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West, Charles

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February 7, 1940  
4:40 p.m.

HMJr: Hello.

Jesse Jones: Hello.

HMJr: Hello, Jesse.

J: Well, I got a little money -- it looks like we'll give a little more money to China.

HMJr: Are you? Good.

J: I got them to -- I discussed it directly with the Committee.

HMJr: Good.

J: And I got an amendment in the bill voted out. It would let us go twenty million more.

HMJr: Twenty million more?

J: Yeah.

HMJr: For China?

J: Yeah. It would give us that much leeway.....

HMJr: Oh.

J: .....if we wanted to do it.

HMJr: I see. That's swell.

J: Huh?

HMJr: I say that's swell!

J: Well, I just was frank with the Committee about it. Told them what we were -- what we were considering. Not that we knew that -- we didn't know whether we wanted to do it or not.

HMJr: Yeah.

J: But we -- what they wanted, and we were considering it.

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HMJr: Well I think that's swell.

J: And the Committee voted the bill out; no bad feeling about it at all.

HMJr: Good.

J: There were some votes against it, I believe it was 12 to 6, but then the feeling -- all the -- all the bitterness apparently hadn't gotten away and I was before them three different times, two hours at a time, so.....

HMJr: Well I congratulate you.

J: Well, I -- I'm -- I feel very happy about it and all them -- all of them do.

HMJr: Good.

J: I mean, the entire Committee - Pittman and Barkley and everybody. And I thought you'd be interested.

HMJr: Well I am. I appreciate your calling me.

J: I had your letter about the.....

HMJr: .....Colombia.

J: .....about the Colombia thing.

HMJr: That's pretty good, isn't it?

J: Yes it is.

HMJr: Yeah.

J: Now, this gentleman went home and I saw him yesterday afternoon.

HMJr: Who is that?

J: And he wanted me to say that at least they'd have ten million, and I told him I didn't know what they'd have but we were all friendly and kindly disposed and all that.

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HMJr: You mean the fellow from Colombia?

J: Yeah.

HMJr: Uh-huh.

J: But that they might not have as much as ten or we might, but I didn't want him to go away believing that he was -- that he had that much promised to him.

HMJr: I see.

J: But we'll have a lot of customers now that we hadn't contemplated when we asked for this money originally.

HMJr: That's right.

J: And that -- so we'd just do the best we could by him.

HMJr: That's right.

J: But I -- I was afraid that he had gotten a little bit more encouragement than that at the other place.

HMJr: I see.

J: Over at State.

HMJr: Yeah.

J: So I bore down a little bit harder for that reason.

HMJr: Well I never discussed any loan with him so he's got nothing here.

J: Well I -- I wanted you to know that.

HMJr: Right.

J: Now, are you getting away?

HMJr: Tomorrow night.

J: Do you want to talk -- shall I talk to Joe about other loans.

HMJr: Oh, I think you'd better talk -- better talk with Danny Bell.....

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J: All right.

HMJr: .....while I'm gone.

J: All right.

HMJr: I think you'd better talk with Danny Bell.

J: All right I'll do that.

HMJr: Yeah, and I think that.....

J: Because I think we've got -- I've promised Sweden we might give them some action on that pretty soon.

HMJr: No, if you'll talk with Bell I'd appreciate it.

J: I -- I'd rather do that.

HMJr: Yeah, I think.....

J: Although I like Joe very much.

HMJr: Yeah, but he's too young for that.

J: Yes.

HMJr: Yeah.

J: O. K. Well, are you going to be gone long?

HMJr: Just -- about a little over a week.

J: Well, have a nice time.

HMJr: Thank you.

J: Goodbye.

HMJr: Goodbye.

February 7, 1940  
4:45 p.m.

Jerome  
Frank: Hello.

HMJr: Hello.

F: Jerome talking.

HMJr: Oh, hello Jerry. Jerry, I'm leaving tomorrow and before I go I want to bring you up to date on what these British fellows are supposing -- talking about doing on their securities.

F: Yes. When would you -- when would be convenient for you?

HMJr: Well, how -- is -- how about tomorrow afternoon?

F: All right.

HMJr: Is three o'clock good?

F: It will be all right.

HMJr: What?

F: I'm -- yes, I'll be there at three.

HMJr: That'll be fine.

F: Gif -- Gifford called me and wanted me to go to dinner with him last night but I couldn't make it.

HMJr: Oh.

F: And I -- I called you last week because I was disturbed what I read about what was said in Parliament. You probably saw that.

HMJr: I think so. You know the first time he came in to see me I asked you to come but you were out of town.

F: Yes.

HMJr: So I'll bring you up to date tomorrow and I've also -- want to give you a new list of securities.

F: (Laughs) All right.

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HMJr: What?

F: Three o'clock tomorrow.

HMJr: Righto.

TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE February 7, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

CONFIDENTIAL

The dull tone which characterized the foreign exchange market the past few days prevailed again today. The opening rate for sterling was 3.98-1/2 and shortly thereafter it eased to 3.97-7/8 on small selling. By noontime it had recovered to 3.98-1/8. The rate remained steady at this level for most of the afternoon and closed at 3.98-1/4.

Sales of spot sterling by the four reporting banks totaled £225,000, from the following sources:

By commercial concerns.....	£ 168,000
By foreign banks (Europe).....	£ 57,000
Total.....	£ 225,000

Purchases of spot sterling amounted to £360,000, as indicated below:

By commercial concerns.....	£ 187,000
By foreign banks (Europe and Far East).....	£ 173,000
Total.....	£ 360,000

The following reporting banks sold cotton bills totaling £13,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 8,000 by the Guaranty Trust Co.
5,000 by the Chase National Bank
£13,000 Total

The quotation for the Dutch guilder, which strengthened yesterday to .5321, rose further in Amsterdam to .5330 prior to the opening in New York. The firmness was not maintained in the American market however, and the quotation moved off to close at .5320.

The other important currencies closed as follows:

French francs	.0225-5/8
Swiss francs	.2242-1/2
Belgas	.1684
Canadian dollars	13-1/16% discount

The discount on the Cuban peso was unchanged today at 7-13/16%.

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

\$1,180,000	from the National Bank of Belgium
500,000	from the Netherlands Bank
<u>\$1,680,000</u>	Total

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

\$25,000,000	from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of England.
2,695,000	from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York, for account of the Netherlands Bank.
2,256,000	from England, shipped by the Bank of England to the Federal Reserve Bank of New York for account of the Swiss National Bank.
<u>\$29,951,000</u>	Total

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

The Bombay market re-opened today with a silver price equivalent to 39.41¢, off about 7/16¢ from the quotation which ruled on February 5.

The London fixing prices for spot and forward silver were quoted at 21-1/2d and 21-3/8d respectively, both off 3/16d. The U. S. equivalents were 38.56¢ and 38.09¢.

Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

We made three purchases of silver totaling 175,000 ounces under the Silver Purchase Act. All of this silver was new production from foreign countries, for forward delivery.



CONFIDENTIAL

STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

We learned by telephone from the Federal Reserve Bank at New York today that a cablegram had been received from the Reichsbank requesting (in case that American mail would be subjected to English or French control) that the Federal send in the future its airmail destined for the Reichsbank in such manner as the Federal might think suitable, to the following address:

"Banco Germanico de La America del Sud,  
Mexico City,  
Mexico."

It is understood that the Federal has been sending practically all of its mail to the Reichsbank by air, and that requests have recently been received to send duplicates of certain communications, the originals presumably having been intercepted by the Allies.

It would be interesting to know by what channel the Germans expect to receive their mail from the intermediaries in Mexico. It is possible that it might go via Russia on the ships now calling at Manzanillo. On the other hand, some arrangement might be made for the use of a friendly diplomatic courier out of Mexico City to Germany or to some neutral country bordering on Germany.



February 7, 1940

3:10 pm

Present:

Mr. Purvis  
Mr. Bloch-Laine  
Mrs. Klotz  
Mr. Gaston (for first part of the meeting  
and again as indicated in the  
transcript)  
Mr. Foley (for first part of the meeting and  
again as indicated in the transcript)  
Mr. Bell (for part of the meeting as indicated)  
Mr. Sullivan (for part of the meeting as indicated)  
Mr. Ballantine (of the British Purchasing Mission)  
as indicated

HM, Jr: How do you do, gentlemen.

Mr. Purvis: May I bring in my Washington head,  
Mr. Ballantine?

HM, Jr: No. One second, if you don't mind.

Mr. Purvis: Some other time.

HM, Jr: On second thought, I am afraid that in my youthful enthusiasm that I had better not do what I contemplated doing in regard to industrial diamonds. I don't think the risk is worth it.

Mr. Purvis: No note was made, so whatever you say.

HM, Jr: I think I am taking an undue risk, personal risk. I had better not take it.

Mr. Purvis: Consider it buried here.

Mr. Bloch-Laine: Exactly!

HM,Jr: What I am going to do, which will have a better long-run effect. Mr. Gaston is to make a study of the thing and we may find that we are so short of these industrial diamonds that we may want to keep them in the country entirely. That's legal, and while one shipment may get out of the country -- I told you I would always play the cards face up.

Mr. Purvis: And we will too.

HM,Jr: I just, frankly, I don't think the risk is worth it.

Mr. Purvis: You can regard it as if it was never said.

HM,Jr: Sometimes my feelings run away with me.

Mr. Purvis: And, after all, if we respect it, it would be much better for us.

HM,Jr: My feelings run away with me and, after all, I am the Secretary of the Treasury and not Henry Morgenthau, Jr.

So Mr. Gaston, who has Coast Guard and Secret Service under him, is going to continue and we have asked a man in New York who represents the jewelry trade, their attorney, to see if he can't make a study and possibly get them on a voluntary basis, possibly, not to export. I think it would be much better, rather than trying to catch one shipment. We may lose one shipment, but if we can stop the whole business, that's what you people would like.

Mr. Purvis: Thank you very much.

HM,Jr: Now, I will be glad to meet your Washington representative.

Mr. Purvis: Well, some other time.

HM,Jr: No, I would be delighted.

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Mr. Purvis: We are still hoping to see you later this afternoon after we leave Mr. Sullivan. We are still in a bit of a jam on the other matter.

HM,Jr: I can say Mr. Sullivan talked to me and told me about this thing and it just seems you will have to pay through the nose. I don't see what we can do.

Mr. Bloch-Laine: Too bad! Yes, it's bad because it increases the cost of everything.

HM,Jr: Have you any suggestion? As I understand it, this was put up before the whole Board of Directors.

Mr. Purvis: What I understand is this: they feel their experience from past rulings, a ruling from the Commissioner is not a safeguard necessarily and they are determined that any risks on it be on us. Terrible thing! Amounts not only to our putting up the actual amount of the plant, but actually 125% because we have to include the amount of the tax. Then in addition to that we have to give them the guarantee of our Governments that if, by any chance, there is an increase in the tax rate here, this year or retroactively, that we will have to pay it. That is only for this particular small lot, which is terribly important, but we are now in a week coming to the same issue, involving \$9,000,000, on which we shall have to pay down, therefore, \$9,000,000 plus 2-1/4 millions, \$11-1/4, and there they tell us that they are not at all sure that they will be willing to consider the other as a precedent and in that case there may be no way in which the transaction could be done, because they say they will not take any risk whatsoever. When it comes to that size of thing they are not going to be put in the position of accepting a guarantee from a foreign Government which will necessitate their going to a foreign country to do their legal work. They also point out, if we do agree to pay the increased rate of tax on such a large sum, we might be able to pay it except at the cost of tripling or quadrupling, because every time we pay it there will be another tax on the amount we pay and if the tax rate should go up it might pyramid it into a perfectly unbelievable sum.

HM,Jr: If we were like the Greeks or Turks, we

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would say before you get the powder you will have to buy our lard.

Mr. Purvis: It's a terribly serious thing because it will prevent the buying of the lard.

HM, Jr: I saw Mr. Sullivan at 2:15 and I asked him if there is anything we can do. He said the interpretation which the Hercules people are making of our tax ruling is inaccurate. Evidently they don't want to believe us. If they don't want to take the word of the United States Treasury, there is nothing we can do about it.

Mr. Purvis: Of course, there is a difference between a ruling and a closing agreement.

HM, Jr: They claim that is illegal.

Mr. Purvis: If it relates to the future, they fear you will not give it to them, but if you will give it to them I think we have another chance with them.

HM, Jr: I understand from Mr. Sullivan they did not even want that.

Mr. Bloch-Laine: We tried to make it clear that they could take a closing agreement, but they thought it would not be possible for you to give it.

Mr. Purvis: For a transaction that was based on settlement in the future.

HM, Jr: I don't know. What did Mr. Sullivan say on that?

Mr. Purvis: He simply said he was going to see you. That was all. If we could get a closing agreement it gives us at least one sporting chance.

(At this point, HM, Jr phoned Mr. Sullivan to come to the office.)

HM, Jr: Won't you bring in Mr. Ballantine now.

(Mr. Ballantine joined the group, was introduced to the Secretary and remained for the discussion.)

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(Mr. Sullivan joined the group at this juncture.)

HM, Jr: John, I started to talk to these gentlemen about something else and, living up to their reputation for the bull dog ---

Mr. Purvis: It's a good cause.

HM, Jr: .... and we got on to something entirely different. They put something to me -- as I told you before, when it gets on the tax business I don't know anything. Now just state the case again.

Mr. Purvis: What I was saying, Mr. Sullivan, was this: if we could not get, knowing that they won't accept the ruling, knowing that Mons. Bloch-Laine slightly corrected me this morning that they said they did not think you would give them a closing agreement, if there would still be a chance on a closing agreement on a loan basis, we would very much like to have one more chance of going back to them.

Mr. Sullivan: I understood you said they expressed the opinion a prospective closing agreement was illegal.

Mr. Purvis: Mr. Bloch-Laine corrected me. They expressed the view that you would not give an agreement because it would be illegal, and that was the way we left it this morning.

Mr. Bloch-Laine: Because we discussed it at length. They said a closing agreement would be satisfactory, but they doubted in the circumstances you would give one.

Mr. Purvis: On future transaction. That was the way we left it this morning.

Mr. Bloch-Laine: I did not get the difference between a closing agreement and a ruling.

Mr. Foley: Commissioner's ruling is a precedent but is not binding; a closing agreement freezes both parties.

Mr. Sullivan: They also told you that the present Administration could not bind future ones by the method of closing agreements.

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Mr. Purvis: No. No. What they said more particularly was a Commissioner's ruling was not necessarily final and that they themselves, as a company, had run into that experience. That is the position with which we were faced and, after all, we can't have any opinion about that. That is a question of fact, so far as they are concerned. They claim they have unanimous Board opinion they could not run that risk, because of its being a ruling from the Commissioner. It is true in many countries, not confined to this. A ruling is different from a closing agreement.

Mr. Foley: No doubt.

Mr. Sullivan: Rarely upset.

Mr. Purvis: You see, what I am so afraid, if Hercules forces this issue this way, this may sweep like fire right across the countryside and we may find a very big diminution in our purchasing power and tendency to repeat it in the manufacturing industry, and I think it has a real point because once this thing is known it will just go right through the country.

HM, Jr: Let me state this. Instead of my stating it, John, state it for me. State the case.

Mr. Sullivan: The original proposal was that the British were to lend to the Hercules Powder Company a sum of money sufficient to build the plant.

HM, Jr: \$1,600,000.

Mr. Sullivan: And the powder company was to execute a note to repay that loan at the expiration of the contract. At the time the contract expired they were to be given a credit equal to the amount they had lost on the building. In other words, if they had taken 10% of the cost of the building in depreciation and at the end of the contract they abandoned the building, they would then be given a credit on that note of 90% and would repay the 10%.

Mr. Purvis: That's possible scrap value.

Mr. Sullivan: The counter-proposal is that the

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British not lend them the \$1,600,000, but give them the \$1,600,000 which will be income at the time the money is advanced and to cover the tax upon that income they shall advance \$400,000 or 25% at that time and that the British will indemnify the powder company for any further tax loss because of an increase in the rate applicable to that \$2,000,000 advance.

Mr. Purvis: So, in effect, we will be paying 25%. Your income tax rate is 19.8%.

HM, Jr: What, if anything, is there we can do about it?

Mr. Sullivan: I don't know. You come back to the old question whether you are going to execute closing agreements in contracts to foreign belligerents when we have only executed two involving contracts for our own Service Departments.

Mr. Purvis: It's the biggest issue we have struck yet in our buying program.

HM, Jr: Would you three gentlemen (Mr. Purvis, Mr. Ballantine and Mr. Bloch-Laine) mind leaving the room while I talk with my two attorneys? Do you kind?

Mr. Purvis: Not a bit. (The three left.)

HM, Jr: What are you afraid of, John?

Mr. Sullivan: We are going to be driven into this position .....

HM, Jr: You see, I got cold feet on this industrial diamond business. That's what I sent for them for. Then they popped this on me. And I said that's something else. What are you afraid of?

Mr. Sullivan: I am afraid of this: that we may be maneuvered into the position whereby closing agreements we are giving to manufacturers making goods for foreigners, things we can't get for our own because of the Vinson-Trammel Act. That's why, from the very beginning, I have tried to keep away from closing agreements.

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HM, Jr: I see. What do you (Foley) think?

Mr. Foley: I agree with John. I think the use of closing agreements on this sort of thing .....

HM, Jr: We could do not it, say, for Colt Manufacturing?

Mr. Sullivan: We did it for Colt on a contract for the United States Army. We gave them a closing agreement. We gave one on the Navy contract with Consolidated Aircraft. Those are the only two that have been executed, but once you open up closing agreements on this, they can drive terms far more drastic than anything we could give to our own Army and Navy.

HM, Jr: Could they?

Mr. Sullivan: Oh, my, yes! Because there is no profit limitation.

HM, Jr: How do they profit in giving them closing agreements?

Mr. Sullivan: It does not at all.

HM, Jr: What's what I don't see. Supposing they get a closing agreement. Could they make more money that way than if they don't?

Mr. Sullivan: No. No. We are off the track. Any contract involving our own Army and Navy, that is subject to profit limitation and closing agreement has to be drawn in the light of that.

HM, Jr: Yes.

Mr. Sullivan: And we can't give concessions in behalf of our own Army and Navy because we are bound by the law. Now, in this case, we are not bound by the law that restricts profits.

HM, Jr: I got the answer! I have got a peach! We will give them a closing agreement if they will sign on the same kind of basis that they would under the basis of the Vinson-Trammell Act.

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Mr. Foley: You will never get them to sign.

Mr. Sullivan: No! Now wait a minute! It's clever, but it's futile.

HM,Jr: Not as far as we are concerned. If they want to sign with these fellows on the same basis and live up to the rules and regulations of the Vinson-Trammell Act, then we will give them a closing agreement.

Mr. Sullivan: They would not even bother to hang up the phone. They would just pull it off the wall.

Mr. Foley: What you are afraid of, John, if we start out with the closing agreement device, we will have to do it every single time a manufacturer takes an order and has to expand his capacity for that purpose.

Mr. Sullivan: These fellows have allowed themselves to be put on the run too fast. They monkeyed around all Fall and did not do anything. Now, if they get on the run with Hercules, it's a stampede from now on.

HM,Jr: I swear I don't see, from the standpoint of the United States Treasury why it's a disadvantage to give Hercules a closing agreement. What does Hercules get by it that somebody else can't get? You have not convinced me yet. Naturally, I would not argue in front of them, but I don't get it.

