. A copy of the list of specified articles, which is eight printed pages in length, will be sent by air mail; incidentally, this list includes, under statistical number of the tariff 728 to 797, textiles of silk and mixed with silk. This point is mentioned because it might possibly bear on the examination of the question of the U.S. countervailing duties on silk products of Italy.

Regarding exchange transactions other than those which are connected with exports, it is not clear yet

what

what classes of operations will be affected. However, Exchange Institute officials declare that it will not involve devaluation of the lira.

To stimulate the tourist trade, we are informed, the exchange rate of the tourist lira is changed to 23.695 to the dollar, involving a discount of approximately 16.4 percent from the official exchange rate, which is 19.8.~~XXXXXXXX~~ In the exchange rate of tourist lira purchased with sterling, francs, etc., similar changes are made. In the present rate for emigrants' remittances no change is made.

PHILLIPS

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DECEMBER

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 1, 1940, 7 p.m.

NO.: 159

FOR TREASURY FROM MATTHEWS.

Today I had lunch with the Managing Director of the Societe General, Ardant, with Couve de Murville, and with the General Secretary of the Finance Ministry, Bautillier. Ardant said that his New York agency had done little business as yet, but he seemed to be pleased that it had begun operations. For the present, he thinks that investment transactions of the French clientele of the agency will naturally be of less importance than the assistance he hopes to be able to give to French exporters. Ardant thinks that through its many branches in France, the Societe General can perform a useful - and it is presumed profitable - function in helping those who would export from France to the United States and who do not have connections in the United States, and do not know our formalities and business methods. He expressed the hope that such exporters could do their business through the agency of the Societe Generale with a minimum of misunderstanding and difficulty.

You probably know that Ardant has sent Chadenet to Buenos Aires from New York for the purpose of setting up an agency of the Societe Generale in Argentina along the same lines. Incidentally, he said the present trend of exports

- 2 -

exports from France is encouraging to him. Unfortunately, he said, France could not supply the requirements of overseas markets hitherto supplied by Germany, as they called for metallurgical products of various types which France could not export in substantial quantities in view of the domestic war demands in the French iron and steel industry.

As for financial affairs in France, Ardant said he was quite pleased with them and with the smooth and rapid functioning of the closed capital circuit. He thus echoed what other French officials and private American bankers have said to me at various times.

In strict confidence I have learned that the French short term floating debt has risen since the outbreak of the war to 53 billion francs - most of this going into armament bonds.

Ardant said he is worried about the price rise which is now developing in the country, especially the prices of agricultural products. He remarked that it was impossible to reason with the farmers in France, and that a firmer stand with them would have to be taken by the Government.

Boutillier said that he is among those who believe that Germany will not launch an offensive in the West this year. In such case, Ardant said, in France there might be difficulties from the point of view of morale, and the Allies might be compelled to follow a more aggressive policy.

- 3 -

policy.

All of those at lunch spoke enthusiastically of the much-needed warning contained in the radio address which Daladier made three days ago, stating that the civil population of France would have to be prepared for greater sacrifices in the face of an enemy which is determined and has made powerful preparations. I am told by Leroy-Beaulieu, who was also present, that on February 12 he is sailing on the MANHATTAN, leaving from Genoa.

Responsible people in the oil industry tell me that in France today the consumption of gasoline and other petroleum products is almost 35 percent under consumption in normal peacetime, in view of the present relatively inactive war, the mobilization of so many men, the requisition of private automobiles, the high gasoline prices, and other things.

If the foregoing is true in France, in Germany under-consumption of gasoline and other petroleum products must also be well under figures for peacetime, despite the much lower proportion of pleasure vehicles.

END SECTIONS ONE TO SIX INCLUSIVE.

BULLITT.

JT

GRAY

PARIS

Dated February 1, 1940

Rec'd 6:35 p.m.

Secretary of State,
Washington.

159, February 1, 7 p.m. (SECTION SEVEN)

The JOURNAL OFFICIEL of February 1 publishes an instruction to approved intermediaries of the Foreign Exchange Office defining the nature of "proof" to be furnished and the procedure to be followed in operations involving payments to the credit of foreign accounts in francs (Article 14 of the arrête of November 30, 1939 relating to approved intermediaries - my telegram No. 2882, December 1, 6 p.m.) Proof to be submitted to establish the legality of such operations varies according to the origin and reason for the payments. Proof in the nature of an import license certificate is required for payments to foreign accounts in francs originating with "persons considered as French" and employed in the settlement of imports into France payable in francs.

BULLITT

NPL

REB

GRAY

Paris

Dated February 1, 1940

Rec'd 6:40 p. m.

Secretary of State,
Washington.

159, February 1, 7 p. m. (SECTION EIGHT)

No proof is required for payments in the form of French Government checks, drafts, and bills. Payments to the credit of foreign accounts in francs by "persons considered as French" for all debts owing abroad require a special authorization of the foreign exchange office as to all other monetary transfers originating with persons considered as foreign (i.e. non-resident) can make a payment from his foreign account in francs to the credit of another foreign account in francs upon the submission of evidence by the transmitting bank that the holder of the debited account is a person considered as foreign.

BULLITT

NPL

JT

GRAY

PARIS

Dated February 1, 1940

Rec'd 6:45 p.m.

Secretary of State,
Washington.

159, February 1, 7 p.m. (SECTION NINE)

Similarly a person considered as foreign may have his franc account credited with the sum obtained from the surrender to the foreign exchange office of foreign exchange upon presentation of a receipt for such foreign exchange. The income or yield from the sale of French negotiable securities held with an intermediary in the name of a person considered as foreign may be credited to his franc account without the submission of any proof whatsoever. All other operations originating with a person considered as foreign require a special authorization of the Foreign Exchange Office before they may be credited to a foreign account in francs.

Further provisions specify the respective responsibilities of the intermediary receiving a payment to be credited to a foreign account in francs, that of the transmitting entity, and that of the person making the payment insofar as the submission of "proof" of the legality of the transactions is concerned.

BULLITT

NPL

REB

GRAY

Paris

Dated February 1, 1940

Rec'd 6:55 p. m.

Secretary of State,
Washington.

159, February 1, 7 p. m. (SECTION TEN)

In general the person making the payment is ultimately responsible for the submission of "proof". However in the case of a check drawn by a person considered as French which passes through several hands, and is eventually presented for the crediting of a foreign account in francs, the last "French" endorsee is responsible for the "proof". The funds involved in an operation which is not accompanied by the required "proof" are placed in a suspense account for ten working days. If no "proof" is furnished during that period the funds are returned and placed in a special blocked account, distinct from that mentioned above, where they are held pending decision of the Foreign Exchange Office. If a bank abroad remits to its correspondent backed by a franc check to be credited to its foreign account in francs and no proof can be submitted as to the legality of the operation for which the check was used, the foreign bank must apply to the Foreign Exchange Office for permission

for

REB -2-#159, Feb. 1, 7 p. m. (Sec. Ten)

for the funds to be removed from the special blocked account and placed to its credit. (There is no indication whether such permission will be granted.)

BULLITT

NPL

JT

GRAY

PARIS

Dated February 1, 1940

Rec'd 7 p.m.

Secretary of State,
Washington.

159, February 1, 7 p.m. (SECTION ELEVEN)

The downward trend continued on the securities market although the tone was more resistant in narrow trading. With the exception of the 1925 exchange guarantee issue which gained one point rents were almost unchanged. Internationals were more cheerful, Suez gaining 115 points.

The Bank of France statement dated January 25 revealed an increase of 450,000,000 francs to a total of 15,200,000,000 in advances to the state.

Official exchange rates remained at the same level.

(END OF MESSAGE)

BULLITT

NPL

COPY FOR SECRETARY

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DEPARTMENT OF STATE
WASHINGTON

February 2, 1940.

In reply refer to
A 711.00111 Articles or
Materials/210

The Secretary of State presents his compliments
to the Secretary of the Treasury and encloses one copy
of telegram no. 35, dated February 1, 1940, from the
American Embassy at Mexico City, with reference to
transshipment of cargo at Manzanillo for Vladivostok.

Enclosure:

From Mexico City,
no. 35, February 1,
1940.

TO THE SECRETARY OF STATE
WASHINGTON, D. C.
FEBRUARY 2 1940

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GRAY

MEXICO CITY

Dated February 1, 1940

Rec'd 9 p.m.

Secretary of State,
Washington.

35, February 1, 7 p.m.

Reference Department's telegram No. 23, January 26,
this year.

Russian steamship MAYAKOVSKIY reported as coming direct
from Vladivostok took cargo of copper sheets, bars and ingots
in Manzanillo direct from American steamship GUAYAQUIL
and will do the same with similar cargo of American steam-
ship BUENAVENTURA.

Vessels and cargoes consigned to German agency Heynen
Everbusch and consignment of cargo understood to be for the
purpose of transshipment only. Representative of consignee
was in Manzanillo with J. Feinstein, Amtorg representative
in New York City during part of transshipment.

Three other Russian ships are expected to arrive in
Manzanillo: steamship BOB, steamship KIM, and steamship
MINSK.

If further information is secured it will be transmitted.

DANIELS

NPL

Transmitted to Navy and Coast Guard at 9:55 p.m.



TREASURY DEPARTMENT
WASHINGTON

February 1, 1940.

MEMORANDUM TO MR. BELL

Mr. Gerardi has made a review of the New York Times for 1919 and 1920 for data on the sale of Irish bonds.