Mr. Sullivan: These closing agreements with foreign Powers are going to be put up side by side against the closing agreements we give Colt and the other fellow.

HM,Jr: Right!

Mr. Sullivan: And it's going to be used to prove that the foreign belligerent can get things here that our own Army and Navy can't.

HM,Jr: Now, wait a minute! See if I understand what a closing agreement is. Let's use round figures. Army or Navy buys 1,000,000 pounds of powder. Under the Vinson-Trammell Act they can make 10% or 12%?

Mr. Sullivan: Make it airplanes and it's 12%.

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HM, Jr: All right. They can make \$120,000. And we say "Here's a contract" and they come in, and it's Consolidated Aircraft, and we look it over, give them a closing agreement which tells them definitely what their tax will be.

Mr. Sullivan: Yes.

HM, Jr: Now, the English come along and some company -- they want to buy \$1,000,000 worth of goods and they charge them \$1,250,000 and they make 37%, let's say. They make 12% and 25%. And they come in and say "We want to know what our tax is" and we give them a firm commitment. Well, the American manufacturer makes 37% out of the foreigner and only 12% out of the Navy. What the hell is the matter with that?

Mr. Sullivan: Now, wait a minute! Your airplanes -- here, the British lend the money for the erection of that factory and that money is not income and so the manufacturing company, to get the money to build the airplanes for Great Britain and France does not have to raise any money of its own and the money that is advanced to it is not treated as income until the time they abandon the building.

HM, Jr: I understand.

Mr. Sullivan: But the American Government can't lend money to that company so it could take advantage of the same technique to build planes for our own Service.

HM, Jr: Well, the American company is still the beneficiary. What I am trying to get at, through giving these fellows a closing agreement, are we handing any special favors to the English? And I can't see that we are.

Mr. Sullivan: Yes. The favor we are handing to them, we are placing their armed forces in a more favorable position to compete against our own Army and Navy.

HM, Jr: Well, now, how?

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Mr. Sullivan: It's just through this technique.

HM,Jr: You mean by paying more?

Mr. Sullivan: Yes. They are paying more, but they are able to pay ....

HM,Jr: ... Now, wait a minute. Consolidated Boat is going to pick the English contract because it's more profitable.

Mr. Foley: But they will do it anyhow.

HM,Jr: They will do it anyhow.

Mr. Foley: That's true enough.

HM,Jr: Are you (Foley) sold on it?

Mr. Foley: I don't like to see, any more than John does, this closing agreement method extended and if this is going to open the door -- and that's what I think John is scared of -- and we have to enter into one of these closing agreements every time these fellows enter into a contract, then our Army and Navy come around and say, "Why can't we have the same service that the British and French can get from you people?"

HM,Jr: Well, "Can't you?". We are giving them a closing agreement.

Mr. Sullivan: But the Vinson-Trammell Act won't let you do it for them.

HM,Jr: Do what?

Mr. Sullivan: There are 101 things you can't do with the Army and Navy under the Vinson-Trammell Act, which don't apply in these other cases.

HM,Jr: Cranted under the Vinson-Trammell Act they can't make as much money! Granted!

Mr. Foley: And we can't use a closing agreement to cut the heart out of the Vinson-Trammell Act. That's

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what they are trying to get us to do. It's true profit is limited under the Vinson-Trammell Act, but if you will let us enter into closing agreements as to amount of depreciation, amount of obsolescence and other matters of that character, thereby we will be able to get a greater profit than we are able to get if the Vinson-Trammell Act applied without a closing agreement. That's what they are striving to get.

HM,Jr: Who?

Mr. Foley: The manufacturers.

HM,Jr: What does the manufacturer want to get?

Mr. Foley: They want to get more in the way of profit than they can get by using the closing agreement.

HM,Jr: And you feel when we give a closing agreement to a firm getting more profit, we are putting our stamp of approval on it?

Mr. Sullivan: Sure we are!

HM,Jr: Well, fellows, you have doubts. You have not sold me, but I am going to go along with you.

Mr. Foley: It's his baby more than it's mine.

HM,Jr: I want to explain (to Sullivan) he (Foley) happened in on a legal matter. I did not ask him on this, but as long as he is here I want to get the benefit of his views.

If you have your doubts, I told you once before I am going to be the last fellow in the world to crowd you. Can you talk in non-legal language?

Mr. Sullivan: Umh. I think so.

HM,Jr: And sum this thing up once more?

Mr. Sullivan: September 18th, there was a press release indicating closing agreement technique was going

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to be used by the Treasury for the Army and the Navy. That was subjected to very marked misunderstanding and misrepresentation in the press, and after a good deal of labor on your part and the part of the Bureau, part of Mr. Foley and others, we straightened out that situation and got back on a sound basis.

There have been only two closing agreements executed, one with Colt, one with Consolidated. If closing agreement is going to be executed in this case, there will be 500 of them in the next six months.

HM, Jr: And so what?

Mr. Sullivan: And so every manufacturer who is selling anything to the Army or Navy that falls within the classification of the Vinson-Trammell Act will be coming around here and trying to get us on the same basis we got on with Colt and Consolidated closing agreements.

HM, Jr: And again I say, so what? What you mean is a manufacturer selling to the Allies?

Mr. Sullivan: No. I mean the other fellows. You have to give a closing agreement to everybody who sells anything to the Allies if you give one. They will all be in here. Then there will be a hue and cry that the Treasury is doing everything it can to help the Allies and hurt our own Army and Navy.

HM, Jr: I can't see it. But you have lived with it and if that's the way you feel ....

Mr. Sullivan: If I can't make you see it, I must be wrong. You have not wanted the closing agreement in all these Navy contracts.

HM, Jr: We will get two fresh fellows in here and try it out on them.

(At this point, HM, Jr phoned for Mr. Gaston and Mr. Bell to come in. They came in immediately.)

HM, Jr: Explain it again, John.

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Mr. Sullivan: We have thus far executed two closing agreements under the Vinson-Trammell Act. There has been constant pressure for closing agreements between manufacturers and foreign belligerents, which we did not succumb to. None were executed and that pressure has subsided.

The proposal now comes today that we execute a closing agreement between the British Purchasing Mission and Hercules Powder. I am against such a closing agreement because I feel that if we do execute this closing agreement every manufacturer who sells anything to the Allies will insist upon a closing agreement. As the pressure becomes greater across the water, our people are going to drive harder and harder bargains which we will at least quietly approve in executing the closing agreement and it will re-emphasize the advantage the Allies have over our own Army and Navy and I think will bring up once again the whole fight over the Vinson-Trammell Act and whether or not closing agreements should not be liberally used as a device to circumvent the provisions of the Vinson-Trammell law in the light of the very fine trades that the American manufacturers are making with the British and French.

Mr. Bell: I thought you closed a closing agreement with Atlas a couple of weeks ago.

Mr. Sullivan: No; that was a ruling.

Mr. Bell: Does the Vinson-Trammell Act apply to any country? I thought it applied only to the Army and Navy. How did the British get in on it?

Mr. Sullivan: Oh, no! The Closing agreement is not restricted to the Vinson-Trammell. This is prospective.

Mr. Foley: It's the Internal Revenue, which fixes the tax statutes.

Mr. Gaston: I understand these manufacturers want a closing agreement on the tax, an arbitrary agreement on the new plant.

HM, Jr: Nobody in the room understands it.

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Mr. Gaston: You don't want to give away something that may be of real value to the manufacturer in the end.

Mr. Bell: Is new construction involved in this?

Mr. Sullivan: Yes.

HM, Jr.: That's the point.

Mr. Sullivan: But it may involve, and undoubtedly would involve every phase of a tax liability situation. Now these very same people, Hercules, who are driving such a hard bargain here, left my office last Friday, I believe it was, with one question to discuss with the Chief Counsel's Office at the Bureau. They did not finish their discussions in my office as early as they expected and it was too late to get over until after lunch, so the date was changed to 2:30. When they got over there, they had a list of tax liability questions as long as your arm that they wanted settled. And this will rapidly expand into requests for closing agreements by the Bureau determining every phase of their tax liabilities. Now the field in which a prospective closing agreement can be effected is an exceedingly limited one.

Mr. Foley: Look, John, I think it would be helpful if you would tell how a closing agreement comes up in this instance.

Mr. Gaston: The British view is the closing agreement would save them money on the purchase price?

Mr. Foley: As I understand it, Hercules wants them to put into escrow what the tax liability will be.

Mr. Sullivan: No! Give it to them! The plant is to be \$1,600,000 ....

Mr. Foley: ... pay for the plant and, in addition, for the tax?

Mr. Sullivan: \$1,600,000 plus \$400,000 to pay for the tax on the \$1,600,000 which will be, of course .....

HM, Jr.: ... plus indemnity in case the tax law is increased.

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Mr. Sullivan: 19 and a fraction is the tax on that amount of income.

Mr. Foley: Why do they make it 25%?

Mr. Sullivan: That's just a little added bonus.

Mr. Foley: Just driving a hard bargain.

Mr. Sullivan: Oh, sure!

Mr. Bell: What's the objection to adopting the normal procedure on these contracts with foreign governments?

Mr. Foley: They would have to tie up so much of their money to pay future taxes that they would have that much less to spend for things they need.

Mr. Bell: You can't enter into these contracts for the benefit of the British.

Mr. Sullivan: You mean closing agreements.

Mr. Bell: No. Why do you deviate from your normal procedure. If you were doing it not only for the British, but South American ....

Mr. Sullivan: We have not deviated.

Mr. Bell: I ask, why should you?

Mr. Sullivan: Here's the situation. They very sadly need this particular thing.

HM, Jr: Let's go back to what Herman Oliphant and my idea was on the closing agreement originally. I am not just thinking of the British. I am an American manufacturer and I have a chance to sell domestically or for export and I have got to build a new \$1,000,000 plant. Now, the way the situation is, if I make money the Government is that much better off and if I lose, I lose. Now, this is not only this thing, but the whole question of plant expansion when business picks up and if I am a manufacturer I don't care whether I am selling the United States Army or

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Sears Roebuck or Mr. Frenchman. The theory was, that Herman and I originally had, that the manufacturer could come in here and, in advance, get a ruling as to what the tax would be before he consummated the deal. And I -- this whole question on the tool people -- and they want 5,000,000 more or less -- if we get a \$1,000,000,000 order -- in order to expand their plant and they are not going to expand their plant unless they can come to an understanding.

Now, there is another side in this thing and that is there has always been criticism, and justifiably, of the Bureau, before you or I were here that a man never -- we upset the ruling of the Commissioner on the Bostwick Worsted Mill that for four years running they had deliberately cheated and they gave me the idea. I upset the ruling of the previous Commissioner that for four years the Bostwick people had cheated the Government.

Mr. Sullivan: But if there had been a closing agreement you could not have upset that one.

Mr. Foley: But there was fraud.

HM, Jr: There was deliberate fraud. I am looking at this thing from an entirely different standpoint and that is, can the American business expand in order to take this business which is here? And I am not convinced, but, as I said, I would rather make an error, I would rather err on your side because you are handling this thing and you feel so deeply on it.

But I have \$5,000 and I think the American business man has the right to ask the Bureau before I put up a \$1,000,000 plant, "What is my tax liability on this thing?" and I have not been convinced yet that -- and it's this fellow up here who has lots of charm and personality and keeps after us (Purvis) that this original idea of closing agreement -- why it should not apply just as much to him. I don't mean him, I mean Hercules, because it happens to have a foreign order, as it would to Sears-Roebuck which wants to build a \$1,000,000 plant and wants to know beforehand where he stands. I can't get it.

Mr. Sullivan: I think the thing you don't get is my remark that the field in which prospective closing agree-

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ments can be useful is very limited. Now suppose you are going to build a plant and you come in for a closing agreement in normal times. There is practically nothing we can give you in a closing agreement that is helpful to you because everything we promise is contingent upon the happening of certain things as years go by.

HM, Jr: But whatever I can get out of it is that much reassurance to me where the laws on taxes -- I mean, the profits, the Government takes so much, that there is this venture money that does not want to take the risk unless it eliminates ...

Mr. Sullivan: Now, wait a minute! Risk that restrains venture capital is not risk that a closing agreement can protect them from. The risk venture money is afraid of is increase in the tax rate and nothing in a closing agreement can protect them from that.

HM, Jr: What I can't get is if Hercules came in here tomorrow and somebody who wanted powder for non-military purposes may have enough business to open a \$1,000,000 plant, could they get a ruling from you if it was for domestic uses?

Mr. Sullivan: No. For the last two months we have refused to give closing agreements where they wanted to build plants for the foreign belligerents.

HM, Jr: No, but I said suppose it was for building a new railroad and they needed T.N.T. to build a railroad in South America.

Mr. Sullivan: I think we would probably offer them a rule and not a closing agreement.

Mr. Bell: You agree to the rate of depreciation over ten years and some subsequent Commissioner can't upset that, can he?

Mr. Foley: That's the difference between a ruling and a closing agreement.

Mr. Bell: It seems to me that's very important.

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HM, Jr: What this fellow says here (Sullivan) and I most likely will end up going along with him although I don't agree, that he is fearful of giving it to a belligerent whereas if this Hercules powder was to go for non-military purposes he would give it to Hercules.

Mr. Sullivan: There would not be any closing agreement except .....

HM, Jr: Why not?

Mr. Sullivan: That's what brings in it, see? Your whole situation is one that is created by the war. No domestic customer would be advancing money for their plant.

Mr. Bell: What he's got is a proposition of the British whereby they will pay for this plant expansion. What they want is to know what the reduction in tax will be.

HM, Jr: No. If there is one penny reduction, I would not call you out of your meeting. No. The Government collects just as much.

Mr. Bell: Why does Purvis bring it up?

HM, Jr: So he does not have to put out \$450,000.

Mr. Sullivan: No. He has to pay the \$400,000 anyway. And he has to put the \$2,000,000 on the table when the contract is signed, closing agreement or no closing agreement.

Mr. Bell: Why does he want it?

Mr. Sullivan: Because they don't know whether Hercules will accept the trade if there is no closing agreement.

HM, Jr: No. I think they can go today and sign the contract provided they put up the tax. I understand that the Board of Directors said that they will sign the contract provided they put up all this money and the thing they are fussing about ....

Mr. Sullivan: One thing the Board of Directors has said is they would not accept the loan, as was previously

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proposed, for \$1,600,000 with credit at the end to be offset against the loan. The Board of Directors has never passed on this other plan of \$2,000,000. Representatives of the company have said they would agree to present it to the Board of Directors, but the Board of Directors has never passed on the \$2,000,000. But the point I want to make for Bell, the idea has nothing to do with how much the Government collects in taxes. We get as much with or without a closing agreement.

Mr. Foley: That would have to be.

Mr. Bell: You certainly stabilize your rate of depreciation, which has the same effect on your taxes.

Mr. Sullivan: We can't do that. That's the thing we fought through under the Vinson-Trammell business. You can't agree that property is going to be useless two or five years from now.

(At this point, HM, Jr asked Mr. Sullivan to go out into his reception room, where Mr. Purvis was waiting, and ask him what had been submitted to the Board of Directors.)

(Mr. Sullivan returned.)

Mr. Sullivan: The only proposal that was submitted to the Board of Directors was the loan proposition -- unanimously rejected. Four members of the Board have indicated that they will try to persuade the Board to accept a proposal which involves their paying the company \$2,000,000 the day the contract is signed. They are not interested in any closing agreement on that proposal. They don't need it. They have got the money.

HM, Jr: Who has the money?

Mr. Sullivan: The Hercules will have the \$2,000,000. They don't want any closing agreement if that trade is followed. The reason you are being asked now about a closing agreement is that these gentlemen still have it in the backs of their heads they want the loan device used above any or all others. They don't know whether it would be made to appear more attractive to Hercules if they were to be able to say "and we can give you a closing agreement to assure

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you that the loan technique will stick". Now, they don't know whether that will have any effect on Hercules or not. Of course, it isn't going to. As between those two, Hercules will stay with the \$2,000,000.

HM,Jr: Cash.

Mr. Sullivan: Right in their fist!

Mr. Gaston: I don't know how much of an area a closing agreement is supposed to cover.

Mr. Sullivan: What is happening today, not just Hercules is being decided today. What you are deciding today is whether every taxpayer in America who intends in any way to change or alter his business is going to be entitled to come in here and get a closing agreement on any phase of his tax liability.

HM,Jr: And why not?

Mr. Sullivan: Because, in the first place, it's entirely too conjectural. Except in special instances, it's not helpful. You will have your tax future cluttered up with a lot of closing agreements that will breed more tax litigation and cause more confusion and trouble to the taxpayers than anything that has ever happened.

Mr. Gaston: These closing agreements are not supposed to be the principal determination of the amount of profit, but merely conditions upon which profits shall be calculated.

Mr. Sullivan: That's right.

HM,Jr: I am not sold. What you are saying to me is this: you are saying that if we do this it will cause a lot more work.

Mr. Foley: That's right.

HM,Jr: But might it also not accelerate business?

Mr. Sullivan: I think not. It would accelerate business if they could get through the technique of a closing

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agreement some added advantage, which was just what they thought they could get last Fall and you will remember that as soon as ever you had your press conference and indicated that a closing agreement could give to no taxpayer any right they were not otherwise entitled to, the pressure stopped. They did not want it.

Mr. Foley: You are afraid this is going to open up that whole thing again.

Mr. Sullivan: I am very much afraid.

HM, Jr: What do you (Bell) think?

Mr. Bell: I don't know. I am confused.

HM, Jr: Well, I will tell you what we will do. After all, if they go ahead with Hercules they can buy this powder, put up the money. As far as we are concerned, that does not set the die.

Mr. Sullivan: No.

HM, Jr: Because they have closed one contract with Atlas with a ruling and with Hercules with or without a ruling, so its 50/50. You (Foley) are not sold. You have a mind of your own.

Mr. Foley: Sure I have a mind of my own. Well, I am trying to be impartial.

HM, Jr: Well, don't. Say what you think. I don't care which way it is, but say what you think.

Mr. Foley: I am trying to see what advantages there are insofar as the Bureau is concerned and the manufacturers and weigh that against the difficulty we are going to have with the Army and Navy and with the Vinson-Trammell Act if we do this.

Mr. Sullivan: I think the difference is ....

HM, Jr: Let him finish.

Mr. Foley: It's a large problem. It's a serious decision to make.

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HM, Jr: You mean you are not ready to decide. All right. Let's all think it over and, in the meantime, let the British pay. But I am doing it because there is nobody here, I gather, who will say -- that wants to decide. You (Sullivan) are the only fellow who has made up his mind.

Mr. Sullivan: I think the reason I feel the way I do and you don't share that feeling is I don't know anybody else in this room who has ever sat in on closing agreements.

Mr. Gaston: Are there any drafts of closing agreements?

Mr. Sullivan: Yes; Consolidated Aircraft, which was drawn up and used. At least 50% of the time of four people for ten weeks; that's one closing agreement.

HM, Jr: And as a result of which you saved the United States Government on the original cost price -- how much? \$6,000,000?

Mr. Sullivan: About \$3,000,000. Well, now, that is not a fair statement.

HM, Jr: Well, it's a true statement.

Mr. Sullivan: Oh, no! It's not a true statement. Well, it just so happens because we would not give them the type of closing agreement they wanted ....

HM, Jr: But you did save \$3,000,000.