On February 13, 1919 a convention of delegates from Irish organizations throughout the country met in Philadelphia and pledged \$1,250,000 to be raised in support of the movement for Irish freedom. Following this action the various organizations put on campaigns in their home cities to raise the funds by voluntary donations.

In August, 1919, DeValera, Provisional President of the Irish Republic, who was in the United States, was authorized by the Government he represented to raise a loan of not to exceed \$25,000,000. The Irish Republic Mission then in the United States announced the opening of headquarters to carry on the flotation of \$10,000,000 in Irish Republic bonds. The campaign was started on January 17, 1920 when DeValera participated in a giant march of Irish sympathizers to the New York City Hall where he was greeted by Mayor Hylan. A few days later, on January 20, 1920 the New York State Assembly passed a resolution endorsing the sale of Liberty Loan Certificates of the Irish Republic.

The sale of the bonds was carried on by solicitation. One report indicated that nearly 40,000 people were engaged in New York in obtaining subscriptions to the bonds and that the national organization

- 2 -

included nearly a million persons. DeValera made a number of speeches in various parts of the country and prominent persons in American life also endorsed or participated actively in the campaign to sell such bonds.

There was an article in the New York Times of January 28, 1920, quoting from an article which had previously appeared in "The Street" to the effect that the Irish bonds were only a speculation and were not sound investments and that no application had been made to list such bonds on the New York Stock Exchange.

It is assumed that any bonds sold in 1921 were handled in the same manner.

It appears that sums aggregating over \$6,000,000 were subscribed by citizens or inhabitants of the United States to two loans of the organization which was seeking to set up by force in Ireland a Republic of Ireland, which would be free and independent of any allegiance whatsoever to the Government of Great Britain and Ireland. Each subscriber to the loans subsequently received a printed form of bond certificate in the amount subscribed which read as follows:

"Republic of Ireland. Bond Certificate and _____. To _____: I, Eamonn De Valera, president of the elected government of the republic of Ireland, acting in the name of and by the authority of the elected representatives of the Irish nation, issue this certificate in acknowledgment of your subscription of \$ _____ to the first national loan of the republic of Ireland. This certificate is not negotiable but is exchangeable if presented at the treasury of the republic of Ireland one month after the international recognition of the said republic for one \$ _____ gold bond of the republic of Ireland. Said bond to bear interest at 5 per cent. per annum from the first day of the seventh month after the freeing of the territory of the republic of Ireland from Britain's military control, and said bond to be redeemable at par within one year thereafter. Eamonn De Valera, President."

- 3 -

About \$2,500,000 of such funds remained in this country after the Irish Free State was established and as a result of a suit decided in 1927 in New York, it was determined that the Irish Free State was not entitled to these moneys but that they were payable pro rata to the subscribers.

The Irish Free State Government passed a bill known as the Dail Eireann Loans and Funds (amendments) Act, 1933, authorizing the repayment (on the basis of \$1.25 for each \$1.00 subscribed) of the Republic of Ireland loans. The bill stipulated that August 31, 1934 was to be the final date for the filing of claims by bondholders. The Irish Free State established an office in New York City known as the "Repayment Office for Dail Eireann External Loans" and more than 160,000 persons filed claims on or before August 31, 1934. The time for filing claims was extended to June 30, 1936. On April 7, 1936, we were informed by the officer-in-charge of the repayment office that refunds of \$1,666,767 had been made to the subscribers and that when such amount was added to the amount paid by the Irish bond receivers in 1930, namely \$2,187,164, a total of \$3,853,931 had been refunded to the Republic of Ireland bondholders up to that date.

WY

1087 Earle Building
Washington, D. C.
February 2, 1940

Personal

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

Dear Mr. Secretary:

It seems to me important, in this unfortunate trap in which I let myself fall by not paying close enough attention to the material my friend, Harold Weisberg, was assembling on the Dies Committee matter, that I should let you know of one fact which is likely to come out very soon.

That fact is that this David Mayne testified before the secret session of the Dies Committee that I have been acting on the Dies Committee matter at the direction of the President. I am told that he testified that the dinner at the White House which Dode and I attended with you was the occasion on which I was supposed to have been given orders by the President to get Dies.

It is known that Mayne, two or three days after we were at the White House, told Weisberg that he knew about my being at the White House dinner, and that it was for the purpose he is supposed later to have testified about. At that time he intimated rather clearly that the Republican National Committee was interested in the matter and was keeping me under surveillance. The inference from his remarks at that time was that he might collaborate with the Republican National Committee at a later date.

This information was borne out within the last few days by his statements to John Henshaw, indicating that he is getting money or is about to get money from Republican sources through Charles Curtis, Jr., whose office is in the Southern Building.

I believe this information, even though coming from the mouth of so disreputable and unreliable a person as Mayne, appears to be well worth checking into, and I think it should be done immediately. I think you should pass this on to the proper people, including one whom I have mentioned in this letter. If your secret service could be put on the job immediately, I believe they would be able to uncover an extraordinary and unbelievable combination of circumstances.

Secretary Morgenthau

-2-

February 2, 1940

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The evidence now looks definitely as if Mr. Weisberg and I have been entrapped by a scheme planned within the Dies Committee itself, at the instigation or with the participation of Rhea Whitley, the counsel of the Dies Committee, a former FBI agent, who has suddenly resigned from the Committee and is now out of the city.

I talked this over with Senator Schwollenbath last night and he agrees that the probabilities are as I have stated. He wished to talk with you about this and another matter but was not desirous of intruding upon you because he knew you were so busy, and suggested that I let you know he would like to talk with you if you would call him when you have a moment to spare.

Yours sincerely,

Gardner Jackson

P. S. Mayne has referred in conversations with Henshaw and Weisberg to a conference he was to have had with John Hamilton, chairman of the Republican National Committee, in the last week of December, 1939. His files, which are in the possession of Congressman Hook and which obviously are authentic, include material showing at least two conferences with Franklyn Waltman of the Republican National Committee and one with J. Parnell Thomas, Republican congressman from New Jersey who is a member of the Dies Committee.

OJ:CD

164

BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

2/2/40

From DIRECTOR

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

For

The attached notes on Economic Developments,
dated February 1, 1940, are sent to you
at the request of Mr. Noble, Under
Secretary of Commerce.

James W. Young
James W. Young
Director

February 4, 1949

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DOMESTIC ECONOMIC DEVELOPMENTS

BUSINESS data currently available reveal developments which had been anticipated as a sequel to the rapid advance in activity which characterized the final third of 1939. Industrial output is declining in those primary industries which show output upward from last September to November to meet the demand which arose when expectations about prospects were changed at the outbreak of war. Now that inventories have been adjusted upward to a level well above that of last summer, and prices are tending to decline rather than to strengthen, the immediate incentive to aggressive purchasing policies has been removed.

JANUARY will show a recession in manufacturing output of substantial proportions, a more marked decline in new business, and some further increase in inventories.

INVENTORY data reported by manufacturing concerns at the end of December reveal a rather uniform advance from the November figures—total holdings probably rose between 3 and 4 percent that month, following an increase of about 3 percent in November. Year-end inventories of 432 concerns, which hold only a little less than a fifth of the total inventories of all manufacturers, show an increase over the 1938 year-end position of 5 percent.

Total Inventories - 432 manufacturing companies

		Percent Increase December from
December 1939	\$1,922 million	3.3
November 1939	1,860 "	
December 1938	1,829 "	5.1

SIGNIFICANCE: While inventories of these manufacturing concerns are only 5 percent larger than a year ago (compared with an increase in sales of about one-fifth), they are advancing at a high annual rate—more than one-third on a base in excess of \$10 billion. Since June, which marked the approximate low point of the liquidation which started in 1937, manufacturers' inventories are up about 6 percent. Wholesalers' inventories—which are about a fourth as large as those of manufacturers—moved up at about the same, or a slightly lower, rate from June to December.

THE CRUX OF THE PRESENT SITUATION IS THIS: Industrial production was pushed up rapidly after September because business expected a war boom—larger exports and higher prices. The buying was at first for inventory purposes—part protective and part speculative; also some previously contemplated capital outlays were driven in an effort to avoid higher prices. As eagerly in some industries become

strained, additional capital goods orders developed, though there was considerable caution about making long-term commitments. The increase in production caused a rise of income payments to individuals and a consequent rise in consumption. But the increase in production was much larger than the increases in consumption and permanent investment as inventories were increased. This situation cannot continue--inventories cannot be accumulated indefinitely. As soon as the rate of such accumulation slows down, production must start to decline. This point has now been reached -- production has begun to decline.

BUSINESS PROSPECTS: Thus, the pattern of industrial activity for the first quarter is fairly well set. Production will decline to a point where it equals consumption plus permanent investment. Average for the first quarter on the Reserve Board's index indicated at 115; fourth quarter 1939 average, 124; first quarter 1939, 99. This analysis is confirmed by the extent to which the flow of new orders has fallen off.

Uncertainty about the second quarter of 1940 arises from possibilities concerning:

- (1) Exports - Prospects have been improved by the high returns for December and the results indicated by partial returns for January. Up to the end of November, however, no net stimulus had developed from abroad. The trend in the spring really depends on how the war goes.
- (2) Capital expenditures - Exact figures are not available but we know there was a substantial increase in the rate of this type of spending during the final quarter of 1939. Some of this represented merely advancement of outlays contemplated for early 1940, but there was no doubt a real increase in equipment purchasing which would not have occurred under less favorable circumstances. Expenditures in this sphere will be lower for the first quarter of 1940 though production will reflect the equipment ordered in the previous quarter.
- (3) Inventories - The stimulus from inventory accumulation will probably cease by the end of February. As pointed out in previous reports, inventory liquidation then becomes a distinct possibility if further stimulus is not forthcoming from factors (1) and (2).