Mr. Sullivan: But we would not save them a cent if you had anybody over in Navy who ever sold brooms or anything else.

HM, Jr: But when you got through, the Government was \$3,000,000 better off.

Mr. Sullivan: That's right.

Now, a corporation files a tax return and you sit down and audit the figures that represent the things that have actually happened. That's one thing and it's fairly difficult and complicated. But if instead of sending their

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return in on March 15th and saying "this is what happened in 1939", they come in on December 15th and say "we want you to make out our income tax for the coming year" ....

HM, Jr: Well, I still say -- and I am going to use my prerogative as boss -- I will let you have your way on this, but I still say if I have an expansion program I don't care how hard you and the other fellows have to work, there ought to be a way a man can come in before he lays out a lot of new money and get an expression and a commitment from the United States Government how much they are going to tax me before I start, but we will continue this on the 19th.

Mr. Bell: Under the present law?

HM, Jr: Yes. That's all you can ask. And if -- I don't care whether a fellow has \$10,000 or \$10,000,000, I think before he takes that risk, under these conditions that he is entitled to know and I don't care how hard work it is for you and all the other lawyers. I think it is a service the United States Government should offer to its people and I wish, when you really read the original stuff that Herman Oliphant made ....

Mr. Sullivan: .... which is not a closing agreement which is on the books today, and what you have here is the result without any of the safeguards.

HM, Jr: Well, you certainly can't fight with the philosophy I have just laid down.

Mr. Sullivan: Not with the philosophy; no, I can't.

HM, Jr: And if the law is not set up, let's consider to let the law fit the philosophy if necessary until we get a chance to change it. But no fairminded person can fight with me when I saw a business man who is contemplating an expansion program and before he does it he has the right to know what it is going to cost him in the way of taxes under existing law. He's got a right to come down and not wait the way he used to. We have had cases of companies, millions and millions of dollars. One company with \$15,000,000 or \$20,000,000 and had been here seven or eight years and the Bureau fussed around and they could not get a decision.

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Mr. Gaston: If you mean a tax case, I don't see how it can be done, because that involves how much profit he will have and that's just a guess.

HM, Jr: We can tell him the rate of depreciation, etc.

Mr. Sullivan: You mean on the building?

HM, Jr: On a building; on his machinery.

Mr. Sullivan: That would be very unwise. Our depreciation rates on machinery are not static. Statistics are constantly being revised in the light of experience in the trade and it would be unwise for a manufacturer to sign one of those.

HM, Jr: If a fellow had all this in the future, I don't blame them for not going ahead. There is something wrong with the Treasury. There is something to all this criticism. Why should they go ahead?

Mr. Sullivan: This never held them up before.

HM, Jr: Well, something is holding them up.

Mr. Sullivan: Well, lack of closing agreement ....

HM, Jr: No. Lack of knowing what it will cost them on a new program.

Mr. Sullivan: They have never known before.

HM, Jr: Well, look at the complaints. Look at the grief we take all the time.

Mr. Bell: Does this have to be decided before you get back?

HM, Jr: No, this has to be decided on the 19th. I will call them in and say we are very sorry, we can't give you what you want. I told John this is his job. I am going to argue with him, but I will never talk taxes with anybody unless he's here and I will never overrule him, but I can argue with him.

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Mr. Sullivan: I hope you keep it up.

HM, Jr.: I am going to! Don't worry! But I am not convinced. We will continue this on the 19th.

Mr. Sullivan: You have not the faintest idea what they want because if Mr. Morgenthau is going to put up a plant, a fellow who is thinking of buying some securities is entitled to a closing agreement as to what is going to be gained or lost.

HM, Jr.: No.

Mr. Sullivan: Why not?

HM, Jr.: You know from year to year where you are at and it's an entirely different proposition.

Mr. Sullivan: It's just as vital to that fellow's expansion program. It's just as important.

HM, Jr.: Bernie Baruch was in here on practically the same thing. It was a question of tax laws on profits and loss on stocks and he wanted it changed and to go back to the old 12-1/2%, and the President would not tell him and sent him over here and he has not spoken to me again. The President would not tell him and the President told me he would not change, but he wanted me to tell it to Bernie. I did. As a result of that, Bernie went to work with Arthur Krock and tried to put Joe Kennedy in.

(At this point, Mr. Foley, Mr. Gaston and Mr. Bell left the conference.)

HM, Jr.: John, if you will stay, I will see these people.

(At this point, Mr. Purvis, Mr. Ballantine and Mr. Bloch-Laine came in.)

HM, Jr.: I am sorry, but we want to give this thing all the time necessary. I had everybody in to make sure.

We feel that we cannot give the manufacturer a closing

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agreement and that's what we have been discussing for the last hour.

Mr. Purvis: Uhm! It's a serious matter for us.

HM,Jr: It is also for us, very serious, and I had everybody stop and we have done nothing else for an hour.

Mr. Purvis: Yes.

HM,Jr: But at least you know our position.

Mr. Purvis: Yes.

HM,Jr: We felt it was important and we want to do everything we can. This is one thing we can't do.

Mr. Purvis: I see. There is no other way that you can imagine in which this can be met.

Mr. Sullivan: Not that I have been able to think of yet.

Mr. Purvis: I think it will have a very far-reaching effect on purchasing here.

Mr. Sullivan: No one except you and Hercules knows about this -- that there is to be no closing agreement, no ruling, so there will be no publicity about it.

Mr. Purvis: Except that terrible thing -- word of mouth; potent. Once they have it, the whole Board of Directors, somebody will be indiscreet. I am talking about the result and the fact that when it is known among other manufacturers in the country that Hercules have obtained from the British and French Commissions 125% of the cost of the plant laid down in cash before it is built, the effect will be electric, I should think.

HM,Jr: I have given it half a day....

Mr. Sullivan: They are doing this to you because they have a monopoly, and that situation doesn't prevail in the other industries you are interested in.

Mr. Purvis: I think in all the things we want rapidly

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we will find a variation of this situation. I think it will mean a broad policy decision will be involved for England and France in regard to purchases here. I don't see any way out. I should think it would mean that we shall have to try, even at the cost of greater delays, four or five months, to build this in Canada by hook or crook. However, that's by the way. I do thank you for working at it.

HM, Jr: We worked at it and we also think it is a very broad policy matter and after going over it very full- and having all the top people in here, we felt we can't do anything more than say it is impossible.

Mr. Purvis: Can we say this: that if Mr. Sullivan by any chance, can think of something, that it will be acceptable to you?

HM, Jr: He is thinking about it all the time and he's a very versatile fellow.

Mr. Purvis: You see, I have faith in him. He thought of that one.

HM, Jr: But up to date and certainly during my absence I don't want to put Sullivan in the position -- we have discussed this now, as I say, very, very fully, and as of this time I can't see anything else. If we do see that there is a change we will be glad to let you know.

Mr. Purvis: Yes, fine!

HM, Jr: But I don't want him to be in the position of trying to get a white rabbit out of the hat.

Mr. Sullivan: Have you finished with Mr. Schwarz on the press release about Atlas?

Mr. Bloch-Laine: We have agreed on something if it meets with your approval.

(Mr. Purvis, Mr. Bloch-Laine and Mr. Ballantine left.)

HM, Jr: (To Mr. Sullivan) I give people responsibility and I reserve the right to argue, but on the firing line I

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will back you up. But you have to take care of me. When you are out on the firing line and you are in command, I will never issue an order contrary, but on the other hand you have responsibility. But in the room here we can argue. Here is Bell, 28 years in the Treasury, mystified and Foley would not say yes or no. Bell would not say yes or no.

oOo-oOo

REB

GRAY

London

Dated February 7, 1940

Rec'd 5:40 p. m.

Secretary of State,  
Washington.

332, February 7, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. A high official of the British Treasury confirmed the information reported in my 315, February 5, 6 p. m. that efforts are being made behind the scenes to effect a working arrangement with the trade unions on the question of prices and wages and indicated that the trade union leaders were almost reluctant to enter into real discussion much less grapple with ways and means. The trade union leaders really depended for the maintenance of their position on obtaining wage raises and in the absence of air bombardments to bring home the war to all classes it was difficult for them to come out for measures to win the war which might entail their losing their positions with the unions. What was not said but what is also true is that the present Chancellor of the Exchequer does not command sufficient influence with and confidence of the members of the trade unions to  
lend

REB -2-#332, From London, Feb. 7, 7 p. m.

lend the trade union leaders substantial support in putting over an agreed upon arrangement with the rank and file.

Two. With reference to the final sentence of the third paragraph of my 2698 of December 21, 7 p. m. it may be of interest that the Chancellor of the Exchequer was asked in the House of Commons whether the Anglo-French financial agreement involves a definite obligation on the part of the British and French Governments to maintain the existing official rate of exchange between the pound and the franc or merely an endeavor by the two governments to maintain the present rate as far as practicable. Simon replied "the effect of the agreement on this point is that the two governments consider that it is in the common interest to avoid alterations in the official rate of exchange between the franc and the pound and that they agree that no such change would be made without prior agreement between them."

JOHNSON

EMB

MEMORANDUM

February 7, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

Advised by Mr. Foley that you had agreed to forward to the Department of Justice recommendations for Mills Kitchen and Edward G. Kemp, as members of the Court of Customs in New York.

Foley further advised that you suggested that this information should be conveyed to Congressman Doughton by myself. After calling his office for an appointment and learning that he was in Committee, I went to the Hill and had him called out of the Committee. He was very much pleased at the news and expressed his gratification with a great deal of feeling.

He then went on to a discussion of the likelihood of a tax program and said he had decided that if there were to be any tax program he would insist upon a meeting with the President, the Secretary of the Treasury, and Senator Harrison, and an agreement by all parties on the tax program before any bill was introduced.

JRS

February 7, 1940  
10:19 a.m.

HMJr: Hello.

Operator: Harold Smith. Go ahead.

HMJr: Hello.

Harold  
Smith: Hello.....

HMJr: How are you?

S: .....Mr. Secretary. Well, I'm pretty good, how are you?

HMJr: I'm all right. I hear you've recommended a man who is experienced in purchasing and we're going to take him on.

S: Well, I hope he's good -- he's as good as he seems to be.

HMJr: Well, I hope he's as good as you say he is.

S: (Laughs) Well, he comes very highly recommended and I found that McReynolds had known about him, and I sent him around to see Mac. It was a question of whether, in our helping Graves over there, we should take him on or you folks should take him on, and I thought probably over in the center of things he would be more helpful, and I think that was Graves' attitude.

HMJr: Yeah, Graves spoke to me about it yesterday and we decided that we'll take him on.

S: He might turn out to be very good. You might want to use him for some time, but the only way you can do, I take it, is just to try him out and see how good he is.

HMJr: Now.....

S: And no particular obligations.

HMJr: I am doing -- or trying to do a job for the President about coordinating airplane industry.

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S: I notice you are.

HMJr: And in connection with that Dr. Lubin has been very helpful, and he needs some money to do some investigating work. And I asked him to put it in writing and I let the President read it Saturday, and he's asking for ten thousand dollars which is ear-marked over in your Bureau.

S: Yes.

HMJr: I'm going to send you a photostat of the letter with the President's O.K. on the ten thousand.

S: Yeah.

HMJr: And I'd appreciate it if you would release that to Dr. Lubin.

S: Yes. All right, we'll see what we can do about it.

HMJr: Well, can it be one of these -- the tool industry we talk about triple "A" priorities?

S: Yeah.

HMJr: And as one tool manufacturer to another will you take care of Dr. Lubin?

S: Yeah, yeah.

HMJr: I'll send it over by messenger.

S: You bet.

HMJr: And you'll find on the last page the President's O.K.

S: Yeah. Well that's all right.

HMJr: And if you could release that ten within the next twenty-four hours.....

S: All right.

HMJr: .....I'd appreciate it.

S: Yeah. Once in a while we have a little trouble with the Dr.

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HMJr: I see.

S: And I -- but I don't think this is anything we'll have any difficulty about.

HMJr: Oh, you do have some.....

S: Yeah, once in a while.

HMJr: I see. Well, this is something that.....

S: Well, if you -- if you feel that this is desirable why we'll go ahead with it.

HMJr: Well, both -- well, the President and I do because.....

S: Yeah.

HMJr: .....it's to give me -- it's to check up on these fellows in the industry. For instance, I want to know how are they training these fellows.

S: Yeah.

HMJr: And what are they doing in the labor -- and it all looks lovely, but I want.....

S: Yeah.

HMJr: .....Lubin to put the canopener on it and see if it's as good as it looks.

S: Yeah.

HMJr: See?

S: Yeah. All right, we'll take care of it.

HMJr: Thank you.

S: Thank you very much.

February 7, 1940  
2:47 p.m.

Operator: Go ahead.

HMJr: Hello.

Charles  
Edison: Good morning, sir.

HMJr: How are you? This -- is this Edison?

E: Yeah.

HMJr: Henry Morgenthau.

E: Yeah.

HMJr: How are you?

E: Well, I'm about to fall apart.

HMJr: Well, don't do it until I -- don't do it until I  
get through talking to you.

E: No, I'll try to live that long.

HMJr: Charlie, do you remember the President last summer  
asked you to get a plane for me.

E: Yeah.

HMJr: Remember?

E: Yeah.

HMJr: Well, then they fussed around and they didn't get one  
and I came back and I took it up with you again and  
on November 4th we sent over some communication that.....

E: You sent over what?

HMJr: A communication that we -- we'd take a Lockheed number  
18, you see?

E: Yeah.

HMJr: Well we've been -- I've been asking for progress reports  
and we got on, oh as late as January 8th, saying that  
the contract for this plane was February 11th and the

- 2 -

delivery was February 11th. Now I've just learned that the plane isn't going to be ready for two or three months.

E: Yes.

HMJr: And we called in a representative of the Lockheed here in Washington and I don't know whether it's correct or not but it seems that the papers have been kicking around over there and whatever your department is that does the buying of the planes, and it seems like an awful long while and I just wondered if somebody was, oh I don't know, trying to give me a run-around.

E: Well I'll check into it again. In the beginning -- now let me see if I've got the story straight.

HMJr: Well.....

E: In the beginning you asked for this plane.

HMJr: Yeah.

E: And we had a plane that we could give you right away but you wanted to get a particular kind of plane which you had to wait for. Then.....

HMJr: That was November 4th. The date is November 4th.

E: Yes. Then -- then that was delayed in delivery and the time went by. In the meantime another new type of plane came out which you said you'd rather have.

HMJr: And that was November 4th.

E: A Lockheed.

HMJr: But Charlie, that was November 4th.....

E: Yeah.

HMJr: .....that we agreed with the Navy that it would be a Lockheed 18.

E: Yeah. November 4th?

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HMJr: November 4th.

E: Yeah.

HMJr: And then as late as the last communication that we had from the Navy, the inspector out at the Aircraft Factory - Lockheed - was the first week in January. And at that time they said that the contract called for delivery February 2nd. Hello? -- February 11th. 11th of February.

E: Yeah.

HMJr: Well, it was to be delivered. Now I learn that I -- I don't -- they don't think they are going to get it for two or three months.

E: All right. Well give me a little time on it and I'll-- I'll try to check in on it.

HMJr: I wish you would because it's -- I don't know, I may be all wrong but it looks as though, as I say, somebody in the purchasing section of the Navy -- well, he hasn't -- isn't very much interested. That's -- that's the impression I get. I may be wrong.

E: Yeah. All right I'll look into it.

HMJr: Shall I go over the dates once more?

E: No, I've got it. November 4th.....

HMJr: 4th.

E: .....or around there that they promised the -- that you could -- you agreed that you'd take a Lockheed.

HMJr: A Lockheed 18.

E: For delivery February 11th.

HMJr: That's right.

E: In other words, on election day you were promised that a plane would be delivered on my father's birthday, so I can remember those dates.

HMJr: I see. And now they.....

E: ..... two or three months from now.

HMJr: And I'm afraid that I won't get it during Mr. Roosevelt's second term.

E: I see. All right. Let me work on it.

HMJr: If you -- and I'll -- one other.....

E: I may not be able to get word back today but I'll get it back in a day or two.

HMJr: Now, one other thing. I've been told that the General Machinery Company is manufacturing a special lathe that's 165 feet long for Russia which would make an 18-inch gun. That it's right along side a piece of machinery they are making for you people. ✓

E: Yes.

HMJr: Now, I don't know whether that's gone and been delivered or not but the Navy inspectors of the General Machine Company -- Machinery Company would know. Hello?

E: Yes.

HMJr: And I'd like to know whether it would be of any interest to the Navy if we'd try to do something to keep that 165 foot lathe from getting out of the country.

E: General Machinery Company?

HMJr: Yeah.

E: General Machinery Company making 165 foot lathe.....

HMJr: .....which will make an 18-inch gun for Russia.

E: .....for 18-inch gun for Russia.

HMJr: And they tell me that the Navy has got another big piece of machinery right alongside of it, so your Navy inspectors must know about it.

E: Um-hm. All right, I'll look into that.

HMJr: Now, the man who saw this - it was some months ago, so maybe it's too late. I don't know.

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E: Yeah. Are we interested in keeping the big lathes here.

HMJr: Right.

E: Wait a minute I'm putting this down.

HMJr: Right.

E: All right I'll -- I'll look into that too.

HMJr: Thank you very much.

E: All right, sir.

HMJr: Thank you.

E: Goodbye.

February 7, 1940

11 a. m.

Present:

Mr. Purvis  
Mr. Bloch Laine  
Mr. Bell  
Capt. Collins  
Mr. Cochran  
Mrs. Klotz

HM, Jr: I don't know whether Capt. Collins told you about our meeting this morning with the machine tool people.

Capt. Collins: I have not, Sir.

HM, Jr: They were in and we saw them first and then we saw the two engine people, Wright and Pratt-Whitney -- and Allison seems to think everything is lovely so they did not come today. So the other people, they have gone away. Their situation already has been helped considerably but there is a lot of more work that has to be done and up to the time that they left they did not think that the trouble was the foreign orders, but they had not had the whole picture. I don't know whether they are meeting in their own hotel or downstairs.

Capt. Collins: They are in their hotel.

HM, Jr: Just to give you an idea, Curtiss-Wright says they ought to deliver, through all orders of machine tools, 62%. They only have a delivery of 22%.

Mr. Purvis: Machine tools must have run into some difficulty.

HM, Jr: As they said, they have had three sets of promises. Now they would like delivery. They are working on it. Machine tool people -- really, well, all of this publicity has gotten them very angry, but I think it has had a good effect, because they say "we are not going

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to be the goat" and so forth and so on, and "we will show the world" and while they got very much announced about the New York Times saying one machine tool fellow went fishing rather than making machine tools, it's all right. They cussed me up and down the river and everything else, but particularly Curtiss-Wright have already begun to get the benefit. But when you get through these two tremendous new plants and see them three-quarters empty, you realize that there is a lot of work to be done and a lot of tools that have to be delivered, but, so far, they have not said, "well, now, if the French would release this or the English release that, we can do that." So it has not gone to that point. I said, go and meet and I am keeping from three to four free in case they want to come back and meet with you gentlemen and say, "will you release this or that?".

Mr. Purvis: We will be available in case that develops.

H.M., Jr.: I am free from three to four. They may want to come back and say in the \$50,000,000-odd that your people have on order, now this tool or that is a key tool, but they have not yet said that.

Mr. Purvis: No.