FOREIGN TRADE NOTES

Germany: The original mobilization plans, which were based evidently on a much more intensive warfare, had to be modified under the new conditions, particularly as regards the concentration of army orders within relatively few privileged industrial plants. Under the new conditions army orders have been shifted from the policy of great concentration to that of widespreading of such orders among a larger number of industrial concerns.

Serious difficulties in providing the civilian population with certain commodities, particularly potatoes and coal, have resulted from the cold weather during December. A very large number of the apartment houses in Berlin have been compelled to reduce heating or eliminate it entirely, the shortage of coal being due primarily to the difficulties of transportation, particularly the freezing over of the inland waterways. Public institutions and business firms in Berlin have been ordered to sell a part of their coal to private buyers. Passenger rail traffic has been reduced to a minimum. The potato shortage has been attributed to the fact that they cannot be shipped without freezing. This shortage is felt most in Western Germany, which depends upon Central Germany for its potato supplies. The potato shortage is particularly serious in view of the fact that under present conditions potatoes form such an important part of the foodstuff supply, and is the only commodity of importance which is not rationed.

Trade negotiations between Germany and Hungary were recently concluded after serious difficulties connected with the delivery of German exports, chiefly coal and coke. Germany is said to owe Hungary, under the clearing agreement, approximately 44 million marks, and deliveries of German goods to Hungary have been delayed on account of transportation difficulties resulting from the freezing of the Danube and the scarcity of railroad cars.

Australia: It appears that the long discussed plan for manufacturing automobiles in Australia under a government subsidy is about to be put into effect. Under the bill recently introduced bounties are to be paid on engine units of 15 horsepower or over at the following rates: £30 a unit for the first 20,000 engine units; £25 for the second 20,000 engine units; and £20 for the third 20,000 engine units. The bounty is to be paid only to companies at least two-thirds Australian owned and controlled. According to more detailed plans recently announced, the Australian Consolidated Industries, Ltd., is to form a subsidiary company to be known as Australian Motor Manufacturers Proprietary Limited, with a capital of £2,000,000 to manufacture engines and chassis and such other parts as are not otherwise obtainable. The Company plans to start production in July 1941 at the rate of 8,000 cars annually. The Managing Director of Australian Consolidated Industries, Ltd., was supposed to arrive in the United States on January 22, 1940 for the purpose of purchasing machinery and engaging certain American experts for the factory. Recent newspaper announcements indicate that negotiations are now being carried on for the purchase of equipment of certain defunct American automobile concerns. The car to be produced is of an American type.

It will be recalled that the government has been making efforts for some years to induce American concerns to establish an automobile industry in Australia, but without success.

Bureau of Foreign and Domestic Commerce.
February 1, 1940.

WEEKLY WHOLESALE PRICE INDEXES
(1926 = 100)

Group	1939			1940		Percent increase Jan. 27, 1940 from	
	Jan. 28	Aug. 28	Sept. 15	Jan. 20	Jan. 27	Jan. 28, 1939	Aug. 26, 1939
All commodities	76.7	74.8	79.3	79.3	79.1	3.1	5.7
Farm products	67.3	61.1	69.7	69.5	69.2	2.8	13.3
Foods	71.2	66.7	75.5	71.4	71.4	0.3	7.0
All commodities other than farm products and foods	80.4	80.4	82.4	84.1	84.0	4.5	4.5
Hides and leather products	93.3	92.6	98.3	103.7	103.9	11.4	12.2
Textile products	65.6	67.4	71.4	77.0	76.7	16.9	13.8
Fuel and lighting materials	73.4	73.2	74.1	73.4	73.4	.0	.3
Metals and metal products	94.5	93.5	94.9	96.0	95.7	1.3	2.4
Building materials	89.4	89.7	90.7	93.1	93.7	4.8	4.5
Chemicals and drugs	76.1	74.2	77.1	77.7	77.6	2.0	4.6
House-furnishing goods	87.2	87.0	87.1	90.2	90.2	3.4	3.7
Miscellaneous	73.0	73.1	76.1	77.5	77.4	6.0	5.9
Raw materials	70.7	66.2	73.0	73.9	73.3	3.7	10.7
Semimanufactured articles	74.7	74.4	82.0	81.9	81.2	8.7	9.1
Finished products	80.2	79.3	82.3	81.9	81.9	2.1	3.3

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

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		Feb. 1	Aug. 30	Sept. 13	Jan. 24	Jan. 31
Sulphur, electrolytic, N.Y.	\$ per lb.	11 1/4	10 1/2	12	12	12
Sulphur, prompt shipment, N.Y.	do	4.85	5.05	5.50	5.50	5.25
Sulphur, N.Y.	do	4.84	5.14	6.64	5.89	5.89
Sulphur, straits, N.Y.	do	46 3/8	49 3/4	75	45 1/4	45 3/4
Sulphur, plantation, N.Y.	do	15 3/4	16 7/8	22 1/2	18 3/4	18 7/8
Wool, light native cows, Chicago.	do	10 1/2	11	15	13 3/4	13
Wool, 13-15 denier, 78% scriplane, New York	\$ per lb.	2.03	2.72	3.21	3.62	3.15
Wool, middling, av. 10 markets	\$ per lb.	8.52	8.53	9.01	10.38	10.26
Wool, cloth, 60x64, 38 1/2 inches, N.Y.	\$ per yd.	4 1/4	4 5/8	5 3/8	5 3/8	5 1/4
Wool, tops, Mar. 1940 futures, N.Y.	\$ per lb.	2/81.6	3/81.5	3/111.9	102.5	99.0
Wool, ras, 960, duty free, N.Y.	do	2.78	2.92	3.70	2.85	2.85
Wool, Accra, N.Y.	do	4.65	4.38	6.45	5.55	5.45
Wool, Santos, No. 4, N.Y.	do	8	7 5/8	7 3/4	7 1/2	7 1/2
Wool, cash, Chicago.	do	6.75	5.65	7.75	6.07	5.90
Cottonseed oil, Mar. 1940 futures, NY	do	2/6.87	3/5.61	3/7.30	6.84	6.77
Cottonseed oil, May 1940 futures, Chicago	\$ per bu.	4/68 7/8	3/67 1/4	2/.85 3/8	1.00 1/8	.96 3/8
Beef, good and choice, 220-240 lbs., Chicago.	\$ per cwt.	2/7.68	6.88	8.13	5.28	5.40
Beef, medium, 750-1,100 lbs., Chicago.	do	8.63	8.38	8.88	8.63	8.88

Nominal.
 March 1939 futures.
 December 1939 futures.
 May 1939 futures.
 Hogs weighing 220-250 pounds.

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

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

Date	Pig Iron ^{1/}	Steel Scrap ^{2/}	Finished Steel ^{3/}
	(Dollars per gross ton)		(Cents per pound)
1939:			
January 31	20.61	14.875	2.286
August 29	20.61	15.62	2.236
September 19	22.61	19.35	2.236
October 3	22.61	22.90	2.236
November 28	22.61	18.58	2.261
1940:			
January 23	22.61	17.54	2.261
January 30	22.61	17.33	2.261

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

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

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

Sources: The Iron Age.

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Date	Motor gasoline, 65 octane	Light fuel oil, number 2	Diesel oil, ships' bunkers,	Bunker oil, grade "C", cargoes
	(Cents per gallon)		(Dollars per barrel)	
1939:				
February 1	4.50 - 4.75	3.375 - 3.625	1.55	0.675 - 0.70
August 30	4.75 - 5.00	3.375 - 3.75	1.45	0.75 - 0.80
September 13	6.25 - 6.875	3.875 - 4.00	1.45	0.825 - 1.00
1940:				
January 24	5.50 - 6.00	4.00 - 4.125	1.70	0.97 - 1.05
January 31	5.50 - 6.00	4.125	1.70	1.00 - 1.05

Source: Platt's Oilgram.

RECEIVED

JAN 20 1940

SECRETARY OF THE ARMY
OFFICE

TREASURY DEPARTMENT
WASHINGTONOFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS ONLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TOIT:P:CA
CAA

February 2, 1940.

REPORT FOR SECRETARY MORGENTHAU:

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

Fulton Sylphon Company, Knoxville, Tennessee:

A request was received by mail from this concern for a closing agreement in regard to special equipment estimated to aggregate in cost slightly in excess of \$32,000, required for the performance of a prospective contract from the Navy Department for the manufacture of 484,000 projectiles. The request has been acknowledged with the explanation that it will be necessary for the contractor to contact the Navy Department and secure the necessary certifications. As this is a relatively small case, it is possible that the Navy Department will succeed in discouraging the contractor in desiring to enter into a formal closing agreement. However, at this writing it is not known exactly what are the reasons for requesting the closing agreement, except that the contractor states in an exhibit accompanying its letter that the facilities will be of no use to it following the completion of the contract.


Commissioner.

IT:P:CA
CAA

February 8, 1940.