H.M., Jr.: But this morning Pratt-Whitney had some 288 tools they need very badly and I don't know how many Wright, but there is a lot, so I am holding from three to four and I have asked them to come back on the 21st, which is two weeks from today, and check up, but the tool people made the statement, which the engine people have not corroborated, that due to the meetings here the tools have been accelerated by four weeks -- the delivery -- but the engine people have not admitted that.

Mr. Purvis: That will come along later.

H.M., Jr.: You have these two huge buildings at Patterson and Hartford ....

Mr. Purvis: Are those the ones you saw?

H.M., Jr.: Those are the ones I saw. Those are the

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ones you gentlemen paid for. Now, before you get on your own problem, the machine tool people asked me to say one thing. That if this so-called billion dollar order should materialize, they want to sit in from the beginning. Which they should.

Mr. Purvis: I think that's correct.

HM, Jr: And if they are going to do anything more in the way of deliveries, they have to have some new construction.

Mr. Purvis: Yes.

HM, Jr: And if they are going to have some new construction, they want some money.

Mr. Purvis: I want to talk a little later about that.

HM, Jr: They will need some money.

Mr. Purvis: Right!

HM, Jr: Because they are taking care of our domestic needs, but the question of piling on top of the present situation, which isn't too good on delivery -- I mean, I would be the last person in the world to kid you, as we say in this country, but if you are going to pile a billion dollar order on top of the existing ones ...

Mr. Purvis: As a matter of fact, I think it would be absurd to go on with such a program unless one knew the machine tool situation was possibly easier. The object of the whole thing would fall down.

HM, Jr: And they had never seen this picture until I brought them in.

Mr. Purvis: Possibly too much secrecy in our anxiety to keep it quiet.

HM, Jr: But I think all the publicity, which was started by the machine tool people in advance of their coming down -- on getting an invitation they began to talk,

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and there has been talk and I am convinced that it worked out to the good, because they have their backs up now. And this fellow who heads up this Committee, I asked him and he said not a single machine tool fellow has refused to cooperate. Not one. He has had 100% compliance with the voluntary request. So I would say the publicity, while I regretted it, has been good. But, you see, they have all been off by themselves and they tell me about a company up in Wisconsin. The French have a big order up there and they are off by themselves, and if this other thing comes through I think you ought to start almost first with the machine tool people.

Mr. Purvis: It is a fundamental section of the industry. I think the engine makers worked on some false premises, because I understand they did give assurance to Plevin and Colonel Jacquin -- engine makers, not the machine tool makers.

HM, Jr: I don't know where it is. The people are together now and they have made a lot of progress. They are getting the tools. They are re-arranging their schedules. Now they are going to come back in two weeks and they have definite figures, and, after all, all you have to do is to go up and see the buildings and see whether the tools are there or are not there.

Mr. Purvis: Quite!

HM, Jr: But it has been very helpful.

Mr. Purvis: Quite!

Shall I give our report -- we got busy in the last week.

HM, Jr: Please.

Mr. Purvis: And I think we can report some successes for you in this picture. In the first place, Mr. Secretary, as far as the British end is concerned, a figure of \$10,000,000 was mentioned last week, and we find a figure on the inside, on Government or indirect Government orders, is not less than, as a minimum, \$15,000,000 and nearer, we can expect, to \$21,000,000,

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the missing point being we are not quite sure how much of the orders has been shipped.

HM, Jr: The machine tool people report \$34,000,000.

Mr. Purvis: Do they?

HM, Jr: We have been hearing \$34,000,000 for the British and \$55,000,000 for the French.

Mr. Purvis: We have been able to get up to 21-1/2 millions.

HM, Jr: They said \$34,000,000 English and \$55,000,000 French.

Mr. Bloch-Laine: I made a complete check of the orders that passed through our hands in New York -- and I think it will be 100% of what has been actually ordered since the Mission is here -- at present \$52,000,000 worth for Air Ministry and \$26,000,000 for the Armament Ministry. That's \$78,000,000.

Capt. Collins: Machine tools only?

Mr. Bloch-Laine: Machine tools only, but all of them. They call them stock machines because no one is allowed to buy them without a license.

HM, Jr: What they said -- and I pass it along for what it is worth -- all orders for machine tools for the French go through your (Bloch-Laine's) Mission, and not true for the English.

Mr. Purvis: That is right. On the other hand, we have made considerable progress. I am authorized to say that at least from now on all machine tools for the Government, whether direct or indirect, will go through the Mission. They do ask me to make the point that in the control of actual imported stuff, which is reported to us to be very small, they say that will cover the great bulk of everything that is being done. The actual job of telling you what is going on is very difficult one. All we ask you to do is assure the Administration on that relatively

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small detailed end of it, fullest cooperation will be given but the supplying of actual figures is a physical impossibility. We have got up to 21-1/2 millions with some lists, but I think what we should do perhaps is get together with the machine tool makers and we should be able to bridge a good deal of the gap between 21-1/2 and 34 millions.

HM, Jr: This would only be important if they come back between three and four o'clock and say "we need certain machines by number which are on order from the English and French and we want to release some of them".

Mr. Purvis: Yes; quite!

HM, Jr: Now if they don't, I think I would leave them alone.

Mr. Purvis: All right.

HM, Jr: If you don't mind, because I think if you met you may have to give up something.

Mr. Purvis: We certainly are not inviting that!

HM, Jr: You see what I mean? Unless they come back and say -- now they have had a great difficulty in getting machines by order numbers. Now they only got that this morning, from the airplane engines. Now they know machines by numbers and they may, between now and three o'clock, say there are certain machines by numbers that we would like to substitute if they can get your permission, but that has not happened yet. Unless they say so, I would leave them alone.

Mr. Purvis: I agree.

HM, Jr: We have a proverb not to borrow trouble.

Mr. Purvis: You did ask us to say -- we might be asked which was the more important, airplanes or machine tools. We are both asked to say that giving up tools now would be one of the greatest blows to the Allies' cause and if they were forced to choose, they would have to choose against the airplane engine in favor of the machine tool, but hope they will not be.

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HM, Jr: All the more reason why you should not meet them.

Mr. Purvis: Very good. They also say they will make four classes of requirements, but they are bound to be tentative because the program in the war is a developing proposition. That, I think, is pretty obvious. That takes care of anything I have to say about machine tools.

Mr. Bloch-Laine: They gave some indication, and I don't think it is more than a tentative figure, they spoke of starting October 1940 something like \$21,000,000 for each of the two, Air and Armament Ministries, but it is impossible to give details at the present juncture and it is just an approximation and looks like it was a maximum.

HM, Jr: While we are talking about machine tools, do you know whether in the next 30 to 60 days whether you are going to place many more orders, irrespective of the air program? Do you know that?

Mr. Bloch-Laine: I am not in position to tell you. I don't know whether we will place them. There is a \$7,000,000 worth of orders for armament which are, I should say, small orders because people in France have been talking with makers of machine tools there and they probably said that machine tools were available. We are waiting for the proposals in order to discuss it with the machine tool makers and sign it, which is the way it is done. I don't think there will be difficulty there because the representative of the tool makers in France would not have said yes in Paris if they had not had word from here. That may or may not be so. And there is in the old program of the Air Ministry another \$13,000,000 which includes precisely some of those difficult machines to be had, which isn't, hasn't been placed because they have not been able to place it.

HM, Jr: How much does that total?

Mr. Bloch-Laine: \$78,000,000 plus. Both Air and Armament. \$7,000,000 in the Air, which I think are placed, and there is \$13,000,000 with a big question mark.

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HM, Jr: So another \$20,000,000?

Mr. Bloch-Laine: Another \$20,000,000, out of which \$7,000,000 does not inspire any misgivings because I don't think they are difficult machine tools.

Mr. Purvis: I am unable at this moment to give figures as definite as that. That is my missing cable -- forecast of the future. Simply asked me to bear in mind that they will send it as quickly as they can get it, but please to remember it is a developing program, so really any figure we would give would be a guess made up from this end from such sources as we have which are incomplete, but which shows that further orders are going to be placed if they can supply them. But we know there are \$10,000,000 in orders we would like to place, but probably there will be others from the other side and I think I ought to wait for my cable.

HM, Jr: \$10,000,000 for you? More?

Mr. Purvis: Yes, but it is a very tentative figure because it comes only from this side. I have got to develop something more there.

Mr. Bloch-Laine: Whereas our Air Ministry has given a complete program to the Air Mission and told them to go ahead and place it and they have done quite good progress that way, but they certainly have \$13,000,000 worth of machines that remain to be placed, and where the difficulty exists.

Mr. Purvis: I take it we are talking about orders we would like to place soon, not long-term program which would obviously be very much larger.

HM, Jr: I just wanted to have in my mind how much more business may be placed on top of the machine tools and I carry a figure of between \$20,000,000 and \$30,000,000.

Mr. Purvis: In the relatively early future?

HM, Jr: From both countries, irrespective of what I call the billion-dollar program. But there may be another \$20,000,000 to \$30,000,000.

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Mr. Bloch-Laine: Another thing I have which may be of interest, all those orders, I would say are things to be delivered between now and, say, October 1940 or a little part of it up to the end of the year, when we are talking about orders placed or orders about to be placed.

Mr. Purvis: That's right.

I think, Mr. Secretary, if you were going to keep a figure in your mind, bear in mind we have our figure only from this side. I think it would be better to double our figure and call it \$20,000,000, say, if you are keeping a broad figure in your mind. It would be an understatement if we were working on the \$10,000,000 alone.

HM, Jr: You may be interested, the industry says -- and this is a rough figure -- they have a backlog of orders from everywhere of around \$350,000,000. So that gives you an idea of where they stand, but it's a rough figure of orders, backlog, that they have to fill yet.

Mr. Purvis: That's domestic and foreign?

HM, Jr: Everything. \$350,000,000, of which the foreign is about \$125,000,000. That's their figure and they say it is rough.

Mr. Bloch-Laine: But there must be others besides the British and French.

HM, Jr: Oh, yes. Some Russian and some Japanese.

Mr. Purvis: It is small?

HM, Jr: Yes, surprisingly.

Mr. Purvis: Because report was made to the Australian man, Keith Officer, by the Australian Trade Committee in New York, which was very exaggerated, I thought. He said every factory had four machines for Russia and four more for Japan for every one they had for England and France. I discarded that as incorrect material. And that was blocking the whole show.

HM, Jr: That's not right. Like all these things,

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when you get down, the picture is quite different. I was hoping the Japanese and Russians would be big.

Capt. Collins: Unfortunately they brought out the fact this morning that the Russian and Japanese were not the type machines on order, were not the type that could be readily converted to ourselves in this country or were similar to machines that had been ordered by you.

Mr. Purvis: I see.

Shall we go to another subject?

HM,Jr: Please.

Mr. Purvis: Since I asked for a chance to come and mention this to you, I have had a talk with Mr. Sullivan and am expected to see him after I leave you and I make that clear at the beginning because of something he said to me, but Mons. Bloch-Laine and I both feel -- we are very seriously worried, in fact yesterday very seriously depressed, as a result of the way things are developing in connection with the means of avoiding tax on capital extensions. I don't know that this would apply to new plants, but extensions.

As you know, we attained one success, the Atlas Powder Company, but we really do have an uncomfortable feeling that it may be "one swallow may not make a sound". We have run into the Hercules, who have a certain powder which we must have, which we must place. We have run into a situation where we are actually stymied. We had two and one-half hours with them yesterday, Mons. Bloch-Laine and I, in New York and came out of it with the knowledge that they would not be able to take care of this loan procedure. I am going to see Mr. Sullivan today in the hope that he may have some other suggestion, but it did not seem that any easing that could be brought about in the limits of his proposal would do any good and, frankly, we are faced today with this fact: that every day we lose, the powder plant is not being proceeded with .....

HM,Jr: Excuse me. If you are going to talk that

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to me, I would much rather have Mr. Sullivan in here. I can't get so worked up about it, because there has been so much horsetrading, if you don't mind my saying, on both sides and you people always get so worked up -- well, I don't know, I get the impression that there has been quite a lot of horsetrading.

Mr. Purvis: Well, now, if there is anything of that, then perhaps we had better talk with Mr. Sullivan first. May we come back if it is as serious as we think?

Mr. Bloch-Laine: Complete impasse.

HM, Jr.: Oh, yes! I still have three to four open for this purpose, but I just got that impression.

Did you clear with Sullivan -- he wanted to get a release from you that we could publicize the Atlas Powder business.

Mr. Purvis: Yes. We told him immediately we would be too delighted. The only thing I asked -- don't think it would depreciate the value of what you do -- would like to leave out any emphasis that the loan is to come from us, because we are still working. Mr. Stohl (?) (an officer of Atlas) talks about extension. We are explaining and trying to sell him the idea of a loan. That Sullivan has, but we don't say we put up the money without necessity, but we hope the bankers will be willing to lend on their general credit with the idea we undertake to pay them the difference on Sullivan's set-up and Sullivan is in agreement.

HM, Jr.: You had better go once more to Sullivan because he will do the explaining.

Mr. Purvis: I said we would be delighted.

HM, Jr.: You know why we want the publicity?

Mr. Purvis: From the point of view of getting the thing forward.

HM, Jr.: It's my relation with Congress. I figure if they know it and if the people of the United

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States know it, the chances are one to ten no investigations.

Mr. Purvis: I see what you mean.

HI, Jr: All these manufacturers -- it is very interesting when I go in the field, one of these engine companies, oh moaning and groaning, "Look what the Nye Committee did to us", and so forth and so on. So I said, "Well, that's why I have been publicizing all of these things" and since we have done it not a Senator or a Congressman has written us a letter. Am I right?

Capt. Collins: That's correct.

HI, Jr: And if there is any complaint, we can explain it before we get into this thing too deeply, and, as far as I know, as of today our Congress is satisfied, which makes it much easier for you people because it would be much worse if we got along and suddenly they passed some law clamping down -- no powder plant should be built or this or that or the other thing, or if they stopped them after that had been built. So I think it is good public relations to explain these things as we go along. It's good for you and it's particularly good for us and I explained that to these airplane manufacturers and said, "Why haven't you told the public that this plant expansion is paid for by foreign money?" The answer was "The French did not want us to do it for fear of repercussions in France."

Mr. Purvis: Oh!

HI, Jr: So I said, "Well, I don't know anything about that, but if the French want anything more here and expect us to do more, I think they had better let us advertise the fact that these plants are paid for by foreigners."

To show you, the President of the United States himself did not know that this plant expansion at Martin, Pratt-Whitney and at Wright was paid for by foreign money. If he does not know, how can the man on the street know

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it? He did not know it until I told him yesterday at lunch. All this talking which I have done at Hartford has spread it out that these plants are being paid for and that our taxpayers don't pay a cent and I take it now that you are where you don't worry so much, but last summer you were worried. Today it does not worry you if it is reprinted in France.

Mr. Bloch-Laine: I don't think it would matter at all, if it is not printed that all capital expenditure we not only have to pay the cost of expansion but income tax on it and income tax on the profits of the income.

Mr. Purvis: Which is at present a total of 25%.

HM, Jr.: You are dealing with a lot of Yankees.

Mr. Bloch-Laine: I have been ten years in the Treasury. I know it is not so easy with fiscal problems.

HM, Jr.: I can assure you gentlemen that the publicity which we have been getting this last week is good for the United States and will be helpful in handling additional orders. I don't want to have a powder plant built in the United States without the public knowing it.

Mr. Purvis: No.

HM, Jr.: Without our public knowing about it, because I learned my lesson when that poor French aviator dropped out of the plane and that taught me my lesson. Now, on the molybdenum thing -- not a murmur! All of this stuff, nothing at all, except letters from Chambers of Commerce inviting me to come to their city and see what they can offer. But I don't want some Senator Nye to discover through some way that there is a powder plant being built out in Missouri and he thinks there is something wrong about it and then gets legislation through forbidding us to export powder. If it is on the front page -- only makes the front page if it is a secret.

Mr. Purvis: I think that's true.

HM, Jr.: It is true. I don't know what's good in France.

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Mr. Bloch-Laine: You ought to know much better what is good here.

Mr. Purvis: You kill the news value by giving out something of value, but it's front page if it is secret. Any reservation I had in regard to publicity is not about the fact we are paying, only the question of whether we pay over two or three years instead of one.

HM, Jr: You go over that with Sullivan, and the explanation to the press would be done by him, and if you can get together with him it would be all right with me.

Mr. Purvis: Getting to another subject, these various alloys. I have one or two points. May I go into those?

HM, Jr: Please.

Mr. Purvis: Tungsten. I previously put on the table some information and then advised you that an hour later we had a warning cable saying that information that had been sent us looked as though it might be wrong and if we would give them a little time they would send us the correct picture. I now have it. This is in regard to stuff that was in Indo-China, the parcel we wanted to know how much was tungsten and how much was antimony. The French Government, I understand, has been negotiating for its own use for 4500 tons, which is at present lying in Indo-China.

HM, Jr: Tungsten?

Mr. Purvis: Wolfra -- which, I think, is the description of concentrates of tungsten. Completion of the purchase depends upon satisfactory technical reports. To get these, experts have been sent to Indo-China. If that negotiation is completed, Allied requirements will be taken care of until the end of 1940. They have also been considering further purchases through China during 1940, but those are not for consumption purposes; they are for economic warfare. The British Ambassador has recently stated that difficulties have arisen in that negotiation, but they are now proceeding smoothly. This is economic warfare. The Chinese were earmarking for the United States 1500 tons, at \$16.00. That will not be \$16.00 per ton, but per unit.

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HM,Jr: Do you know anything about it?

Capt. Collins: We are about up to our limit; have a slight reservation only, but we have worked in very close touch with him on the tungsten situation.

Mr. Purvis: Our information was it was being earmarked with the hope of getting armaments. And the Chinese are determined apparently to keep up, even if it has to be done overland, 400 tons monthly deliveries to Russia, because they must get arms supplies from them.

HM,Jr: That's new. 400 tons of tungsten overland to Russia?

Mr. Purvis: That's right. The Chinese say they are determined to do that, because it is a means of getting the things with which to fight Japan. That seems, as you say, to be the only new thing in it.

HM,Jr: That's new to me.

Mr. Purvis: On the molybdenum, I thought I ought to mention that I am still in negotiation with Climax with a view to seeing if we can meet their request for formulation of contracts by the consumers in England and France so as to give them some assurance to handle their position.

HM,Jr: That has not been consummated?

Mr. Purvis: Have not. Got a cable back yesterday. I was speaking with Mr. Hochschild day before yesterday and I find it takes about a week, back and forth. When we were talking with the Climax people, they did mention that Italy's requirements tend to show an increase now, and orders placed in December and January are quite considerably higher. And if there were anything at all that could be done to watch that from this end so we could have a counter-check, we would appreciate it very much.

HM,Jr: Tell Harry to watch that.

Mr. Purvis: I am still without ability to reply

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to you on the New Caledonia Mine, on nickel. They cabled a few days ago apologizing for the delay and say they are doing their utmost to get the information and will cable.

They return to chrome, colombian and tantalum and ask whether, as principal importer of the ores, whether anything you can do to buy ores, which would tend to stop the supply being available to others. They don't know what your ore position is, but as you are the principal importers thereof, if you haven't particularly good stocks they would like very much that they should be coralled as a help in preventing them from leaking out as substitutes.

Copper. Every bit of information we have had indicates that that original rumor I brought to you about a very big lot of copper, 60,000 tons, from the United States to Russia and probably destined, some of it, for Germany, has a very substantial measure of truth in it and shipments to Mexico are very worrying to us.

HM, Jr: But they haven't got any ships and that's the trouble and from what I make out, from the way you talk, it is being transhipped to Manzanilla to Russian boats. They pick it up there.

Mr. Purvis: Yes. That's what we ....

HM, Jr: They pick it up there and put it into Russian ships and they sail. These boats sail from New York, go down to Manzanilla, and then tranship it into Russian ships. That's what it looks like.

Mr. Purvis: Yes.

HM, Jr: But they are doing everything they can to get the stuff out of the United States as fast as possible, but on account of shortage of ships it does not move very fast.

Mr. Purvis: No.

HM, Jr: But there isn't anything we can do about it.

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Mr. Purvis: There is nothing you can do?

HM, Jr.: No.

Mr. Purvis: Industrial diamonds. I have put a memorandum on the table there and I suppose all we can ask you to do is anything you could do to support this voluntary action we are trying to arrive at in the trade; anything you can properly do in the way of regulations. It's a difficult thing. It's export and Customs does not apply to exports.

HM, Jr.: Last two or three months, sales of industrial diamonds have been unimportant, but there is in the process of consummation a sale of \$500,000 worth.

Mr. Purvis: Oh, yes.

HM, Jr.: Of industrial diamonds. We know all about it. This is delicate and don't let -- just keep it between you two gentlemen. If and when this leaves the country ....

Mr. Purvis: Yes.

HM, Jr.: .... I think we can let you know and where it is going to leave and how. But, please, please!

Mr. Purvis: All right. I have had the clamps on for some time.

HM, Jr.: I would not even make notes of it in your Mission. Just keep it in your own mind. Don't make any notes or anything. But if we can find out, we know who is making the sale; we know what kind of diamonds they are, and what we are going to try to find out is how it will leave the country and when.

Mr. Purvis: We will make no note of it.

HM, Jr.: I don't know how successful we will be. We were tipped off by one of the tool people, you see?

Mr. Purvis: Exactly!

HM, Jr.: But I don't think you had better leave

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any office memorandum around. And, incidentally, the person who is handling that for me is Mr. Gaston. And if he hears anything he may phone you direct. You will just get a phone call.

Mr. Purvis: I see. And I shall know what it is. Thank you very much.

HM, Jr: But it is one of those things I would not want to get caught at myself.

Capt. Collins: That's perfectly true.

Mr. Purvis: We won't make any office memorandum.

Mr. Bloch-Laine: Save time too.

Mr. Purvis: Is there any hopeful news of anybody over here to discuss anything?

HM, Jr: Just leave it this way. Better this way. They can get word to you. I am sure Ambassador Bullitt, when he comes over there will be plenty of news.

Mr. Purvis: I saw in the papers he's coming quite soon.

I think that's all for the moment that I have to bother you about.

HM, Jr: I don't know of anything else. You gentlemen don't know about the new air order?

Mr. Purvis: Nothing except a cable last week. They really expected to be able to advise me, but these cables come through at any instant and we shall be hearing through the day and if anything comes along we shall let you know.

Mr. Bloch-Laine: I hope the machine tool incident has not been too much on their minds for that plan.

Mr. Purvis: We tried to avoid it getting too much on their minds.

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Mr. Bloch-Laine: We told them that caused the old order not being delivered, but they did not say anything.

HM, Jr: It's much better, through this investigation that I am making, to know where you are at.

Mr. Purvis: I think that's the big advance with really everybody. We shall begin to think in terms of the whole problem and, after all, if the problem is sticking in the background and comes up after, we are much worse off.

HM, Jr: And if any new orders do materialize, I am impressed that the machine tool people should sit in at the beginning, which they have not. They have been kept at arms' length on this thing.

Mr. Purvis: And, of course, the engine makers have a perfect reply -- "but you did bind upon us tremendous amount of secrecy". And also I don't think they have quite known where they stood.

HM, Jr: I don't suppose, certainly in this country, I don't suppose there has ever been an expansion like has taken place in the last six months. It's perfectly extraordinary and when you see these plants they have built in 2-1/2 months, I don't know of anything like it in the United States. It may have gone on in other countries. And then equip it and train people, and the amazing thing is -- and we are checking it -- they keep saying they have no trouble in getting all the labor they want. They are checking that in the Labor Department. Lubin is doing a job on that. But they keep saying "We can get all the labor we want".

Mr. Bloch-Laine: Great advantage in this country that labor does not mind changing places. Very difficult to transport an Englishman or a Frenchman from his home town. Understand here if there is work to be done, they go and get it.

HM, Jr: What I found -- for instance, at Baltimore. They have gone as much as 200 miles and a great many of the men came great distances each day in their own car.

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Mr. Bloch-Laine: Of course, that helps.

Mr. Purvis: Yes; quite!

HM, Jr: Do you know of anything?

Capt. Collins: No, sir.

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE February 7, 1940.

TO Secretary Morgenthau

FROM Mr. Haas *JA*

Subject: Notes on meeting held in Secretary Morgenthau's office on February 7, 1940, from 9:15 A.M. to 10:30 A.M., on ways and means to secure adequate machine tools in order to increase sharply the production of airplane engines in the United States.

Present: For the entire meeting:

Secretary Morgenthau

Mr. Charles J. Stillwell, President,  
Warner-Swasey Machine Tool Manufacturers.Mr. Tell Berna, representing the  
National Machine Tool Builders' Association.Dr. Lubin,  
Commissioner of Labor Statistics.

Captain Collins

Mr. Haas

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

Mr. J. C. Ward, General Manager,  
Pratt-Whitney Engine Company.Mr. P. W. Brown,  
Wright Aeronautical Company.

The Secretary opened the meeting by saying that he had travelled around some since the last meeting and had visited the Pratt-Whitney and the Wright Aeronautical plants. He said he was impressed with the current activity in the plants -- training methods which were being employed to recruit new labor, and two large plants he had seen which had been financed completely with foreign money. The Secretary then turned to Mr. Stillwell and asked him what he had found out since the last meeting.

Secretary Morgenthau -2-

Mr. Stillwell gave the following figures on foreign orders now on the books of the machine tool builders: England - \$34 millions, France - \$55 millions, Russia - \$11 millions, and Japan - \$16 millions, making a total of about \$115 millions. To this he would add another \$10 millions to cover miscellaneous orders which had escaped their survey, bringing the total to \$125 millions. Thus, he said, the foreign orders amounted to approximately \$125 millions out of a total order backlog of around \$350 millions.

Mr. Berna then proceeded to tell the Secretary in some detail what he had accomplished since the last meeting. He said that the airplane engine builders had supplied him with a list of machine tool orders which were giving the airplane engine companies trouble. He had then got in touch with the machine tool companies involved, via long distance telephone. In all, he said, 31 machine tool companies were involved. Of these 31 companies, he found that 4 had, prior to his conversation with them, got in touch with the airplane engine companies and had worked out satisfactory delivery programs. Of the 27 remaining machine tool companies, 19 had, as a result of his telephone conversations with them, worked out means for improving their delivery schedules to the airplane engine companies. The 8 remaining companies were not able to improve the delivery schedules previously promised. These 8 companies, Mr. Berna explained, gave the orders of the engine manufacturers the right-of-way over other orders at the time the orders were placed. In total, Mr. Berna continued, an improvement in delivery has been worked out which on the average has amounted to an advancement of 4 weeks in delivery schedules. This much improvement, he maintained, was very substantial.

The Secretary commented that when he was at the Wright plant they were "tickled pink" at the progress made so far by the machine tool builders. He said they had showed him a list of 1200 machine tool orders on which the delivery as of that date should have been 57 percent whereas the delivery actually was only 26 percent. But, the Secretary continued, there was very good feeling toward the machine tool industry and the engine manufacturers were cheered up. The Secretary told the machine tool representatives at the meeting that they had done a swell job.

The Secretary asked if machine tools on order for Russia or Japan might be switched to the Wright Aeronautical Company. Mr. Berna expressed the feeling that not much could be accomplished in this manner. Mr. Berna went on to say that the Russian orders were for large type machines in connection with big gun manufacturing, etc. and were not the type needed by the airplane engine manufacturers. He said they had delayed one French order to help the American airplane engine manufacturers and they probably would hear from the French on this.

Secretary Morgenthau -3-

Mr. Stillwell then posed a question for the Secretary, on which, he said, he would like to have an answer. Mr. Stillwell asked what the status of a machine tool manufacturer would be if he held up a French or Japanese order where a tight legal contract existed and partial cash payment and delivery of a part of the order had already been made. The Secretary said he felt that the courts would favor the buyer and then asked Mr. Stillwell to give him a specific example. Mr. Stillwell described a situation with regard to his own company, Warner-Swasey, in connection with a French contract. The Secretary then asked him to have his lawyer draw up a legal agreement which would release the Warner-Swasey Company from liability as a result of any delay in the delivery of the order. The Secretary said he would then take the matter up with Mr. Bloch-Laine and Mr. Purvis and ask them to sign the agreement. The Secretary indicated that the British and French would have to do this in fairness to the American manufacturers. Mr. Stillwell commented that that would be a perfectly fair arrangement. The Secretary said he could ask France and England to do this but he could not ask Russia and Japan to do it. It then developed in the conversation that the particular case described by Mr. Stillwell was not a pending situation but one which had already been taken care of, and that he had asked the Secretary the question so he might be in a position to know how to handle other similar cases when they arose. The Secretary commented that Mr. Stillwell just wanted to see how he would answer his question. Mr. Stillwell said this was true, but there no doubt would be similar situations involving other companies with which they would have to deal.

Mr. Stillwell went on to say that this was the story to date, and that it did not look bad from the machine tool industry's point of view. He added that Mr. Berna had a few situations he would work on during the week. The whole trouble really had originated in poor planning at the start, he said, which was not the fault of the machine tool industry. The Secretary asked Mr. Stillwell if any one in the machine tool industry had gotten his "back up", and Mr. Berna replied that not one had.

Mr. Stillwell said he had one more point which he would like to take up with the Secretary, and that was the enlargement of machine tool plants. He stated that no machine tool manufacturer wants to enlarge his plant capacity. Mr. Stillwell felt, however, that plant expansion would be necessary to meet the present situation and that plant expansion should therefore be encouraged. He went on to say that the Kearney & Trecker Corporation of Milwaukee, Wisconsin, had made a substantial expansion in their plant capacity which had been financed by French money. The French order, he said, amounted to about \$12 millions for about 1500

Secretary Morgenthau -4-

machine tools. The price given the French included the original cost of the plant construction. He said that the French would, of course, want to utilize the production of this new plant for themselves, and that while plant expansion financed by foreign money was perfectly satisfactory it could not be expected to help in meeting expanded production for domestic requirements.

The Secretary went on to point out that the airplane engine manufacturers in their program for 1940 and 1941 had already made allowance for expanded domestic requirements, and that if the billion dollar order should come from abroad the resulting need of money for machine tool plant expansion would be taken up at that time. Mr. Stillwell said that the point he wanted to make was that the foreign buyer should be impressed with the fact that the necessary plant expansion would have to go back to the machine tool manufacturer as well as the airplane engine manufacturer. Captain Collins said that the British and French were aware of that and had been so advised. He said he had told them also that plant expansion might even involve parts manufacturers, etc.

The Secretary said that Mr. Stillwell had given Mr. Sullivan, Assistant Secretary of the Treasury, a figure of about 35 millions which might be required for plant expansion in the machine tool industry. The Secretary said he understood Mr. Stillwell's point to be that if the billion dollar order came through the machine tool industry would expect money for plant expansion.

The Secretary asked Mr. Stillwell what kind of machine tools the French had ordered from the Milwaukee machine tool company. Mr. Stillwell said they were mostly standard milling machines, together with some large machines used in gun manufacturing. Mr. Berna then stated that the General Machinery Corporation of Hamilton, Ohio, was working on a Russian order for machine tools to be used in the building of a 168 foot, 18 inch caliber gun. (G. A. Rentschler is President of the corporation.) He said the order had come in long before the Finnish invasion. In fact, Mr. Berna said, the order may already have been shipped as he had seen it six months ago. The Secretary asked if there were any machines of this type being made for Japan. Mr. Berna said he did not know, but the Japanese orders were frequently for machine tools of the more general type, many of them being peace time machine tools, and that he understood some of these tools were being shipped into North China.

Mr. Ward and Mr. Brown came into the meeting.

The Secretary asked Mr. Stillwell to outline the picture as he saw it for the benefit of Mr. Ward and Mr. Brown. Mr. Stillwell said he had reported to the Secretary that the machine tool order

Secretary Morgenthau -5-

situation did not now appear so serious as it looked last week. He said he had contacted many of the machine tool companies engaged in the manufacture of machine tools for airplane engine companies and as a result delivery schedules had been stepped up from 4 to 5 weeks.

Mr. Stillwell said he had been concerned because of the fact that he had been given the impression the machine tool industry was failing to make deliveries when promised. Mr. Ward interposed saying this was true. Mr. Stillwell said he could not find that such a situation existed. Mr. Ward commented that delivery schedules had been broken on 277 machine tool orders placed by his company (Pratt-Whitney). Mr. Brown, of the Wright Aeronautical Company, said the situation was about the same with regard to his company.

Mr. Ward said that he brought to Washington last week a list of orders involved in their "April program", which was their most immediate consideration, but that he now had a complete order picture with regard to the Pratt-Whitney Company. This he presented to the group. He said the company placed 849 orders and complete deliveries had been received on 295 of these, leaving 554 orders still due. Of the 554 due, 227 were already behind promised delivery dates. Mr. Berna interjected, saying that Mr. Ward had not given them these items. Mr. Ward said he had just made up the complete list. Mr. Ward continued, saying that last week he had made up hurriedly a list of the most critical machine tool orders - only those involved in the so-called "April program". Mr. Stillwell remarked that from the looks of that list, Mr. Berna would not have any idle time.

The Secretary commented that the information given by Mr. Ward and Mr. Brown made the situation look different. Mr. Stillwell said it made the situation look very different. Mr. Ward said he appreciated greatly what the machine tool people had already done. Mr. Berna said that the delivery promises which Mr. Ward mentioned were made under unusual circumstances and the delay in delivery could not be entirely attributed to the machine tool industry. He said that most of the orders originated last September and the machine tool companies were not supplied with drawings or specifications and no formal orders had been transmitted. He stated that the formal orders had to be held up until the Neutrality Bill was enacted. Practically all that the September orders meant until that time, he said, was that a reservation of capacity in the machine tool plants had been made. Mr. Ward commented that nevertheless some of the machine tool companies had lived up to their September promises. As an example, he mentioned the Warner-Swasey Company, Mr. Stillwell's company.

Secretary Morgenthau -6-

The Secretary then asked Mr. Brown to present his picture. Mr. Brown said they were getting about 25 percent of their expected machine tool deliveries. Mr. Berna said he did not have a complete list of the Wright machine tool orders. Mr. Brown said he had a complete list with him and would furnish it to Mr. Berna today.

Captain Collins, on the basis of a telephone conversation he had had last evening with Mr. Kreusser, reported for the Allison Company. If the machine tool orders were delivered as promised, the Allison Company would be okey, but if deliveries could be made sooner than previously indicated it would help the Allison Company's situation.

The Secretary asked whether in view of this new information it might not be possible that there were some orders arising from abroad on which deliveries might be diverted. Mr. Stillwell said any such orders would be largely French or British.

The Secretary said he had asked Mr. Purvis and Mr. Bloch-Laine to stand by, and asked the representatives of the machine tool industry and airplane engine manufacturers if they wanted to see them. Mr. Stillwell said they had more work to do before talking to Mr. Purvis. The Secretary said that in that case he would hold open the time between 3 and 4 o'clock this afternoon in case they wished to see him.

The Secretary said he would like to have another meeting with the representatives and be given a progress report on February 21, 1940.

NEW YORK STATE COLLEGE OF AGRICULTURE  
AGRICULTURAL EXPERIMENT STATION  
CORNELL UNIVERSITY  
ITHACA, NEW YORK

DEPARTMENT OF AGRICULTURAL ECONOMICS AND FARM MANAGEMENT

February 7, 1940

The Honorable Henry Morgenthau, Jr.  
United States Treasury  
Washington, D.C.

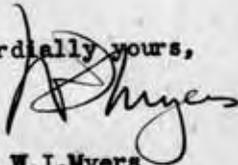
Dear Henry :

After long and careful consideration, I have decided to refuse the opportunity that I spoke to you about on the telephone yesterday. In view of all the circumstances, and in spite of the attractiveness of some features to a person in my circumstances, I do not think it wise to accept.

I appreciate sincerely the frank comments you gave me. They were very helpful in reaching a reasoned decision on a difficult problem.

With warm personal regards, I am

Cordially yours,

  
W.I. Myers

WIM/NEB

FEB 7<sup>th</sup> 1940

Dear Mr. Chen:

I very much appreciate your keeping me in contact with recent developments in connection with the Export-Import Bank loan. I sincerely hope your efforts will be successful, and take this opportunity to assure you of my continuing cooperation and sympathy.

With kindest regards,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Kwang Pa Chen,  
630 Fifth Avenue,  
New York, New York.

*Handwritten initials*  
FILE COPY

H. White

prepare answer

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KWANG PU CHEN  
ROOM 1918  
630 FIFTH AVENUE  
NEW YORK

mlh

January 28<sup>th</sup> 1940.

Dear Mr. Cochran:-

Will you be good  
enough to give the enclosed  
letter to Secretary Morgenthau  
personally tomorrow morning,  
Monday. I expect to be in  
Washington Monday afternoon  
and hope to see you then  
or on Tuesday morning.

Very sincerely yours

H. White

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KWANG PU CHEN  
ROOM 1515  
630 FIFTH AVENUE  
NEW YORK

January 28, 1940

Dear Secretary Morgenthau:

Since I saw you last Dr. Hu Shih, our Ambassador, has been in close touch with the State Department, although he has not been able to see the Secretary personally.

Dr. W. W. Yen, former Prime Minister of China, and our Ambassador saw the President last Friday and were greatly heartened by his attitude and sympathy. The President told them he would endeavor to have the thirty million dollar limitation on the Export-Import Bank loans modified so as to permit that amount of additional credits to be advanced to China.

Last Wednesday our Ambassador and I had an excellent forty-five minute talk with Mr. Jesse Jones who seemed entirely satisfied with the business of Universal and with the Chinese situation. As to the possible amount of an additional loan, he said that was up to Congress and then he explained about the thirty million dollar limitation. But he indicated he would make the existing \$25,000,000 loan a revolving credit and give the additional balance of \$5,000,000, which is all that could be given under the present form of the thirty million dollar limitation. As Universal has repaid over \$2,000,000, Mr. Jones said this meant he could give us a minimum of \$7,000,000 if the bill passes as originally drawn, and he said he would do so. Of course, we urgently stressed the vital importance of China obtaining a large credit-- up to \$75,000,000--and pointed out that with England, France and Germany at war the United States should obtain most of their former business. Our impression was that Mr. Jones would help.

January 28, 1940

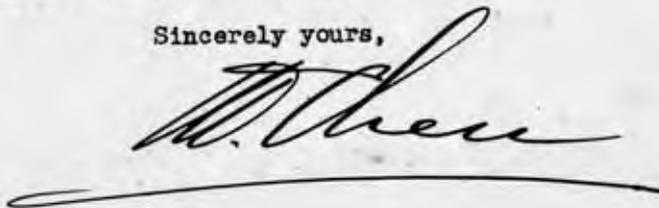
80

Encouragement is being given at the Hill through various friends. I am working actively with Mr. Lawrence Morris, and we are quietly organizing help in a variety of ways.