REPORT FOR SECRETARY WORGENTHAU:

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

Fulton Siphon Company, Knoxville, Tennessee:

A request was received by mail from this concern for a closing agreement in regard to special equipment estimated to aggregate in cost slightly in excess of \$32,000, required for the performance of a prospective contract from the Navy Department for the manufacture of 484,000 projectiles. The request has been acknowledged with the explanation that it will be necessary for the contractor to contact the Navy Department and secure the necessary certifications. As this is a relatively small case, it is possible that the Navy Department will succeed in discouraging the contractor in desiring to enter into a formal closing agreement. However, at this writing it is not known exactly what are the reasons for requesting the closing agreement, except that the contractor states in an exhibit accompanying its letter that the facilities will be of no use to it following the completion of the contract.

Commissioner.

CAA/MEA

COPY

LEGATION OF SWEDEN
Washington, D.C.

February 2, 1940

My dear Mr. Cochran:

To keep you posted on the progress of our discussions regarding a possible export credit for the financing of Swedish purchases in the United States, I beg to enclose for your personal information, a copy of a letter which was handed to Mr. Jesse Jones yesterday. If you think that the subject will be of any interest to the Secretary, I have no objection if you show the letter to him.

Yours sincerely,

/s/ W. Bostrom

Mr. H. Merle Cochran,
Treasury Department,
Washington, D. C.

*Rec'd. by
B. M. S.*

COPY

AVSKRIFTLEGATION OF SWEDEN
Washington, D.C.February 1, 1940
Confidential

Dear Mr. Jones:

Some time ago I had the pleasure of discussing informally with you the prospects of a credit from the Reconstruction Finance Corporation or the Export-Import Bank to facilitate the financing of Swedish purchases in the United States. I have now been instructed by my Government to present a formal application for such credit and, with the assistance of the Swedish Government Trade Delegation which is now in Washington, to enter into discussions looking towards the conclusion of a credit agreement.

Before I proceed to discuss the form and the amount of the credit which we have in mind, I propose to outline some recent developments which affect Swedish American trade relations. The total value of the trade passing between our two countries during recent years has been as follows:

	Exp. to Sweden	Imp. from Sweden
1935	38,216,000	41,247,000
1936	43,074,122	48,158,017
1937	64,452,444	58,577,551
1938	64,230,813	45,103,656
1939 (Jan.-Nov.)	87,056,684	37,760,707

It is to be noted that beginning with 1937 there has been a steady increase in United States exports to Sweden. No corresponding increase in American purchases in Sweden has occurred, due partly to the economic recession in the United States which curtailed the demand for some of our principal export products. The

consequent unbalancing of Swedish American trade was further accelerated during last year by the effects of the European crisis. Apart from increased purchases of certain essential materials, as a safe-guard against an emergency, Sweden has been looking to the United States as a source of supply for a number of products which, owing to the dislocation caused by war, could not be obtained through normal trade channels. It may be anticipated that if not checked for financial reasons, this trend will continue.

Even if we discount the extraordinary purchases arising out of disturbed world conditions, Sweden represents no mean market for American exports. Sweden has constantly bought more goods from the United States than the other three Scandinavian nations, Finland, Norway, and Denmark, combined. In the first eleven months of last year, the United States shipped more goods to Sweden than to any other country in Europe, bar the United Kingdom and France. It must be borne in mind, however, that the result of last year's trading showed a balance of some fifty million dollars in favor of the United States. In the period preceding the European conflict this balance would have been, as a matter of course, covered by the proceeds of sales to other countries with which Sweden has a favorable trade balance.

Under present conditions this form of triangular trade is carried on under obvious difficulties. As a result of the war a number of countries have adopted arbitrary transfer plans. Belligerent blockade measures constitute a constant hindrance to trade with some of our principal export markets. Another, and to us very serious, consequence of the present crisis is that we have to pay cash for most of our imports while our staple exports are still largely sold on credit. To tide over the time-lag which

-3-

occurs, before payments come in or currency can be transferred, a considerable currency reserve must be kept in our principal buying markets, such as the United States.

For reasons which I have now stated, it has become necessary to plan a purchasing policy on a national scale, and the financial consequences must obviously be of great importance in determining such a policy. In order to safe-guard our currency reserves it may become necessary to curtail imports of certain classes of goods or, alternatively, to transfer certain purchases to markets where we have currency or credits available.

A preliminary investigation has established that, in order to safe-guard a sufficient dollar reserve for such contingencies as I have outlined above, additional credits of some thirty million dollars would be required during the current year, if our purchases in the United States are to be kept up at the present rate. It would not, of course, be necessary to have the whole of this credit made available at once, and I understood from our previous conversation that it would be convenient to deal separately with such part of the credit as should be mainly used to finance purchases of agricultural and kindred products. Agricultural products are, however, of minor importance in our total imports from the United States, and I hope that the Swedish Trade Delegation, while still in Washington, will have an opportunity to discuss with you also, credits for purchases of non-agricultural products, which of course to us, are of primary importance.

That we now envisage the possibility of taking advantage of the export credits facilities provided by the United States Government, is caused by the complete breakdown of inter-national credit machinery. As to our general financial and economic standing, I need only say that

-4-

Sweden should be a good credit risk. We have no foreign debt. The State's internal indebtedness is amply covered by revenue earning assets. We still have considerable gold reserves.

Judging by our financial record, there should be no doubt of our possibility to ride out a crisis of an even more serious import than the one we are immediately facing. The determination with which the difficulties of the post-war crises were overcome, and the speedy recovery from the depression of 1932 and 1933, bear testimony to the essential soundness and the recuperative power of our economic and financial structure.

An approximated estimate shows that Sweden could, during 1940, contemplate buying in the United States some twenty-five thousand tons of cotton, equivalent in value to about six million dollars. Our tobacco purchases will total about two million dollars this year. In addition, we have need of certain quantities of animal tallow and cotton seed cake. From the Philippines we buy some seven thousand dollars worth of cocoa nut cake.

Yours sincerely,

W. BOSTROM

Minister of Sweden

Hon. Jesse H. Jones,
Administrator, Federal Loan Agency,
Washington, D. C.

(Copy)

JT

GRAY

PARIS

Dated February 2, 1940

Rec'd 4:35 p.m.

Secretary of State,
Washington.

164, February 2, 6 p.m.

FOR THE TREASURY FROM MATTHEWS.

The JOURNAL OFFICIEL of February 2 contains two further minor measures clarifying and tightening up existing exchange control measures. The first is an instruction to approved intermediaries of the Foreign Exchange Office regarding overdrafts on foreign accounts in francs. Generally speaking such overdrafts cannot be granted without prior authorization of the Foreign Exchange Office. In certain exceptional instances, however, in order to avoid delays, intermediaries may grant overdrafts without previous authorization. In such cases the owner of the foreign account in francs must advise the intermediary as to the way in which the overdraft will be covered.

(END SECTION ONE)

BULLITT

HPL

JT

GRAY

PARIS

Dated February 2, 1940

Rec'd 4:10 p.m.

Secretary of State,
Washington.

164, February 2, 6 p.m. (SECTION TWO)

Authorized methods of effecting cover include bank transfers in francs arising from the surrender of foreign exchange, surrender of checks or commercial paper drawn on France or delivery of commercial paper drawn on France for discount by the intermediary. No overdraft on a foreign account in francs which showed a debit position on December 1 may be extended without authorization of the foreign exchange office. The same applies to overdrafts on corresponding accounts of branches or affiliates abroad of intermediaries for the financing of trade with France or French possessions.

BULLITT

CSB

JT

GRAY

PARIS

Dated February 2, 1940

Rec'd 4:43 p.m.

Secretary of State,

Washington.

164, February 2, 6 p.m. (SECTION THREE)

The second item is a notice of the Foreign Exchange Office to banks in regard to the transmission abroad by cable or letter of instructions ordering the disposal abroad in favor of third parties of holdings expressed in francs or foreign currencies. It points out that such an action if carried out without the permission of the office constitutes an export of capital. Furthermore the transmission abroad of silver articles requires an authorization of the Foreign Exchange Office.

(The French financial press (which like other French journals confronted by an active censor is often hard put to fill up space) has recently engaged in some comment and speculation on such current questions as allied means of payment to us for war purchases and as the value of the pound.

BULLITT

NPL:EMB

JT

GRAY

PARIS

Dated February 2, 1940

Rec'd 4:30 p.m.

Secretary of State,
Washington.

164, February 2, 6 p.m. (SECTION FOUR)

// This morning's AGENCE ECONOMIQUE carries an American despatch that "the rumors which have circulated at Washington according to which the United States Treasury asked Great Britain to make as much of its payments due to the United States as possible through the sale of British dollar investments rather than through new shipments of gold have not been confirmed". The article then makes brief reference to the recent Federal Reserve bulletin by the United States government on gold. Commenting editorially that paper says "the cables of our American correspondent clearly show that if the United States is not considering, as rumor had it, refusing to accept foreign payments in gold, the influx of the yellow metal nevertheless is worrying the American administration. //

BULLITT

NPL

EMB

JT

GRAY

PARIS

Dated February 2, 1940

Rec'd 4:50 p.m.

Secretary of State,
Washington.

164, February 2, 6 p.m. (SECTION FIVE)

There exist for it almost the same problems as for us - in the reverse sense, so to speak - the consequences of which may in the end be of the same nature if one cannot find an appropriate remedy. That journal likewise comments on London press comment to the effect that the pound is undervalued with respect to the dollar. "It is only of course a question of rumors which we have mentioned from curiosity but there is no doubt that the question of relationship of the franc-pound-dollar is up at this moment and not unfavorably for London and Paris." //

Activity was again reduced on the securities market today and the trend continued (rentes?). Rentes lost about 50 centimes, and moderate losses were registered in most other securities.