Your help to the cause of China has been absolutely invaluable and your kindness to me personally has touched my heart too deeply for me to put into words. But I hope, nevertheless, you can understand how grateful we are. Not having ability to use words we have tried desperately hard to prove our appreciation by more than living up to your expectations in spite of the terrible life and death hardships we are having in China.

With kindest personal regards,

Sincerely yours,

A handwritten signature in cursive script, appearing to read "W. H. H. Morgenthau", with a long horizontal flourish underneath.

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

February 7, 1940.

Dear Mr. Keeshin:

On behalf of the Secretary I want to thank you for your letter of February 5th, enclosing a copy of one you have received from Mr. C. W. Van Patter, in regard to various activities in China. I know that the Secretary will be much interested in what Mr. Van Patter says.

Sincerely yours,

**(Signed) H. S. Klotz**

H. S. Klotz,  
Private Secretary.

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

GRF/dbs

February 7, 1940.

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President, Keeshin Freight Lines,  
Incorporated,  
221 West Roosevelt Road,  
Chicago, Illinois.

GKF/dbs

## KEESHIN FREIGHT LINES, INC.

J. L. KEESHIN  
PRESIDENT

221 WEST ROOSEVELT ROAD  
CHICAGO

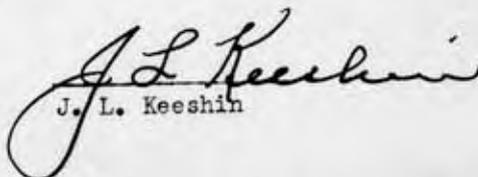
February 5, 1940

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

My dear Mr. Secretary:

Enclose herewith a copy  
of a letter I received today from Mr. C. W.  
Van Patter, from Kunming, China, written under  
date of January 2, 1940, which I think you will  
find most interesting.

Very truly yours,

  
J. L. Keeshin

JLK:LR  
Enc.

January 2, 1940  
Kunming, China

Dear Mr. Keeshin:

Just four days ago I received your letter of November 24, and was very pleased to hear from you and to know that your health has improved to where you are feeling quite well again. It was also very gratifying to know that you are satisfied with our accomplishments here in China up to date, and you may rest assured that we are all doing our best to live up to the trust that you placed in us at the time you sent us on this very important mission to China.

My work at Chungking is temporarily finished but I will be very busy in the Kunming territory for the next month or more. The shop equipment is arriving here in Kunming from Haiphong, over the French railroad and from Rangoon to Cashio, also via rail and then on to Kunming with trucks. More than a hundred tons have arrived during the past few days and I am going to make every effort to see that it is properly distributed to the various shops and garages throughout free China, within the next thirty to forty days. Our previous plan was to ship all the shop equipment into Kweiyang, via truck and make distribution from that point but due to the Japanese capturing Pakoi, and later Nanning, and cutting off the highway transportation from French Indo China has made it necessary to ship all the incoming freight from the South either over the French railroad to Kunming, or from Rangoon over the Burma railroad to Lashio. Both of these roads are running behind on their tonnage which has caused much delay to bringing in the maintenance equipment. However, the prospects for shipping in the balance looks very good at the present time and I believe we will have most of the shops equipped and operating within the next three to four months.

The materials and supplies that have arrived up to date are still securely crated and very little damage from shipping has been noted, with the exception of a few minor damages to batteries, etc. In fact a great many of the boxes contain only one item and can be forwarded to their destination without recording.

The two hundred International tractors are still in Haiphong, but it is thought that they will be able to bring these into Kunming over the railroad providing the new highway South and East from here into Indo China is not finished in the near future. When this road is completed truck transportation can be resumed from the French territory. The Chinese are very optimistic about being able to drive the Japanese soldiers out of the Nanning sector and if so that highway will also be open to traffic again as soon as this happens. I am somewhat skeptical about this happening in the very near future as it is my opinion that the Japanese will be able to hold Nanning for quite some time. Of course, we all hope not and I certainly hope that my guess is wrong.

Mr. Bassi had just returned to Chungking, a few days before I left from a trip over the new highway from Janyi to Lungchang. He says this road operated from Kunming to Chungking, and will speed up the freight movement considerably insofar as the interior of China is concerned.

The Burma highway has been open at all times since the rainy season was over which has been a great help to China, in view of their other present difficulties. They are diligently working to improve it and I understand it can be

Mr. J. L. Keeshin

January 2, 1940  
Kunming, China

made into quite a fair road in comparison to other Chinese highways. The highway northwest of Chungking through Lanchow to Russia, is being rapidly improved but the distance is so great that the gasoline transportation is quite a problem. Incidentally, Mr. New, an Assistant Director of the Northwest Highway Administration, recently informed me that they had discovered oil near Lanchow, and were using primitive methods of refining to obtain as much gasoline from it as possible, to aid them in their present shortage. If this enterprise develops, it will certainly be a great aid to the highway transportation, particularly now that the Chinese dollar is down to where it takes from twelve to fifteen of them to purchase a gallon of gasoline in the Chungking area and north to Lanchow. At the time I met Mr. New, he was on his way to Hongkong, for the purpose of investigating and possibly purchasing some more modern oil refining equipment to be used in the abovementioned locality.

The New China Transport Corporation which will control approximately thirty-five hundred trucks and buses became a reality the first of January, 1940. The trucks and buses in the Northwest will still be operated under the Ministry of Communications, so, therefore, shops and garages will have to be established to maintain this equipment as well as the vehicles under the China Transport control.

I might mention that I came to Kunming by plane and that the car will be here later as Mr. Lin is bringing it down from Chungking, next week via Kweiyang. I think that if I keep on riding in planes, I will learn to like them quite well.

Mr. Sheahan and Mr. Bassi are both enjoying good health and had a very pleasant Christmas, thanks to Dr. and Mrs. Pan.

With very best wishes to you and yours, I remain

Sincerely yours,

(signed) C. W. Van Patter

STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

87

INTER-OFFICE COMMUNICATION

DATE February 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

After receiving from Mr. Glasser this afternoon the data on which to base my inquiry, I telephoned the Climax Molybdenum Company in New York. President Schott was absent on the Pacific Coast until the end of the month, so I spoke with Mr. Thorpe.

I asked Mr. Thorpe if he could give me any information concerning a shipment of 756 barrels of molybdenum concentrates, each weighing approximately 625 pounds, which I understood was at Los Angeles awaiting shipment to Russia on the Russian steamship Vladimir Mayakovski. Mr. Thorpe promptly stated that this was molybdenum which his company had shipped from its mines in Colorado and had received payment for before the moral embargo was imposed.

When I mentioned that we had word of a contemplated shipment of \$40,000.00 of molybdenum concentrates on board the steamship Nordryn from New York for Russia, Mr. Thorpe stated that this was no molybdenum of theirs. At least, there had been no sale of molybdenum by his company for export to the barred countries since the embargo had gone into effect. All of their orders to those countries had been cleared up early in December. All shipments under these orders had left their plants and cash payment therefor had been received upon presentation of bills of lading. Mr. Thorpe said that they did not endeavor to trace shipments after they left their mines and they had received payment therefor. He assured me most emphatically that his company had entered into the embargo arrangement conscientiously and had kept their word absolutely. I told him that the Secretary was most appreciative of their attitude, and that we were simply calling on them for advice now since we are cognizant of the thorough cooperation which they were extending the Government.

Incidentally, Mr. Thorpe mentioned that a similar inquiry had been made of his company by Mr. W. A. Janssen, representing the Department of State.



## TREASURY DEPARTMENT

88

## INTER-OFFICE COMMUNICATION

DATE February 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

This morning I received the visit of an old friend, Mr. Bernard Carter, a partner in the Paris banking firm of Morgan & Company. Mr. Carter dropped in to see me on his way to keep an appointment with Mr. Warren Pierson at the Export-Import Bank.

Mr. Carter showed me correspondence exchanged between his Paris bank and the New York firm of J. P. Morgan & Company in regard to the request of the Government of Spain for financial assistance from American governmental or banking sources. The needs had been outlined to the bank in Paris by Mr. Arburus, of the Bank of Spain, who had called on me in Paris a few times, and at whose request I had submitted the initial request for a cotton credit for Spain last Spring.

Mr. Arburus mentioned that Spain needs:

- (a) 200 to 300,000 tons of wheat;
- (b) 250,000 bales of cotton, in addition to that now being received under the outstanding Export-Import Bank credit;
- (c) 60,000 tons of sugar;
- (d) Important amounts of fertilizer;
- (e) \$1,300,000 worth of oil per month (this is now being provided by the Texas Corporation, but longer credit terms are desired). The total requirements are for American products approximating \$40,000,000.

The Spaniards desire to retain as the basis for their monetary system the \$40,000,000 in gold which they still have. They have recently received from the Swiss Bank Corporation in Basel a credit of 20,000,000 Swiss Francs and 500,000 pounds sterling against European securities.

The Spanish authorities have about \$5,000,000 of American securities which they have requisitioned. Of these, approximately \$1,380,000 are American shares and \$380,000 are United States Government Bonds. The Spaniards would like to borrow from Morgan & Company against these securities. Mr. Thomas Lamont of the New York firm has been in touch with the State Department which has informed him in regard to pending negotiations with respect to obtaining from the present Spanish Government recognition of certain American rights. Mr. Carter said that his people did not desire to do anything which would contravene American

governmental policy in the slightest. He then raised the question as to whether there would be a market here for Spanish silver, Arbuzua reporting that his Government still has 100,000,000 duros (5 peso silver coins) each containing 22 1/2 fine grains of silver. (This sum would be worth around \$25,000,000 at our price of 35¢ per ounce). I reminded Mr. Carter that our last purchase of Spanish silver had led to litigation being instituted against us by the authorities now in power in Spain, and that questions might naturally arise as to whether we would make any contract with Spain to purchase her silver in present circumstances. Mr. Carter did not ask me for any definite answer on this but would be happy to report back to Spain some means by which that country might obtain the seriously required raw materials from this country.



February 7, 1940

C  
O  
P  
Y

Dear Mr. Ambassador:

I have much pleasure in acknowledging the receipt of your letter Number 228 of February 6, 1940, in which you have informed me of the decision of your Government to accept the terms of the arrangement reached with Mr. Traphagen as representative of the Foreign Bondholders Protective Council, Incorporated, through conferences held under the auspices of my Government. I shall be glad to inform you as soon as the communication in a similar sense which is expected from Mr. Traphagen may be received.

Permit me to express to you my genuine appreciation of the spirit of cooperation which you have shown in our conferences. It has been a real pleasure to work with you.

With renewed assurances of my very high esteem, I am,  
Mr. Ambassador

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,  
Gabriel Turbay,  
Colombian Ambassador,  
Washington.

By Messenger 1:30 pm 2/7/40

HMG/rms

February 6th, 1940

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

Dear Mr. Secretary:

My Government has authorized me to accept on its behalf the proposal which you suggested at the conference held under your auspices, with Mr. Traphagen as representative of the Foreign Bondholders Protective Council, Inc., on Thursday, February 1st, and which I undertook to recommend to my Government. The terms of this proposal are the following:

- (1) Every effort will be made between now and the 15th of this month to arrive at a permanent settlement of the direct dollar debt of the Republic of Colombia.
- (2) If, by the 15th of February, such a permanent settlement shall not have been reached, my Government will apply \$1,750,000 for the service during the calendar year 1940, of the outstanding amount of \$45,000,000 of the Colombian Government dollar issues of 1927 and 1928, as follows:

To pay the 1940 coupons of the two above issues at the rate of 3½ a year .....	\$1,750,000
To apply to the purchase in open market for amortization of bonds of said issues.....	200,000

- (3) Approval by my Government of this temporary arrange-

-2-

ment assumes approval thereof by the Foreign Bondholders Protective Council, Inc. and recommendation to the holders of the Bonds by the Council, without any reservations.

I should add that my Government's decision to accept this temporary solution is made in appreciation of the helpful mediation which you and other high officials of the Government of the United States have offered, and in the hope that by these means the permanent settlement of the debt will be brought sooner to realization.

My Government awaits the reply of the Council in order to work out the details to give effect to this temporary settlement, in case that proves to be necessary. It will be appreciated, therefore, if you can send me as soon as it is convenient, the Council's statement on its decision.

Permit me to assure you, Mr. Secretary, of my very high esteem.

Respectfully yours,

(Signed) Gabriel Turbay  
Colombian Ambassador

rg

(Copy)

FEB 7 1940

Dear Mr. Welles:

I have pleasure in enclosing a copy of a letter which I have today received from the Colombian Ambassador, indicating the decision of his Government to accept the terms of the arrangement reached with Mr. Traphagen as representative of the Foreign Bondholders Protective Council, Incorporated, through conferences held under the auspices of our governmental committee. A communication in a similar sense is expected from Mr. Traphagen in the immediate future.

Permit me to express to you my best thanks for the cooperation which you so generously gave toward achieving this settlement.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Enclosure:  
Copy of letter dated  
February 6, 1940.

The Honorable  
Sumner Welles,  
Under Secretary of State,  
Washington, D. C.

By Messenger 1<sup>st</sup> Jw 2/7/40

EMStenk

Washington

No. 228

February 6th, 1940

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

Dear Mr. Secretary:

My Government has authorized me to accept on its behalf the proposal which you suggested at the conference held under your auspices, with Mr. Fraphagen as representative of the Foreign Bondholders Protective Council, Inc., on Thursday, February 1st, and which I undertook to recommend to my Government. The terms of this proposal are the following:

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To pay the 1940 coupons of the two above issues at the rate of 3% a year .....	\$1,350,000
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Permit me to assure you, Mr. Secretary, of my very high esteem.

Respectfully yours,

(Signed) Gabriel Turbay  
Colombian Ambassador

RG

(Copy)

FEB 7 1940

Dear Mr. President:

I have pleasure in enclosing a copy of a letter which I have today received from the Colombian Ambassador, indicating the decision of his Government to accept the terms of the arrangement reached with Mr. Traphagen as representative of the Foreign Bondholders Protective Council, Incorporated, through conferences held under the auspices of our governmental committee. A communication in a similar sense is expected from Mr. Traphagen in the immediate future.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Enclosure:  
Copy of letter dated  
February 6, 1940.

The President,

The White House.

HMC:ank

By Messenger <sup>130</sup> per 2/7/40

## EMBAJADA DE COLOMBIA

Washington

No. 228

February 6th, 1940

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

Dear Mr. Secretary:

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Permit me to assure you, Mr. Secretary, of my very high esteem.

Respectfully yours,

(Signed) Gabriel Turbay

Colombian Ambassador

rg

(Copy)

FEB 7 1940

Dear Mr. Jones:

I have pleasure in enclosing a copy of a letter which I have today received from the Colombian Ambassador, indicating the decision of his Government to accept the terms of the arrangement reached with Mr. Traphagen as representative of the Foreign Bondholders Protective Council, Incorporated, through conferences held under the auspices of our governmental committee. A communication in a similar sense is expected from Mr. Traphagen in the immediate future.

Permit me to express to you my best thanks for the cooperation which you so generously gave toward achieving this settlement.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Enclosure:  
Copy of letter dated  
February 6, 1940.

The Honorable  
Jesse H. Jones,  
Administrator, Federal  
Loan Agency.

HMS:ck

By Messenger 1:30 pm 2/6/40

REPUBLICA DE COLOMBIA

100

Washington

No. 228

February 6th, 1940

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

Dear Mr. Secretary:

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Respectfully yours,

(Signed) Gabriel Turbay  
Colombian Ambassador

FC

(Copy)

EMBAJADA DE COLOMBIA  
WASHINGTON  
No.228

February 6th, 1940

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

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EMBAJADA DE COLOMBIA  
WASHINGTON

-2-

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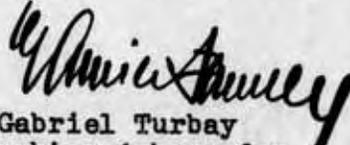
EMBAJADA DE COLOMBIA  
WASHINGTON

-3-

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Respectfully yours,

  
Gabriel Turbay  
Colombian Ambassador

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE February 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

I spoke to Mr. Traphagen by telephone this morning and informed him of the communication which the Secretary had received from the Ambassador of Colombia. Mr. Traphagen promised to mail a communication in the same sense to the Secretary today.



THE UNDER SECRETARY OF STATE  
WASHINGTON

February 7, 1940

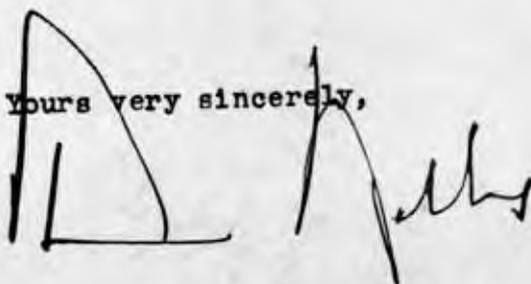
My dear Mr. Secretary:

I am glad to acknowledge your letter of February 7, with which you were good enough to enclose a copy of a letter which you had received under date of February 6 from the Ambassador of Colombia.

Let me say again how pleased I am with the result obtained by the governmental committee and how helpful I believe the conferences held in your office have in fact been. I am most indebted to you for your unfailing cooperation in this and in all other questions.

Believe me

Yours very sincerely,

A handwritten signature in black ink, appearing to read 'H. Morgenthau, Jr.', written over the typed name.

The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

THE SECRETARY OF STATE  
WASHINGTON

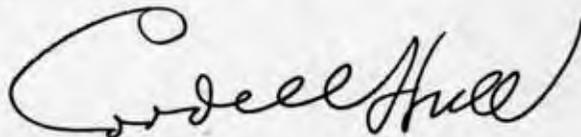
February 7, 1940

My dear Mr. Secretary:

I wish to thank you for your letter of February sixth enclosing copies of the messages from Mr. Pinsent, the Counselor of the French Embassy, and the British Ambassador, which I have examined with interest.

I am showing them to Mr. Welles and we shall not forget the confidential nature of the documents as set forth in your letter.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is centered below the typed name.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

COPY

JT

GRAY

BERLIN

Dated February 7, 1940

Rec'd 9:17 p.m.

Secretary of State,

Washington.

325, February 7, noon.

My No. 23, January 5, 9 a.m. and my No. 74, January 11, 4 p.m.

The moderate increase in the Reichsbank's investments during the last week of January as shown in its statement of January 31 reflects the continued liquid condition of the money market. In the last week of January the Reichsbank's bill holdings increased by 333,000,000 marks to 11,143,000,000 marks. 114,000,000 marks of eligible securities were sold during this week (43,000,000 marks the preceding week) bringing the total holdings down to 374,000,000 marks about 1/4 of the peak holdings on October 31, 1939. Holdings of collateral loans and other securities increased by very small amounts. The Reich apparently again made considerable use of its direct borrowing facilities at the Reichsbank as indicated by an increase of 374,000,000 marks to 1,950,000,000 marks during the last week of January in the Reichsbank's miscellaneous assets.