(END OF MESSAGE)

BULLITT

NPL:EMB

JR

PLAIN

London

Dated February 2, 1940

Rec'd 2:25 p.m.

Secretary of State,
Washington.

304, February 2.

FOR TREASURY FROM BUTTERWORTH.

1. The British Treasury states that the Bank of England and the Argentine Central Bank have agreed to the continuation for a further period of three months subject to certain modifications of the Anglo-Argentine payments arrangement. I gathered that in fact this arrangement is almost wholly in the hands of Baring's representative in Buenos Aires who has temporarily become an official of the Bank of England, that he enjoys an unusual position in the Argentine and correspondingly a rather free hand is accorded him here. The British Treasury states that aside from settling the details of loan servicing with Turkey it has concluded no other payments agreements since that reported in my 34, January 5, 7 p.m., and the negotiations with the other countries mentioned in my 111, January 12, 7 p.m., have not yet been terminated. The Governor of the Bank of Greece has been here and as reported in the press has reached an arrangement with the British Council of Foreign Bondholders to pay 43 per cent of the contractual

-2- #304, February 2, from London.

contractual interest on the Greek debt for the period from April 1, 1940 until the end of the war. Aside from tobacco purchases over a three year period the British Treasury has agreed to the chartering of a considerable amount of Greek shipping.

2. The agitation for the appointment of a Minister of Economics, referred to in my 2698, December 21, 7 p.m., to sit in the War Cabinet found expression in a debate in the House of Commons in which the Prime Minister flatly turned down the suggestion and merely offered in its stead the appointment of a committee made up of government officials and representatives of industry and labor to advise the president of the Board of Trade on the export problem. The Chancellor of the Exchequer also made a speech which, since the proposal for a Minister of Economics would drastically cut across the Treasury's existing powers and functions, was in reality an oblique defence of himself.

JOHNSON

CSE

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

DATE: February 2, 1940, 3 p.m.

NO.: 24

The Department transmits the following observations on the British creditors' memorandum for such use as you may find for them:

The Department knows of no basis for the assertion about ignoring "contractual rules". In January 1934 Reuben Clark more or less assented to the Aranha plan schedules when he found it impossible to get any more satisfactory recognition for the grades of securities which were primarily in the hands of Americans. However, he was careful to leave the Aranha plan in the status of a unilateral act. It is hard for us to perceive how an arrangement of relative percentages of payment contained in this plan should achieve a higher degree of sanctity than the contracts which were contained in the original bonds.

In the face of a general transfer moratorium, the "superior security" of Grade II (the Coffee Realization Loan) is irrelevant. Compared with various other loans, which engage the full credit and responsibility of public authorities of Brazil, it may or may not be true. In fine,
it

-2-

it is apparent that the whole argument is a defense of British interests, taking the form of an assertion of legal rights.

HULL
(SW)

EA:FL:EB

TO THE SECRETARY
TECHNOLOGICAL SERVICES DIVISION
OFFICE OF THE

DWO FEB 2 10 10 21

THE POLINA DEVLINGE-14
RECEIVED

COPY FOR SECRETARY

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



DEPARTMENT OF STATE
WASHINGTON

February 5, 1940.

reply refer to
711.00111 Articles or
Serials/218

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses one copy of telegram no. 41, dated February 2, 1940, from the American Embassy at Mexico City, regarding transshipment of cargo at Manzanillo for Vladivostok.

Enclosure:

From Mexico City,
no. 41, February 2,
1940.

TO THE SECRETARY OF STATE
WASHINGTON, D. C.
FEB 5 1940

FEB 2 10 10 21

RECEIVED
FEB 5 1940

HSM

GRAY

Mexico City

Dated February 2, 1940

Rec'd 11 p. m.

Secretary of State,
Washington.

41, February 2, 8 p. m.

Reference Embassy's telegram 35, February 1, 7 p. m.

Vice Consul Noel reports steamship MAYAKOVSKY's last voyage commenced in July 31 last year, taking her to Novorossiisk, Madras, Calcutta, Sabang, Tolog-Botung, Batavia, Samarang, Surabaya and Vladivostok, from which port she sailed in ballast shortly after the 26th for Manzanillo, arriving there January 20. All cargo of steamship GUAYAQUIL was taken on board but about 1,600 (*) of steamship BUENAVENTURAS cargo was put ashore to be picked up by another Russian vessel. The MAYAKOVSKY sailed from Manzanillo February 1 for Los Angeles. Rumor unconfirmed is she will take on airplane parts there.

Reason for transshipment at Manzanillo is explained as due to the lower freight charges and handling charges. Aside from 75 tons of diesel oil and water MAYAKOVSKY took on no local cargo.

Feinstein, Amtorg representative, left by plane from Guadalajara January 31 for Los Angeles.

DANIELS

CFW-WWC

(*) apparent omission
Transmitted to Navy at 3:47 a. m., 3rd

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 2, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

The foreign exchange market was not very active today, although the sterling quotation moved in an erratic fashion. After opening at 3.97, sterling declined to 3.96-1/4 just before noon, then strengthened on commercial demand to a high of 3.98-3/8 in the mid-afternoon. It moved off again just before the close, and the final quotation was 3.98.

Sales of spot sterling by the four reporting banks totaled £226,000, from the following sources:

By commercial concerns.....	£ 114,000
By foreign banks (Europe and South America).....	£ 112,000
Total.....	£ 226,000

Purchases of spot sterling amounted to £328,000, as indicated below:

By commercial concerns.....	£ 273,000
By foreign banks (Far East and South America).....	£ 55,000
Total.....	£ 328,000

The following reporting banks sold cotton bills totaling £17,000, to the British Control on the basis of the official rate of 4.02-1/2:

£ 7,000 by the National City Bank
5,000 by the Guaranty Trust Co.
5,000 by the Chase National Bank
<u>£17,000 Total</u>

The other important currencies closed as follows:

French francs	.0225-5/8
Guilders	.5309
Swiss francs	.2242-1/2
Belgas	.1694
Canadian dollars	12-7/8 % discount

The Federal Reserve Bank of New York bought 886,250 Swiss francs, 30,000 guilders and 30,000 belgas for account of the Bank of Latvia.

CONFIDENTIAL

- 2 -

We sold gold valued at \$2,000,000 to the Central Bank of Argentina and \$115,000 to the National Bank of Belgium, to be added to their respective earmarked accounts.

The State Department forwarded to us a cable stating that the Bank of Sweden was making two shipments of gold totaling \$6,760,000 to the Federal Reserve Bank of New York for account of the Bank of Sweden. While the disposition of these shipments is unknown at the present time, in all probability they will be earmarked for account of the Swedish bank upon arrival.

The U. S. Assay Office at New York received today a shipment of gold valued at \$139,000 which had been consigned to the National City Bank, New York, by the Banque Federale, Bern, Switzerland. We have been advised by the Bureau of the Mint that approximately \$81,700 of this shipment consisted of gold bars bearing a Russian stamp.

The Federal Reserve Bank of New York received cables from the B.I.S. and the Bank of Sweden requesting it to apply for a license to transfer approximately 16,000 ounces of gold (about \$560,000) from B.I.S. Account #2 to the account of the Bank of Sweden at the Federal Reserve Bank. B.I.S. Account #2 is gold owned by that institution. The Treasury granted permission to the Federal to make this transfer.

Although there was no legal holiday in Bombay today and although the commodity markets in that center were open, the Bombay silver market was reported as closed. We were unable to ascertain the reason for this situation.

The London fixing prices for spot and forward silver, at 21-13/16d and 21-3/4d respectively, showed a gain of 1/16d. The U. S. equivalents were 38.97¢ and 38.61¢.

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

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

CONFIDENTIAL

JR

GRAY

Berlin

Dated February 3, 1940

Rec'd 9 p.m.

Secretary of State,
Washington.

292, February 3, 3 p.m.

In an address delivered yesterday in the first plenary meeting of the Beirat or Advisory Council of the Reichsbank formed in accordance with the Reichsbank law of June 15, 1939, Funk dealt with the financing of the war and with foreign trade as the main problems with which the Reichsbank is now confronted. The morning press publishes what is apparently only a summary of Funk's speech in which he said previously in his Vienna and Salzburg addresses reported in my telegrams 1721, October 15, 1 p.m.; 12, January 2, 4 p.m.; and 38, January 6, 9 a.m.

War financing is not so much a monetary problem Funk stated as a problem of adequate supplies of goods. The essential task is to effect a shift in production from civilian to military requirements by rationing consumer goods and raw materials by redistribution of labor credits and capital and by directly prohibiting the production of certain goods. The purchasing power set free by these restrictions must be methodically absorbed for the

financing

-2- #292, February 3, 3 p.m., from Berlin.

financing of the war Funk asserted but the problem cannot be solved merely by applying methods of financial technique. "We refuse to finance war by overt depreciation of currency consisting in price and wage increasing or by concealed currency depreciation in the form of credit expansion not followed by parallel increase in national productivity".

In Germany the freed purchasing power is being utilized in the interest of war financing by means of taxes and of saving Funk asserted but the art of war financing consists in preserving the ability of people to save in spite of the sharp increase in taxation.