Reichsbank notes in circulation increased by 705,000,000 marks, 11,505,000,000 marks during the last week in January. Moreover its holdings of coins increased by 33,000,000 marks and of Rentenbank notes by 15,000,000 marks so that these amounts were also added to the currency in circulation. On the other hand demand deposits held with the Reichsbank decreased by 142,000,000 marks in contrast to the upward movement which usually takes

- 2 -

place the end of the month. The amount of the Reichsbank's clearings for the month which is otherwise included in the Reichsbank's month end statements was omitted for the first time in the January 31 statement.

According to the statement of the Reich's floating debt on November 30, 1939, which has just appeared the Reich's net short term borrowings during October amounted to 1,548,000,000 marks bringing the total of floating debt of the Reich (not including tax certificates) on November 30th to 12,901,000,000 marks. With the new finance plan tax certificates and loan stock tax certificates including the Reich's total short term obligations on November 30 were 17,542,000,000 marks. There was an increase of 1,791,000,000 marks in Treasury certificates and treasury bills during November but a decline of 243,000,000, marks in the Reich's direct borrowing from the Reichsbank. There was also a small increase of 800,000 marks in the loan stock tax certificates outstanding during November.

The increase in the so-called floating debt during November was considerably more than in previous months but this was due to the fact that new finance plan tax certificates which the Reich does not include under floating debt were no longer issued beginning November 1st and their place was taken by increased issues of treasury certificates and bills. The increase in total short terms obligations (including tax certificates) during November was less than in any of the three preceding months.

It is probable that the savings banks, insurance companies, etc., were in a position to take up larger amounts of the so-called li-loans during November than hitherto as that was the month in which money conditions became very liquid. Although the increase in the Rentenbank loan to the

- 3 -

Reich was only 58,000,000 marks in November compared to 400,000,000 marks in September and 161,000,000 marks in October (total increases in long term debt: 566,000,000 marks in September and 572,000,000 marks in October) it is likely that larger amounts of li-loans brought the total increase in long term debt during November above that for October and in any event the increase in the total debt of the Reich in November was probably not under 2,000,000,000 marks. INFORM TREASURY.

KIRK

February 7, 1940.

My dear Mr. Frank:

I am enclosing as of possible interest a copy of a prospectus on I. G. Farben stock which is being mailed to German-Americans throughout the United States.

Sincerely yours,

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

Enclosure

Honorable Jerome H. Frank,  
Chairman, Securities and Exchange Commission,  
Washington, D. C.

File with Halborn  
Folder

110-B

I. G. Farben 8 percent Stock .....  $7\frac{1}{2}$  per Share.

The shares of I. G. Farben are prized as one of the best and  
~~with a rich future of the European capital investments~~ *as having a rich future.*

The I. G. Farben is the most important chemical company of  
Germany and also one of the largest of the world; it stands in a  
close community of interest with Standard Oil of New Jersey and  
other world undertakings.

The company has new investments for the production of many  
chemical articles. For every purpose are the I. G. Farben shares  
a favorable investment.

The price on the Berlin Stock Exchange is about 170 marks.

These shares return about 4 percent interest on your investment.

The dividends are payable yearly. We cash the interest claims. Calculating  
it all out, the Stock Exchange quotation means a proceeds of about  
 $22\frac{1}{2}$  Reichsmarks to the dollar.

German American Company  
(In business over 40 years in finance)  
249 West 34th St., N.Y.C., N.Y.

I. G. Farben 8% Aktien \$ 7½ pro Aktie

Die I.G. Farben Aktien werden als eine der besten und aussichtsreichen europaischen Kapitalsanlagen betrachtet.

Die I.G. Farben ist die bedeutendste chemische Gesellschaft Deutschlands und auch eine der groessten der Welt; steht in enger Interessengemeinschaft mit Standard Oil in New Jersey und anderen Weltunternehmungen.

Die Gesellschaft hat u.a. neue Anlagen zur Herstellung von vielen chemischen Artikeln.

Fuer jeden Zweck sind die I.G. Farben Aktien eine guenstige Anlage.

Der Kurs an der Berliner Boerse ist etwa 170 Mark.

Diese Aktien bringen auf Ihr Investment etwa 4% Zinsen. Die Dividende ist jaehrlich zahlbar. - Wir kaufen die Zinnscheine.

Umgerchnet bedeutet der Kurs einen Erloes von ca. 22½ Reichsmark pro Dollar.

**GERMAN AMERICAN COMPANY**

(Eigentuemer ueber 40 Jahre im Finanzwesen)

249 West 34th Street - New York City, N. Y.

I. G. Farben & Stock .... \$7½ per Share

The shares of I. G. Farben are prized as one of the best European capital investments and as leading to a rich future.

The I. G. Farben is the most important chemical company of Germany and also one of the largest of the world; it stands in a close community of interest with Standard Oil of New Jersey and other world undertakings.

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German American Company  
(In business over 40 years in finance)  
212 West 34th St., N.Y.C., N.Y.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 8, 1940, 6 p.m.

NO.: 185

FOR THE TREASURY FROM MATTHEWS.

This morning I saw Penacchio of the Bank of Italy for a few minutes. Penacchio intimated that he had a rather definite impression that the Bank of France is showing increasing concern at the rate of expenditure of its gold and foreign exchange assets. It is difficult, he said, to refuse requests even for semi-military requirements. He said he thought various Ministries were padding their estimates with the knowledge that the Finance Ministry and the Bank would cut them down - adding that those Ministries could see only their little corner of the picture. He was skeptical as to whether the forthcoming French inventory of foreign holdings would be complete, remarking that from their experience, Italy knew how difficult it was to get at the assets and have them included in such an inventory. The French, he thinks, are coming nearer to the time when they will have to requisition foreign holdings despite the objections thereto from the internal political point of view; Penacchio would not venture a guess as to when this would be. From all outward signs, he believes that the cost of the war to France is considerably less

- 2 -

less than the 700 to 800 million francs per day estimated at the beginning. I believe he is right when he says that there are no indications that the figure is running as high as 700 to 800 francs a day. Reference: my telegram No. 14 of January 4; Penacchio remarked again on the success of the French in keeping prices down to date. He added that retail prices in France seem to him to be considerably lower than those in Italy, even with the recent increases.

A few days ago Penacchio was in Rome. He indicated, without being specific, that due to changes brought about by the war, conditions in the Italian Government were undergoing a process of readjustment and reorganization. There continues to be a fair volume of French purchases of Italian products. He said that rolling stock purchases has been limited by the needs of Italy and "those of other countries" (it is presumed of Germany) and the fact that only one Italian concern is equipped for doing such work. The French have ordered a number of oil tank vessels as well as substantial quantities of minor items - plus the large quantities of motors and uniforms. I gathered that there has been some confusion and crossing of wires due to the fact that D'Autry, the Minister of Armament, has his own mission in Italy through which all purchases of

of

- 3 -

of war materials under his jurisdiction are made, while the Italians at the same time, have their own mission here to facilitate sales to other Ministries in the French Government. Beginning the nineteenth of February, meetings are to be held in Paris to bring existing Franco-Italian clearing and payments agreements into line with the current situation in view of the changes that are taking place.

He remarked, incidentally, that he has seen McKittrick the new President of the B.I.S. in Rome and that he and all the other Italian officials had been most favorably impressed with him.

Little business was done in the securities market and price changes were insignificant. The tendency continues hesitant and cautious.

The official exchange rate for the belga today was 734-740 (compared 737-743).

The Bank of France statement dated February 2 reveals that the Treasury drew another 700,000,000 francs from its advance account at the bank to a total of 15,900,000,000.

END OF MESSAGE.

MURPHY.

RECEIVED  
FEB 19 1945  
U.S. DEPARTMENT OF THE TREASURY

February 8, 1940

12:45 a. m.

Present:

Mr. Purvis  
Mr. Bell  
Mrs. Klotz

HM,Jr: You know Mr. Bell. He will carry on while I am gone, so he will be here in charge in my absence.

Mr. Purvis: I know you must be very busy. I said yesterday there was a cable understood on the way for me. It was not on the subject I expected, but nevertheless it was something I thought I should talk with you first. I thought I would just give it to you.

HM,Jr: May I read it.

"Dated 6/2/40. Following from Monnet for Purvis telegram No. 11.

We have discussed with M. Rist and Mr. Ashton-Gwatkin their projected visit to the United States in the light of your recent messages. We fully appreciate that difficulties may arise from contemplated visit and we will wait to hear from you when Mr. Morgenthau considers this visit would be opportune. Meanwhile we hope that this will not prevent you from pursuing conversations with Mr. Morgenthau personally as opportunity offers."

Mr. Purvis: They evidently thought there might be a way to get around the difficulty.

HM,Jr: (Resumed reading) "It has occurred to us that it might help to smooth out difficulties if the visit of M. Rist and Mr. Ashton-Gwatkin were to be for the purpose of assisting Embassies by bringing up-to-date information as to our economic warfare policy and as to possibilities of meeting protests and complaints now com-

-2-

ing forward from the State Department about the operation of Contraband Control. As a matter of fact both Governments have lately been considering the advisability of sending representatives to Washington for this purpose. M. Rist and Mr. Ashton-Gwatkin would then also be available to assist in the discussion of raw materials in question."

Mr. Purvis: It might be a way of getting around the opposition .....

HM, Jr.: This is going to be very easy. I am seeing the President at ten minutes of two and I will lay this on his desk and ask him how he feels.

Mr. Purvis: Thank you very much indeed, Sir.

HM, Jr.: When are you leaving Washington?

Mr. Purvis: Under those circumstances -- I was going on the two o'clock plane ....

HM, Jr.: If you will wait.

Mr. Purvis: I will wait.

HM, Jr.: I shall phone you.

Mr. Purvis: I shall be at the Anglo-French Purchasing Board, but I just felt it was important enough and it is a way that might get around that little difficulty, because then it would make a clear picture for what you might feel inclined to do.

HM, Jr.: Mr. Bell will be acting while I am gone and so that he's here.

Mr. Purvis: Thank you very much. If I may come in and see you (Mr. Bell) and bother you. I promise not to bother you more than I can help.

Mr. Bell: I will be glad to see you at any time.

HM, Jr.: The thing is difficult and, as I said yesterday, sometimes it is difficult not to let one's personal feelings run away from him.

(The balance of the meeting was off the record and no notes were made, but Mr. Purvis reiterated his concern over the Hercules Powder matter) 000-000

000-000

Copy

Dated 6/2/40

Following from Monnet for Purvis telegram No. 11.

We have discussed with M. Rist and Mr. Ashton-Gwatkin their projected visit to the United States in the light of your recent messages. We fully appreciate that difficulties may arise from contemplated visit and we will wait to hear from you when Mr. Morgenthau considers this visit would be opportune. Meanwhile we hope that this will not prevent you from pursuing conversations with Mr. Morgenthau personally as opportunity offers. It has occurred to us that it might help to smooth out difficulties if the visit of M. Rist and Mr. Ashton-Gwatkin were to be for the purpose of assisting Embassies by bringing up-to-date information as to our economic warfare policy and as to possibilities of meeting protests and complaints now coming forward from the State Department about the operation of Contraband Control. As a matter of fact both Governments have lately been considering the advisability of sending representatives to Washington for this purpose. M. Rist and Mr. Ashton-Gwatkin would then also be available to assist in the discussion of raw materials in question.

THE WHITE HOUSE  
WASHINGTON

February 8, 1940.

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY

Please read and return.  
Can nothing be done to cut down  
on this?

F. D. R.



(1/27/40)

(\$2,275,653.73)

\$1,334.60	Stolp Co., Inc.	
859.17	Ingersoll Milling Machine Co.	
333.50	Special Machine Tool Engineering Works, Inc.	
110.00	Sperry Gyroscope Co., Inc.	
589.00	Sperry Gyroscope Co., Inc.	
2,940.15	Feedrail Corporation	
607,606.63	American Smelting & Refining Co.	
3,326.38	The Brown Instrument Company	
5,058.44	City Pattern Works	
525,842.74	American Smelting & Refining Co.	
10,636.86	Draft - Kingsbury Machine Tool Corp.	
21,690.49	Draft - Cone Automatic Machine Co.	\$5,208.06
689.02	National Vulcanized Fibre Co.	
1,850.00	United Engineering & Foundry Co.	
5.36	Theo H. Davies & Co., Ltd.	
184.15	Harry W. Dietert Co.	
7,868.14	Duquesne-Smelting Corporation	
16,059.00	W. F. & John Barnes Co.	
12,586.83	National City Bank	
329.40	American Meter Company, Inc.	
59.66	Ford Motor Co.	
90.94	Acme Tile & Marble Co., Inc.	
712.37	General Motors Overseas Operations	
382.52	General Motors Overseas Operations	
31,221.07	Norton Co.	
26,822.11	A. G. Parser, MZN	
3,781.02	Irving Trust Co.	
539.39	Guaranty Trust Co.	
743.85	Guaranty Trust Co.	\$1,000,000.
789.06	Howell Electric Motors Co.	
827.87	Howell Electric Motors Co.	
538.79	Norton Co.	
1,078.00	Morse Bros. Machinery Co. - Draft	
181.50	Draft - Leeds Northrup Co.	
1,036.84	The Ideal Electric & Mfg. Co.	
67,834.30	E. F. Hutton & Company	
8,647.13	Draft - Gleason Works	
181,101.89	Draft - Revere, Copper & Brass, Inc.	
2,543.80	Atlas Electric Devices Co.	
322,198.00	American Smelting & Refining Co.	
5,121.73	Howell Electric Motors Co.	
6,520.00	Toledo Scale Company	
62,088.89	New York Trust Co.	
94,393.31	New York Trust Co.	
1,654.08	Central Hanover National Bank	
12,624.00	First National Bank	
18,556.61	Irving Trust Co.	
17,262.55	New York Trust Co.	
141,382.58	E. J. Schwaback & Co.	
61,597.95	To meet eventual drawings against -	
	L/C #24273 in f/o Kingsburg Machine Tool Co., Keene, N.H.	
		211.50
	L/C #25282 in f/o Sundstrand Machine Tool Co.,	
	Rockford, Ill.	80.71
	L/C #23197 - Greenlee Bros. & Co., Rockford, Ill.	\$32,304.86
	L/C #24170 - Greenlee Bros. & Co., Rockford, Ill.	\$ 2,169.41
	L/C #25643 - Snyder Tool & Engineering Co., Detroit, Mich.	\$4,962.25
	L/C #25641 - Pratt & Whitney Div., Hartford, Conn.	\$2,906.46
	L/C #25642 - Snyder Tool & Engineering Co. Detroit, Mich.	\$678.75
	L/C #25640 - Federal Products Corp., Providence, R.I.	\$17,054.97
	L/C #25639 - Barber Coleman Co., Rockford, Ill.	\$1,229.04
374.52	Norton Pike Co.	
240.10	Precision Scientific Co.	
618.86	Spencer Lens Company	
688.14	Joseph Waidenhoff Inc.	
980.50	Heller Machine Company	
79.12	General Motors Overseas Operations	

(1/27/40) - Cont.

8.25 General Motors Overseas Operations	
7,840.00 Duquesne Smelting Corporation	527.88
21,531.84 G & N Trading Company	
31,318.48 American Wool Stock Corp.	
103.95 Timken Roller Bearing Co.	
182.96 Chrysler Corp.-Export	500,000.00
811.33 Jones & Lamson Machine Co.	
2,182.87 Timken Roller Bearing Co.	
9,005.15 E.F. Hutton & Co.	
28,743.51 Transfer to regular account	
2,891.70 Jones & Lamson Machine Co.	
159.87 John Bean Mfg. Co.	
7,840.15 To meet eventual drawings against -	
L/C #24734 -LaPointe Machine Tool Co.,Hudson, Mass.	2,747.68
L/C #25671 -Heald Machine Co., Worcester, Mass.	2,909.60
L/C #25672 -Timken Roller Bearing Co.,Canton,Ohio	2,182.87

Balance 1/27/40 -	\$2,275,653.73
Credits -	1,505,735.94
	3,781,389.67
Debits -	2,407,832.97
Balance 2/2/40	\$1,373,556.70

*Henry*

TREASURY DEPARTMENT

121

Confidential  
(duplicate)

INTER OFFICE COMMUNICATION

DATE February 8, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Export of Heavy Machinery from the United States  
to Russia and Japan.

1. I consulted Admiral Stark, Chief of Naval Operations, General Gasser, Assistant Chief of Staff, Colonel Burns, of the Joint Munitions Board, and Major Soderholm.

2. The Navy might be able to use the machinery for boring the forgings of eighteen-inch guns. Admiral Stark thought off-hand that \$15 million was an exorbitant price. However, he is going into the subject more thoroughly and will inform you. The War Department does not use eighteen-inch guns, but it is interested in the machinery for making anti-aircraft guns.

3. There is no law prohibiting the export of machinery. The only effective way to prevent shipments of machinery now will be a moral embargo.

4. The Navy and the Army are aware of the heavy exportations of metal-working machinery to Japan and Russia. Both departments will furnish you with any information they have and will keep the information current in the future. Nevertheless, I think your plan of having General Watson speak to the President would regularize the procedure.

5. The War Department is in close touch with all heavy industries in the United States. (Parenthetically, the Commerce Department is also, and I am already in touch with Mr. Lind, who heads that Division in the Department of Commerce.) The Navy Department is only interested in companies who deal with the Navy. War and Navy Departments are working harmoniously with Captain Collins, in the Procurement Division.

6. Admiral Stark thought that the machinery for manufacturing eighteen-inch guns would be of little immediate use to Russia, on account of the time necessary to place it in operation. But both War and Navy Departments were aware of the enormous assistance that Russia and Japan were getting from their imported American machinery. Major Soderholm, who has specialized in "heavy machinery" stated that Japan could not have waged war in China except with machinery for munitions bought in the United States. At the present time Japan is more dependent than ever on American machinery, because machinery from Germany is not available.

7. I was impressed by the cordial reception I received and the willingness of both War and Navy Departments to cooperate with you in this undertaking.

  
W. D. Puleston,  
Captain, U.S.N., Retired.

February 8, 1940

CONFIDENTIAL

Dear Mr. President:

Banking institutions in the United States, its insular and territorial possessions, and in foreign countries, qualified as depositories and financial agents, are required to perform much essential banking service in connection with the collection of the revenues of the Government and its various agencies and disbursements through designated disbursing officers. The established method of offsetting costs incurred by depositories and financial agents in the performance of this essential Government business is through the medium of balances of public moneys maintained therewith. These balances, under existing law and Treasury regulations, are required to be collaterally secured by direct or indirect obligations of the United States or obligations of the territorial and insular possessions of the United States. Hence, the only revenue the banks may derive from these Treasury balances, generally speaking, is through the yield from the securities purchased in the market for this purpose.

The increasing requirements of the Government for banking service, combined with the current yields on eligible collateral, will, if the situation is not adjusted, necessitate an undesirable increase in the amount of the balances necessary for the Treasury to maintain with banks. In the circumstances, in order that efficient service may be procured and an equitable relation maintained between the Treasury and its designated depositories and financial agents, it is considered very desirable to provide a special type of obligation for this purpose which will have a fixed rate of yield, will not be subject to market fluctuation, and may be redeemed upon due notice at face value plus accrued interest.

I therefore propose, subject to your approval, and under the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, to issue a special series of bonds of the United States which may be subscribed for by qualified depositories and financial agents meeting all requirements of the Treasury in an amount not exceeding in any case the amount for which the depository or financial agent is qualified, subject to increase or decrease as the qualification is adjusted upward or downward in direct proportion to the amount and character of the essential service rendered by the bank.