In regard to the foreign trade position Funk pointed out that at present everywhere in Europe preference is given to raw materials before gold and devisen. The best "devise" Funk stated is now the high quality workmanship of German industry. He insisted that this supreme weapon must be used at least for the time being to defeat the enemy but after a victorious war Funk prophesied Germany's high quality products will assure the position of German industry in the world and safeguard the welfare of the German people.

KIRK

BR

STRICTLY CONFIDENTIAL

194

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 4 o'clock yesterday afternoon Commander Thompson gave me a copy of the memorandum dated February 2 which he was submitting to Assistant Secretary Gaston in regard to the investigation which he had made at New York of shipments to Vladivostok via Manzanillo. Captain Puleston was with us when Commander Thompson and I discussed the report.

In agreement with them I telephoned Mr. Warren in the Department of State and summarized the first page of the memorandum, to the effect that Treasury agents had investigated and found no violation of our regulations at New York; but that a third inspector had been assigned to the task already entrusted to two inspectors of keeping a watch on and even opening packages constituting the shipments in question. I told Mr. Warren we would let him know if we learned anything further, and hoped that the State Department would continue to advise us of information received from Mexico.

Commander Thompson visited me again this morning and discussed with me Mr. Oelsner, who was the subject of my memorandum of February 1. I then telephoned Mr. Warren stating it was our opinion that Mr. Oelsner might properly be investigated in connection with the Federal Bureau of Investigation inquiry which was instituted some time ago as a result of the activities of the German Ambassador in this city. At Commander Thompson's suggestion, I made the point that Oelsner apparently was an "unregistered agent" and consequently be looked into by the Department of State and the Federal Bureau of Investigation on this ground. I told Mr. Warren that the Treasury Department was not investigating Oelsner. Mr. Warren appreciated our calling him, and said that he would take up with his friends in the Department of State and the Federal Bureau of Investigation the question as to what should be done in the premises.

At 11:30 this morning my friend, Hamish Mitchell, who is on the staff of Mr. Purvis, came in to present Mr. C. T. Ballantyne, who has been chosen to succeed Mr. G. Miller Hyde as Secretary General of the Anglo-French Purchasing Board in Washington, Mr. Hyde having become ill. Mr. Ballantyne apologized in behalf of Mr. Purvis for not having gotten a message to us before this time in regard to the availability of a Britisher to look into the transshipment question at Manzanillo. Ballantyne understands that a reply will probably be given next week to the effect that there is someone in the British Consulate at Guadalajara who could be used. I suggested to Ballantyne that no instructions be given such an officer to proceed to Manzanillo without checking first with us, since we now have a Vice Consul of our own temporarily at Manzanillo to cover shipping investigations.



STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

195

INTER OFFICE COMMUNICATION

DATE February 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

When the Secretary called my office at 5:45 yesterday evening, I told him that Mr. Pinsent had phoned earlier in the day to state that Mr. Gifford was ready to make a report to the Secretary and would be glad to call the first of the week if this might be convenient for the Secretary. In accordance with the Secretary's instructions I have informed Mr. Pinsent that the Secretary will receive Mr. Gifford at 3:30 p.m. on Tuesday, February 6.

In talking with the Secretary by telephone I mentioned the report in the press in regard to our alleged request of the British to pay for their purchases in this country with the proceeds of sales of dollar securities rather than gold. The Secretary may recall that Mr. Schwarz brought this rumor to the Secretary earlier in the week and that I told Mr. Schwarz, when he came to my office after seeing the Secretary, that this was not a correct statement. We have had two or three references to reports of this character from London, and one has come in this morning, in Matthews cablegram #164, from which I quote the following paragraphs:

"This morning's AGENCE ECONOMIQUE carries an American despatch that 'the rumors which have circulated at Washington according to which the United States Treasury asked Great Britain to make as much of its payments due to the United States as possible through the sale of British dollar investments rather than through new shipments of gold have not been confirmed.' The article then makes brief reference to the recent Federal Reserve bulletin by the United States government on gold. Commenting editorially that paper says 'the cables of our American correspondent clearly show that if the United States is not considering, as rumor had it, refusing to accept foreign payments in gold, the influx of the yellow metal nevertheless is worrying the American administration.

There exist for it almost the same problems as for us - in the reverse sense, so to speak - the consequences of which may in the end be of the same nature if one cannot find an appropriate remedy. That journal likewise comments on London press comment to the effect that the pound is undervalued with respect to the dollar. 'It is only of course a question of rumors which we have mentioned from curiosity but there is no doubt that the question of relationship of the franc-pound-dollar is up at this moment and not unfavorably for London and Paris.' "

- 2 -

At 12 noon today Mr. Pinsent let me know that Mr. Gifford will arrive in Washington on Monday afternoon. If we desire to advance the 3:30 appointment scheduled for Tuesday, we should let Mr. Pinsent know.

A handwritten signature in dark ink, appearing to be 'B. M. S.', is centered on the page.

HSM

GRAY

197

Paris

Dated February 3, 1940

Rec'd 10:25 a. m.

Secretary of State,
Washington.

167, February 3, noon.

FOR TREASURY DEPARTMENT FROM MATTHEWS.

The Paris Municipal Council last night voted to recommend that the Government institute ration cards for sugar, coffee, macaroni, et cetera, edible oils and soap in the departments of Seine, Seine et Oise and Seine et Marne, as a measure to "equalize sacrifices" and to offset the hoarding of such products which is developing.

The texts of the loan and credit agreements concluded on October 19, 1939, and January 8, 1940, between the French, British and Turkish Governments were published in today's Journal Officiel, (I presume you have these texts or their principal provisions from London).

The press reports that American war veterans who served in France or on the high seas in the World War may obtain exemption from the special 15% tax on salaries of men of military age who are not mobilized (telegram No. 49, January 10, 6 p. m.).

BULLITT

KLP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was extremely small. Sterling opened at 3.97-1/2 and closed at 3.98-1/2.

Sales of spot sterling by the four reporting banks totaled £114,000, from the following sources:

By commercial concerns.....	£	54,000
By foreign banks (South America).....	£	60,000
Total..	£	114,000

Purchases of spot sterling amounted to £21,000, as indicated below:

By commercial concerns.....	£	21,000
By foreign banks.....		-0-
Total..	£	21,000

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

£	62,000	by the National City Bank
	15,000	by the Bank of Manhattan
	10,000	by the Guaranty Trust Co.
£	87,000	Total

The other important currencies closed as follows:

French francs	.0225-3/4
Guilders	.5309
Swiss francs	.2242-1/2
Belgas	.1691
Canadian dollars	12-13/16% discount

We sold gold valued at \$2,000,000 to the Central Bank of Uruguay to be added to its earmarked account.

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

\$ 4,026,000 from Norway, shipped by the Bank of Norway to the Federal Reserve Bank of New York, to be earmarked for the account of the National Bank of Denmark.

- 2 -

1,680,000 from Switzerland, shipped by the B.I.S. to the Federal Reserve Bank of New York to be earmarked for account of the B.I.S.
 823,000 from India shipped by the National City Bank, Bombay, to the American Trust Company, San Francisco, for sale to the U. S. Mint.
\$ 6,529,000 Total

The State Department forwarded to us a cable stating that the following shipments of gold would be made from Australia:

\$ 4,131,000 shipped by the Commonwealth Bank of Australia to the Federal Reserve Bank of New York.
 154,000 shipped by the Bank of New South Wales to the American Trust Company, San Francisco.
\$ 4,285,000 Total

Both of these shipments will be sold to the U. S. Mint at San Francisco.

The Federal Reserve Bank of New York received cables from the B.I.S. and the Netherlands Bank requesting it to apply for license to transfer approximately 16,000 ounces of gold (about \$560,000) from B.I.S. Account #2 to the account of the Netherlands Bank at the Federal Reserve Bank. B.I.S. Account #2 is gold owned by that institution. The Treasury granted permission to the Federal to make this transfer.

In a report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on January 31, such deposits totaled \$37,560,000, an increase of \$425,000 since the last report on January 24. Of this amount, \$27,520,000 represented deposits with the Yokohama Specie Bank by their branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was \$78,153,000, an increase of \$5,634,000 since January 24.

CONFIDENTIAL

200

From:- Mr Purvis
by messenger

February 3, 1940

Mr. Daniel C. Roper has addressed twelve letters and one telegram to the French Purchasing Commission or to Mr. Bloch-Laine, and ten letters to Mr. Arthur B. Purvis, of which the enclosed copy marked "A" is a typical example, recommending suppliers or manufacturers of materials which might be desired for purchase by the French or British Purchasing Commissions. Such correspondence extended over a period from December 9, 1939 to January 29, 1940. Non-committal replies were made to Mr. Roper's first letters, and no replies were sent after December 16, 1939.

Letters of similar character were also sent by Mr. Roper to Sir Owan Chalkley, and to Mr. Garreau-Dombasle, French Commercial Attache, during November and December 1939.

The total recommended manufacturers or suppliers amounted to twenty-two, according to a list thereof enclosed with Mr. Roper's letter of January 29, 1940, to Mr. Arthur B. Purvis and copy of which is attached hereto, marked "B". Neither the British nor the French Purchasing Commission has had dealings with any manufacturer or supplier so recommended, except in the case of one transaction which was negotiated by the French Commission before the above mentioned correspondence began.

On January 6, 1940, Mr. Roper wrote to Mr. Bloch-Laine, introducing a Mr. Herbert Houston who in turn advised Mr. Bloch-Laine by letter dated January 9, 1940, that he and Mr. Roper had developed a plan which they believed would be of far reaching service to the French and English, relating to placing the Commission in touch with important manufacturers in this country.

In a letter from Mr. Herbert Houston dated November 8, 1939, he states, "I have become associated with the Hon. Daniel Roper etc. etc. and with Mr. Melvin Bildreth, an able member of the Washington Bar. We are representing some important manufacturers who are in a position to go into production immediately etc. etc."

- 2 -

In his letter to Mr. Arthur B. Purvis of January 29, 1940, Mr. Roper indicates that he is acting as "advisory Counsel" for the twenty-two firms he has recommended. In the same letter he says, "I am still being approached by reputable concerns who seek my advice in making submissions to you", and adds, that he will not make any further recommendations unless advised that "further submissions of carefully investigated sources will be of service to you (Mr. Purvis)".

"A"
DANIEL C. ROPER
Tower Building
Washington

203

December 9, 1939

Honourable Arthur B. Purvis
Director General of Purchases
British Purchasing Commission
25 Broadway
New York City

Dear Sir:

I am attaching a request from Frederick Stearns & Company, manufacturing pharmacists of Detroit, Michigan, U.S.A., for consideration as a source of supply of pharmaceutical preparations.

This is one of the best known and most reputable pharmaceutical companies in the United States. The company has a large export business in all parts of the world and is equipped to supply any of the articles listed in its catalog in any quantity required. Its financial responsibility is of the highest and it has an established reputation with respect to the performance of its contracts.

I commend this company to your consideration when the question of purchasing pharmaceuticals comes before you.

Very truly yours,

(Signed)

Daniel C. Roper

dcr/v

Inc.

DANIEL C. ROPER
Tower Building
Washington

January 29, 1940

Honourable Arthur B. Purvis, Chairman
British Purchasing Commission
15 Broad Street
New York City

Dear Mr. Purvis:

During the past three months, doubtless because of my former position as Secretary of Commerce, there have come to me a number of outstanding American manufacturers and producers, on behalf of a carefully selected group of whom I have forwarded submissions to you in which these firms asked that they be listed as sources of supply in their respective fields. Your courteous acknowledgments of their tenders have been appreciated.

In each case, as advisory counsel for these firms, I have satisfied myself by careful investigation of their reputation and standing and their ability to carry out any contract into which they may enter.

I am forwarding herewith similar letters from the following companies :

- Wilton Woolen Company, Wilton, Maine - blankets
- The Frederick City Packing Company, Frederick, Maryland -
canned foods
- Skinner and Eddy Corporation, Seattle, Washington - canned
salmon
- Badger Milk Products Company, Milwaukee, Wisconsin -
evaporated milk
- The Axton-Fisher Tobacco Company, Louisville, Kentucky -
cigarettes
- Williams Drilling Syndicate, Boston, Massachusetts -
crude oil
- J. Sklar Manufacturing Company, Brooklyn, New York - surgical
instruments
- Filice and Perrelle Canning Company, Inc., Richmond, California
canned fruits
- The E. L. Patch Company, Boston, Massachusetts - ointment

Honourable Arthur B. Purvis
January 29, 1940
Page Two

I have impressed upon each of the firms whose tenders I have forwarded to you that they must be prepared to meet open competition with respect to price and quality of goods. In the case of those companies who regularly sell to the United States Government, it is distinctly understood that prices quoted your commission must not exceed the lowest price currently made to their own government.

In the submission of these tenders it has been my earnest endeavor to facilitate in some measure your very difficult task. A list of all companies whose letters I have forwarded to you is attached.

I am still being approached by reputable concerns who seek my advice in making submissions to you, but as I feel that I have rather broadly covered the field of essential non-military items, I shall make no further recommendations unless you advise that my further submissions of carefully investigated sources will be of service to you.

Very sincerely yours,

(Signed)

Daniel C. Roper

January 29, 1940

COP

The Axton-Fisher Tobacco Company, Louisville, Kentucky -
cigarettes

Badger Milk Products Company, Milwaukee, Wisconsin -
evaporated milk

Davis & Geck, Brooklyn, New York - Sterile Sutures & Ligatures

Davol Rubber Company, Providence, Rhode Island - rubber
specialties

Filice & Perrelle Canning Company, Inc., Richmond, California -
canned fruits

The Frederick City Packing Company, Frederick, Maryland -
canned foods

Great Western Shoe Company, Milwaukee, Wisconsin - shoes

Hodgman Rubber Company, Framingham, Massachusetts - rubber
specialties

The Hug Company, Highland, Illinois - trucks

H. Kramer & Company, Chicago, Illinois - ingots

The Lederle Laboratories, New York City - biologicals

Metropolitan Business Service, Brooklyn, New York - blankets

Wilton Woolen Company, Wilton, Maine - blankets

The E. L. Patch Company, Boston, Massachusetts - ointment

The Ohio Chemical and Manufacturing Company, Cleveland, Ohio -
anesthetic gases and equipment

Rose Packing Company, Chicago, Illinois - frozen beef, lard
& packing house products

Schwarzenbach Huber Company, New York City - parachute silk

Skinner and Eddy Corporation, Seattle, Washington - canned salmon

J. Sklar Manufacturing Company, Brooklyn, New York - surgical
instruments

Frederick Stearns & Company, Detroit, Michigan - pharmaceuticals

Weil Brothers, New York City - cotton

Williams Drilling Syndicate, Boston, Massachusetts - crude oil

TREASURY DEPARTMENT

207

INTER-OFFICE COMMUNICATION

DATE February 5, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Effect of Allied Purchases of \$1 billion of Airplanes on the American Economy

I. How will England and France pay for the planes?

If England and France buy \$1 billion of airplanes in the United States during 1940, they will have an unfavorable balance of payments with all countries requiring foreign exchange settlements of $1\frac{1}{2}$ to 2 billion dollars.

To meet this outpayment they will have \$500 million of newly mined gold and they will be forced to dip into their foreign exchange reserves to the extent of \$700 to \$1,200 million during 1940.

(See appendix for basis of our estimate of their balance of payments for 1940.)

II. The Allies have liquid foreign exchange reserves greatly in excess of sums needed for 1940.

In our memorandum of November 12, 1939, we indicated that they had \$14 to \$15 billion of foreign exchange assets, of which almost half could be liquidated within a year with ease. The remaining half could be liquidated in the ensuing few years, if the situation were desperate enough to require such sacrifice. However, it must be emphasized that although England and France could raise the above sum in foreign exchange during the next few years, to do so would constitute a terrific blow to the economic status of the Empires.

They now have roughly: (a) \$6 $\frac{1}{2}$ billion of gold; (b) \$1 billion of dollar balances; (c) \$1 billion of United States securities; (d) \$1 billion of direct investments in the United States; (e) investments in neutral countries, which could net at least \$2 billion; and, (f) \$2 billion of investments in Empire countries that the United States would be interested in purchasing. These are estimated at their liquidation value and not at their current value.

It would be most desirable from our viewpoint that the British and French raise the sums needed to pay for their unfavorable balance of payments with the United States by the sale of American securities. Their unfavorable balance of payments with us will be the bulk of their unfavorable balance with all countries, and thus may amount to more than \$1 billion. However, the Securities and Exchange Commission has informed us that it is their opinion that only \$300 million to \$500 million of foreign held securities can be safely absorbed by our markets in 1940.

III. What effects will the expenditures have on the American economy?

(a) The purchase of \$1 billion of planes and accessories in the United States in the year 1940 will result in at least a doubling of the capacity of the airplane and auxiliary industries which will raise the level of business activity throughout the United States.

The effectiveness of these expenditures on the absorption of the nation's unemployed is not likely to be as great as an expenditure of equivalent sums on products of other industries. The business is concentrated in a relatively small group of business concerns and the proportion of the total expenditures which will go to cover depreciation and profits is much higher than is the case in expenditures for other commodities. In addition, the number of workers employed in the construction of airplanes is small per dollar of expenditure because the workers are highly paid and because each worker is putting in long hours of work due to a shortage of skilled workers.

(b) The program of war purchases in the United States will have adverse effects on this country, principally through the disturbing effects on agriculture. England and France will reduce their purchases of tobacco (which amounted to \$110 million in 1938), fruits (which amounted to \$35 million in 1938), and meat products (which amounted to \$40 million in 1938). The loss of this outlet for our agricultural products is to be added to the loss of the German market and it is unlikely that new foreign outlets will be found during the year 1940 to remove the surpluses and prevent sharp reductions in domestic prices of important agricultural products.

(c) The continued inflow of gold into the United States will increase public criticism of our gold policy and intensify the public fears as to the future of gold.

The British and French will be called upon to sell their newly mined gold of \$500 million and perhaps as much as \$500 million of their gold stocks. In addition, some neutral countries of Europe will be forced to sell us gold to meet an unfavorable balance of payments arising out of the war. Since we will buy our domestic production of \$175 million and the current production of South America and Asia, we may get as much as \$2½ billion of gold next year.

(d) Excess reserves will be increased by our gold purchases. Excess reserves are now \$5 billion and will probably amount to some \$7 billion by the end of 1940. This will increase the need for additional powers of control over reserves in the event a boom gets started. It will assuredly arouse cries of the danger of inflation even though the actual influence of the additional reserves in bringing about inflation will be negligible.

(e) The disadvantages of the expenditure of a billion dollars on airplanes in the year 1940 will come in later years when the purchases are discontinued. At that time we will have an over-expanded industry which will necessitate the disemployment of a large number of highly skilled workers. There will also be a curtailment of construction expenditures when the industry is built up to its maximum size, with consequent adverse effects on the level of business activity unless a source for new construction activity appears when the airplane industry ceases to expand.

IV. Recommendations:

Such adverse effects as the purchase of a billion dollars of airplanes by the Allies in the year 1940 will have, may be met in part by the following suggestions:

(a) A special government program to absorb agricultural surpluses of tobacco, fruits and hog products which would have been sold to the belligerent countries in peace time.

(b) Investigate the possibilities of adding some form of dismissal wage to the system of unemployment compensation to facilitate the process of disemployment for the workers when the airplane and auxiliary industries begin to contract in later years. The companies are now accumulating reserves for depreciation of equipment, and reserves for the workers might be accumulated on the same principle. (A separate memorandum is being prepared which will elaborate this proposal.)

APPENDIX

We estimated that the British and French Empires will have an unfavorable balance of payments with foreign countries of \$500 to \$1,000 million in 1940 -- exclusive of their purchases of airplanes in the United States.

Our estimate of the balance of payments of the British and French Empires is based upon the following factors which are already apparent in the foreign exchange accounts of the Empires: (a) there will be a sharp reduction of non-military imports from foreign countries; (b) their exports to foreign countries will not be reduced below the 1938 levels, but actually may be higher; (c) their net income on service account will not be reduced by more than \$200 million from the 1938 income.

The United Kingdom reduced its imports of non-military commodities from the United States by 20 percent during the months of November and December, 1939, compared with the same period of 1938. If this same percentage is applied to the imports of the British and French Empires from all foreign countries it would amount to a reduction of imports by more than \$1 billion. This will be offset in part by an increase in military purchases other than airplanes but there is no indication at present that the amounts of such purchases will be as large as the decline in non-military purchases.

The course of exports cannot yet be approximated since the British program for the expansion of exports has not yet been elaborated. However, our imports from United Kingdom were 8 percent higher in the first three months of war compared with the same period of 1938, indicating that British exports to foreign exchange areas were at least being maintained during the recent months. United States imports from France, however, were 20 percent less than a year ago during the first three months of war, but November imports were higher than a year ago.

Their unfavorable balance of trade, it is estimated, will be from \$1,500 to \$2,000 million (compared with \$2,000 million in 1938), offset by net income on service account of \$1,000 million (compared with \$1,200 in 1938). To this net amount of \$500 to \$1,000 million must be added their expenditures on airplanes, now contemplated at \$1 billion for 1940.

The unfavorable balance of payments in 1940 will be further reduced by the British efforts to convert their unfavorable balance of trade with neutral countries into blocked sterling

which will not require the expenditure of free foreign exchange but will be paid for either by increased British exports or by forced loans from the neutral countries. Arrangements to block sterling payments for the excess of purchases have already been made with Argentina and Sweden.

There is a possible source of expenditure which cannot be estimated in advance, and yet may be a significant item in the balance of payments of England and France -- e.g., political loans of the type made to Turkey. The Allies loaned Turkey £15 million of gold, in addition to large amounts of blocked sterling. Similar political loans to Italy and other neutrals would be a drain on the foreign exchange resources of the Allies. It is the uncertainty of these non-economic aspects of the balance of payments of the British and French Empires which necessitates the range of \$500 million in our estimate.

February 5, 1940
5:50 p.m.

WJr: Hello.

Secretary: The Attorney General. Go ahead.

WJr: Hello.

Robert Jackson: Hello.

WJr: I'm sorry you're not well, Bob.

J: Well, just under the weather a little bit. I think in two or three days I'll be out all right.

WJr: Well, cut out the liquor.

J: (Laughs) I think that's the trouble. I haven't had enough.

WJr: All right. Good for you.

J: I had a message from Ed Foley to call you.

J: Well, he -- we had some talk the other day about that Associated matter.

WJr: Yeah.

J: And I talked with the President about what they proposed to do over there and he expressed himself as very much dissatisfied with it.

WJr: Yeah.

J: And from what I understand they are making some claim of having clearance for it.

WJr: Who is they?

J: The Hanes people.

WJr: I see. Clearance with the President?

J: No, with you.

WJr: Well, they -- everybody knows that Hanes asked me when he was first -- week he was here whether it was all right with me and I told him yes because

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nobody can -- nobody was interested in it at that time and there was no reason that I should say otherwise.

- J: Yeah. Well.....
- HMJr: That was -- must be a month or six weeks ago.
- J: That's the -- the situation.
- HMJr: I think the first day or two after he left here.
- J: Well, that's the -- that's the situation about it.
- HMJr: I see. Well, I think it's -- it's the S.E.C.'s baby and they better carry it. I've been carrying the torch here for seven years for the Treasury, publicly.
- J: Well, all I know about it is that that's what the situation is and I don't know what they'll do, I'm sure.
- HMJr: Well, I -- I don't either -- I mean, they asked -- Foley asked me Thursday night whether Tom Corcoran would be agreeable to me and my answer was yes.
- J: Well, this other thing was apparently arranged in advance of that so that that couldn't be done now.
- HMJr: I see.
- J: That is, I judge it can't.
- HMJr: Well.....
- J: They've got a bad slate there. It's -- I think the President is justified in feeling annoyed about it.
- HMJr: I see.
- J: But maybe there can't be anything done about it now.
- HMJr: Well I don't know -- I mean, it's -- I don't know what --- I think it's entirely up to the S.E.C. when they appear before the Judge.

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J: Well, the difficulty is that he has more or less committed himself on the belief that what he was doing was satisfactory to the Administration and I don't know whether he'll back up on it or not.

HMJr: I see. O.K.

J: All right.

HMJr: Thank you.

J: Goodbye.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE February 5, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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The foreign exchange market was quiet today with a fair volume of sterling transactions. Sterling opened at 3.98-1/4. During the morning, the rate strengthened under the impetus of moderate buying by metal and other commercial firms. At noontime, the quotation was 3.99-1/8. It closed at 3.98-7/8.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £311,000, from the following sources:

By commercial concerns.....	£ 121,000
By foreign banks (Europe).....	£ 165,000
By Federal Reserve Bank of New York (for Yugoslavia)...	£ 25,000
Total.....	£ 311,000

Purchases of spot sterling amounted to £236,000, as indicated below:

By commercial concerns.....	£ 161,000
By foreign banks (Europe).....	£ 75,000
Total.....	£ 236,000

The following reporting banks sold cotton bills totaling £16,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 8,000 by the National City Bank
5,000 by the Guaranty Trust Co.
3,000 by the Chase National Bank
£16,000 Total

The other important currencies closed as follows:

French francs	.0226-1/8
Guilders	.5308-1/2
Swiss francs	.2242-1/2
Belgas	.1690
Canadian dollars	12-3/4% discount

In the last few days, the quotation for the Cuban peso has improved and today it was quoted at 8-1/2% discount.

We purchased \$10,000,000 in gold from the earmarked account of the Bank of France.

The Federal Reserve Bank of New York informed us that the Chase National Bank reported the receipt of a cable from the State Bank of the U.S.S.R., Moscow, advising of a shipment of approximately \$5,000,000 in gold consigned to the Chase Bank, San Francisco, on the S. S. Kim. The S. S. Kim is due to arrive in San Francisco tomorrow, February 6. The Chase stated that this shipment was made from Vladivostok, Asiatic Russia, and that it is under the impression that the shipment was made by the State Bank of the U.S.S.R. The Federal also stated that the Chase National Bank was instructed to sell the gold to the U. S. Mint at San Francisco and to credit the dollar proceeds to the account of the State Bank of the U.S.S.R.

In view of the fact that (a) this shipment was made from Russian territory, (b) the Chase Bank stated that it had no interest in the gold, and (c) the proceeds of the shipment will be credited to the account of the State Bank of the U.S.S.R. with the Chase National Bank, there is no doubt that when this gold is purchased it will be a direct purchase of gold by the United States from Russia.

The Federal Reserve Bank also reported that the Yokohama Specie Bank, Kobe, was shipping \$5,000,000 in gold to the Yokohama Specie Bank, San Francisco, for sale to the U. S. Mint in that city. This is the first shipment of gold reported to us from Japan since December 26.

The Federal Reserve Bank of New York received cables from the B.I.S. and the Netherlands Bank requesting it to apply for a license to transfer approximately 10,000 ounces of gold (about \$560,000) from B.I.S. Account #2 to the account of the Netherlands Bank at the Federal Reserve Bank. B.I.S. Account #2 is gold owned by that institution. (An identical transfer was made on Saturday, February 5.) The Treasury granted permission to the Federal to make this transfer.

In Bombay, the quotation for silver worked out to an equivalent of 39.86¢, off 5/16¢. A Reuters despatch from Bombay, appearing on today's Dow Jones ticker, reported that all markets in Bombay would be closed tomorrow in protest against the introduction of India's excess profits tax bill, a retroactive measure which seeks to impose a levy of 50% on excess profits made in any accounting period after April 1, 1939.

The London fixing prices for spot and forward silver were 21-3/4d (off 1/16d) and 21-5/8d (off 1/8d) respectively. The U. S. equivalents were 38.97¢ and 38.50¢.

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

We made ten purchases of silver totaling 860,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory by one of the refining companies and 135,000 ounces was trading silver which an American refining company purchased some time ago in New York. Both of these sales were for delivery on February 6. The remaining 525,000 ounces consisted of new production from foreign countries, for forward delivery.



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