The bonds will be dated February 9, 1940, will bear interest at the rate of 2 percent per annum, and will mature February 1, 1950. They will be issued only to secure the qualification of depositories

- 2 -

and financial agents and will not be eligible for any other purpose. The bonds will be redeemable on any interest payment date at the option of the United States or the banks, on short notice. While there will be periodic issues and redemptions as circumstances necessitate, the amount outstanding at any one time chargeable against the limitation imposed by the Second Liberty Bond Act should not exceed \$75,000,000. It is currently estimated that ownership will be restricted to approximately 500 qualified banking institutions.

The authorizing act provides that bonds may be issued only with the approval of the President. Accordingly, in view of the direct benefit to the Treasury which will result from this arrangement, I trust that the proposed issue will meet with your approval.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

APPROVED:

EMBASSY OF THE  
UNITED STATES OF AMERICA

Chungking, February 8, 1940

No. 449

STRICTLY CONFIDENTIAL

CONFIDENTIAL

SUBJECT: Departure of Mr. Maurice E. Sheahan,  
Motor Transport Expert,  
for the United States:

Remarks Made in Course of Call  
at Embassy.

The Honorable  
The Secretary of State,  
Washington.

Sir:

I have the honor to refer to the Embassy's despatch no. 447 of February 5, 1940, on the subject: "Motor Highway Transportation in China: Recommendations of American Transportation Experts", and to previous communications regarding the work of the American motor transport experts who have been advising the Ministry of Communications during the last five months, and to submit, for the information and files of the Department, the substance of remarks made by Mr. Maurice E. Sheahan in the course of a call at the Embassy immediately prior to his departure from Chungking for the United States on February 2.

SUMMARY

Mr. Sheahan discussed at some length his recent trip to French Indochina; his inspection of the Indochina-Yunnan Railway; and his conferences with officials of the railway, Yunnan provincial authorities, and the Minister of Communications. He expressed satisfaction over the spirit of cooperation shown by all concerned, and appeared optimistic in regard to prospects of coordinating motor, rail and water transportation facilities in the Southwest.

Mr. Sheahan indicated that he had not had an easy time during his five months as an adviser to the Ministry of Communications. He stated that for approximately one month (November) he was virtually ignored by the Minister. He seemed to feel, however, that he had in the end succeeded in making responsible Chinese authorities realize what steps must be taken to bring about efficient coordination of transport facilities.

In conclusion, Mr. Sheahan remarked that he had approached his work with the idea that

an efficient transportation system is essential to Chinese resistance to Japanese invasion; that if Japan is allowed to dominate China the ultimate cost to the United States is unpredictable; and that a comparatively small effort made at this time to assist China may save the United States untold expenditures in the future.

The Embassy gained the impression that Mr. Sheehan's view of the future may have been unduly optimistic, but believes he has rendered valuable service to the Chinese Government.

Mr. Sheehan called at the Embassy in the company of Mr. Andrew B. Bassi, one of his two assistants, on January 31, and discussed the results of his work with the Counselor and the Third Secretary for approximately an hour, in the course of which he reviewed the points he had covered in a conversation with the Third Secretary on January 27. Since most of this information was transmitted to the Department by the Consul at Hanoi and by the Vice Consul at Yunnanfu during Mr. Sheehan's visits to those cities, the Embassy will not undertake to repeat it in detail in this despatch.

As the Department will recall, Mr. Sheehan, accompanied by Mr. T. L. Soong, head of the Southwest Transportation Company, flew from Chungking to Hanoi early in January. As a result of his investigation of the congestion of cargo at Haiphong, he recommended that Haiphong be embargoed so far as cargo destined for China was concerned, and further recommended that a large part of the cargo at Haiphong be transhipped to Rangoon and forwarded to China over the Burma road.

In the company of the director and other officials of the Indochina-Yunnan Railway, Mr. Sheehan then inspected damage to the road resulting from Japanese air raids. He estimated the railway could be repaired by February 15 at a cost of not more than \$10,000.00 United States currency, and came to the conclusion that the railroad could probably be effectively defended against air attack. During his call at the Embassy Mr. Sheehan confirmed the view expressed to the Consul at Hanoi early in January to the effect that handling of Chinese Government cargo on the railway would improve - particularly with respect to diversion of freight space from uses to which it had originally been assigned. He said he believed that with the arrival of ten new locomotives, now understood to be en route to Indochina from Batavia, and additional rolling stock now being transferred from the Djibouti Railway, the Indochina-Yunnan Railway could increase its monthly capacity from approximately 15,000 tons to 24,000 tons (assuming that traffic was not

interrupted

\*Hanoi's despatch no. 41, January 12, 1940, et seq.  
Yunnanfu's despatch no. 22, January 26, et seq.

interrupted by further air attacks). Mr. Sheahan said guns were already being placed on hills surrounding the more vulnerable points along the railway - particularly near bridges which would be difficult to replace. Mr. Bassi said he understood four anti-aircraft guns had recently been sent from Chungking to be used along the railway.

While the results of the air raid of February 1, in which a direct hit was scored on a passenger train, would hardly seem to justify Mr. Sheahan's optimism regarding the possibility of defending the railway, they do not constitute conclusive evidence that if and when further defense measures are adopted the railway can not be effectively protected.

Following his inspection of conditions at Haiphong and of the railway Mr. Sheahan, as the Department is aware, proceeded to Yunnanfu, where he met Mr. Chang Kia-ngau, Minister of Communications, who had arrived in the city on January 16. Mr. Sheahan said that Mr. Chang went out of his way to be cordial; virtually apologized for his neglect of Mr. Sheahan and his assistants during preceding months; explained that this neglect had been the inevitable result of orders issued by General Chiang Kai-shek, to complete certain projects in record time. Mr. Sheahan appeared to have been most favorably impressed by remarks made by Governor Lung Yun of Yunnan, officials of the National Government, and officials of the railway, in the course of a banquet held in Yunnanfu on January 24, at which all the speakers, according to Mr. Sheahan, pledged their cooperation in coordinating transport services in Yunnan.

In the course of a brief review of his work during the past five months Mr. Sheahan indicated that the attitude of the Minister of Communications had not been entirely cooperative, and that during the month of November the Minister virtually ignored him. At the end of this month, as the Department will recall,\* Mr. Sheahan issued a statement regarding the effect of the fall of Nanning on transportation in the Southwest in which he painted a remarkably favorable picture of transport conditions with the idea of stimulating the Chinese to greater activity and "giving them something to shoot at". Mr. Sheahan said that in issuing this statement he had also wished to point out that the loss of the Nanning road really was less disastrous than many people had believed.

Mr. Sheahan went on to say that formation of the China Transport Corporation\*\*represented the culmination of his efforts, and that while he regretted that for business reasons he now found it necessary to return to the United States, he felt that he and his assistants had provided the Chinese with a sound basis for an efficient transport system. Mr. Bassi remarked that it was now up to the Chinese to show what they could do with the plan. (Mr. Bassi and Mr. Van Patter, Mr. Sheahan's

other

\*Embassy's confidential despatch no. 408,  
December 19, 1939.

\*\*Embassy's confidential despatch no. 407,  
December 18, 1939.

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other assistant, plan to remain in China for some months to come.)

Shortly before leaving the Embassy Mr. Sheahan remarked that he had kept constantly in mind the belief that a comparatively modest amount of assistance to China at this time may - if it enables her to prevent Japanese domination of East Asia - avert a situation which might, in years to come, compel the United States to expend incalculable sums to maintain her position in the Pacific.

COMMENT: The Embassy is not convinced that the promises of various officials made to Mr. Sheahan during the last few days of his stay in China should be taken as literally as he appeared to take them, especially since the officials knew that in a few weeks he would be in Washington talking with people interested in the possibility of granting new credits to China. The Embassy does feel, however, that in addition to giving the Chinese the benefit of his expert technical knowledge, Mr. Sheahan has rendered a notable service in talking to the Chinese as frankly as his remarks to the Embassy would indicate. He has been in a position to point out weaknesses which few, if any, Chinese would dare mention openly - either to colleagues of equal rank or to their superiors.

Respectfully

For the Ambassador:

WILLYS R. PECK  
Counselor of Embassy

Original to Department by airmail  
Four copies to Department by pouch  
Copy to Peiping by pouch  
Copy to Shanghai by pouch  
Copy to Yunnanfu by air mail  
Copy to Hanoi by air mail

870/815.4  
TEW:RHK

Note: Owing to press of routine, completion of this despatch has been unduly delayed.

COPY

No. 268

American Consulate  
Rangoon, Burma,  
February 8, 1940.

STRICTLY CONFIDENTIAL

Subject: War materials for China; statistics of imports at Rangoon passed for transit through Burma during the period January 1 to January 15, 1940.

THE HONORABLE  
THE SECRETARY OF STATE,  
WASHINGTON.

Sir:

I have the honor to refer to information recently transmitted to the Department, and to forward herewith statistics of war materials for China imported at Rangoon and shipped in transit through Burma during the period January 1 to January 15, 1940. The value placed on these materials was Rupees 2,705,801, or \$811,740 at the present exchange value of the rupee, which is approximately \$0.30. Values in rupees of materials re-exported to China in 1939 were converted at a rate of 35 cents, as that was the approximate value of the rupee in United States currency when transit shipments started and during several months thereafter.

On January 15, 1940, the total value of all war materials re-exported to China from Rangoon stood at Rupees 108,835,717, or approximately \$37,957,208.

In regard to the meaning of the phrase "passed for transit" (reference informal comment on despatch no. 229, of October 18, 1939), I have to report that materials passed for transit through Burma are in almost every instance re-exported to China, shipment following the Customs inspection and clearance. The procedure followed in handling transit cargo at this port is described as follows:

When cargoes of war materials or other supplies for China reach this port the cases, boxed, crates, drums and other packages, and any articles not in containers, are carefully checked as they are unloaded, both by Customs clerks and employes of the Southwest Transportation Company, the Chinese semi-military transport concern in charge of shipments to and within China. They are then forwarded to warehouses, where they are again checked on entry, and where they are under constant Customs supervision. The only exception to this latter procedure is in the case of explosives, which are stored in barges in the Rangoon River, several miles from the docks. Military police, provided by the Government of Burma, are on guard at the warehouses and on the barges. As soon as it is possible to do so, the local office of the Southwest Transportation Company notifies the Chinese Government Agency charged with the distribution of supplies of the cargo received,

received,

- 2 -

ceived, and the Rangoon office is then instructed in regard to any preferences to be observed in shipments, and is furnished with the necessary funds for local payments. When the Customs authorities are informed of the shipments to be made, the materials are inspected and passed for transit through Burma to China, and practically all supplies passed are shipped.

Respectfully yours,

Austin C. Brady  
American Consul

In quintuplicate to the Department.

SOO

ACB

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WAR MATERIALS FOR CHINA

Statistics of imports at Rangoon inspected and passed for transit by the Burma Customs authorities during the period January 1-January 15, 1940.

<u>Type of Material</u>	<u>Number pkgs.</u>	<u>Description and Quantity</u>	<u>Country of Origin</u>	<u>Value Rupees</u>
<u>Airplane parts</u>	2	No description	United States	1,582
	2	" "	" "	4,453
	4	" "	" "	4,936
	1	" "	" "	1,296
<u>Machine-gun parts</u>	1,143	Ammunition boxes; 30,936	Russia	154,680
<u>Shells</u>	5,975	37 mm.; 136,549 rounds	"	1,911,686
	1,012	76 mm.; 7,078 rounds	"	106,170
<u>Fuses</u>	117	37 mm. shells; 46,700	"	46,700
	48	76 mm. shells; 2,810	"	14,050
<u>Cartridges</u>	2,362	7.62 mm.; 1,417,200, in clips	"	85,032
	7,755	7.62 mm.; 6,546,260	"	327,313
	34	7.92 mm.; 76,500 in clips	Czechoslovakia	4,590
	385	7.92 mm.; 866,250	"	<u>43,313</u>
			<b>Total</b>	<b>2,705,801</b>

WAR MATERIALS FOR CHINA

Imports at Rangoon inspected and passed for transit during the period  
January 1 to January 15, 1940.

RECAPITULATIONVALUES BY COUNTRIES OF ORIGIN.

<u>Country of Origin</u>	<u>Value Rupees</u>	<u>Equivalent U.S. Dollars</u>
1. Russia	2,645,631	793,689
2. Czechoslovakia	47,903	14,371
3. United States	12,267	3,680
Total	2,705,801	811,740

VALUES BY TYPES OF MATERIAL

<u>Type of Material</u>	<u>Unit</u>	<u>Quantity</u>	<u>Value Rupees</u>	<u>Equivalent U.S. Dollars</u>
1. Shells	No.	143,627	2,017,856	605,357
2. Cartridges	"	8,906,210	460,248	138,074
3. Machine-gun parts	"	30,936	154,680	46,404
4. Fuses	"	49,510	60,750	18,225
5. Airplane parts	-	—	12,267	3,680
Total			2,705,801	811,740

## GROUP MEETING

February 8, 1940.  
9:30 a.m.

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

H.M.Jr: I think this is a surprisingly good story in the Journal of Commerce, considering how badly Customs has treated them. I am glad I can get a good story out of them.

Harris: Today's Journal? I will look at it.

Schwarz: It is a New York story.

H.M.Jr: Yes, on the machine tool thing. It is pretty good. I think it is one of the most intelligent things that has been written.

Schwarz: It is a good approach.

H.M.Jr: For those who are interested in - do you want to look at this?

Bell: I have got it home, I think. I will look at it.

H.M.Jr: For those who are interested in South America, I got worried when I saw the activity in the bonds of the Republic of Colombia and so I called up Mr. Welles this morning at his house at 8:15. I thought that the statement should be made today that the Republic of Colombia and the Bondholders' Protective Committee had reached an agreement, details of which would be announced on February 15, and he agreed with me, because - I don't know how many people are on the Bondholders' Protective Committee,

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but they know it. Everybody in the Republic of Colombia's Embassy knows it and I think it puts those of us who withhold information in an embarrassing position, so Welles said he would call up the Ambassador of Colombia and if he gets a release he will let me know and I will call up Traphagen.

- Cotton: Are you going to ask - it is a little bit contrary to the understanding reached here.
- H.M.Jr: Well, if we get a release from Colombia.
- Cotton: Yes, that is all right.
- Bell: And Traphagen?
- H.M.Jr: And Traphagen.
- Bell: We were hoping that if they got close to the 15th and we thought there might be a chance of coming to an agreement we could ask for a postponement of that date, maybe for a week or something like that.
- H.M.Jr: My own stuff, the minute - anything that we do in Government financing, the second we know, we can't get to the ticker quickly enough to let everybody know. There is buying activity and there is speculation going on and the people on the "in" are buying up these bonds, knowing that there is a bond selling that is going to pay 3 percent, that is 10 percent on your money. That is going nice. I just don't feel comfortable. It is up to Welles to get a clearance from them. I am sure Traphagen will go along with it.
- Cochran: There was a mention in the press today also that Colombia is being considered for a loan by the Export-Import Bank.
- H.M.Jr: A lot of people know about it. Espil was at the house two nights ago and he said, "How are you getting along with the Colombian debt?" and I said, "Very well. It is very, very important."

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He said, "We refunded the provinces of the Argentine on a 4 percent basis, the Federal Government did," and he said, "Of course, if you should do anything on a 3 percent basis it would be very embarrassing for the Federal Government of the Argentine," so I said, "That is easy. I will just tell the Colombians that Argentine doesn't want us to do it for less than 4 percent."

"Oh no, no, no, no, don't tell them that." But you see, it is all around, so I think the quicker it is out, the better.

- Bell: I raise the question as to whether the whole terms shouldn't be given out. There would still be speculation if you say they have come to an agreement.
- Cotton: I wonder if you would have five minutes to talk. Mr. Traphagen called me yesterday. Would you like to talk to Mr. Bell about it? He can tell you what he said. He had some ideas on a permanent settlement, also.
- Bell: Maybe I can see you for five minutes sometime.
- H.M.Jr: Bell has got from 11:00 to 12:00 and if he gets through, will you (Bell) remind me and then we will have a conference for a minute. We will concede you (Cotton) five minutes.
- Thompson: I put in my name with McKay for a couple of minutes.
- H.M.Jr: Harold?
- Graves: Nothing.
- H.M.Jr: Harry?
- White: I have got quite a few telegrams about Russia. I am wondering if you wouldn't care to indicate specifically how you want the Russian stuff

- 4 -

handled. Basil Harris is handling one angle of it and we are taking care of one and Herbert Gaston. I think it better be centralized.

H.M.Jr: Do you mean on this shipment?

White: Yes, on keeping track of all --

H.M.Jr: The interesting thing is - I almost fell over last night to think that the State Department is abreast with us. The State Department also called up Climax Molybdenum and wanted to know why there was \$40,000 worth of molybdenum going on a boat.

Gaston: From Los Angeles?

H.M.Jr: Yes. Well, I think that this is - I think it better head up with Herbert Gaston. I think that would be - I am glad you raised that, because - Dan, I think the stuff that I have been doing, certainly anything to do with the shipments out of this country, whether they go to Russia or - they raised the question of extra exports of molybdenum to Italy. I sent that to him, too.

White: We are following Italy, Russia, Germany and by-ports shipments.

H.M.Jr: I think if you and Basil Harris and Gaston will work on that. Now --

Harris: I will just feed into Herbert any bits of information I get. Mine is mostly piecemeal, anyhow.

H.M.Jr: And then the stuff - anything that has to do with foreign purchases of war materials, we had the President set this committee up with Captain Collins, see, and I think I will tell Collins that if there is anything from that, Bell, while I am gone, he should talk to you and if you think it is something I ought to know about, why - the way I would like people to - Mrs. Klotz will be here most of the time.

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If she isn't here, Miss Chauncey will be here the days she is out. Do you (Mrs. Klotz) want it to go through your office or through Thompson's?

Klotz: Whatever you want.

H.M.Jr: Days Mrs. Klotz is here, she will handle it, and the days she is not here, Mr. Thompson will handle it. How is that?

Klotz: That is all right.

H.M.Jr: If it is something like - that you can wait a half a day for an answer for, I would rather have it come through a code telegram and McKay has the code, you see. If it is something you need an answer within an hour on, maybe you had better phone. The airmail isn't very satisfactory unless you do this - you can do this: If you put it on a ship, for instance, the ship that leaves here at 5:00 o'clock tonight and gets there at 8:00 tomorrow morning, and we know there is something on that ship, you can work it out with the Post Office - I can send a man up to meet that ship and get it, you see, and I will have it two hours later.

Klotz: Mr. Secretary, is that Tucson?

H.M.Jr: Yes. If you send me a wire that on American Airways, such and such a ship, there is a special pouch or special letter or something, work it out with one of these ex-Post Office inspectors like Graves, we will send a man up to meet that ship, you see.

Bell: O. K.

H.M.Jr: But otherwise, a code telegram can reach me - telegraph service is excellent. They phone it right down. Telephone only if it is an emergency. If Giannini comes in and asks, "May we subscribe to 35 million dollars worth of bonds?" and wants to write off all his real estate, telephone me.

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- Bell: Ed and I will come down on the plane.
- H.M.Jr: You can bring the whole staff.
- Klotz: That is certainly worth it.
- H.M.Jr: And charge it up to Giannini.
- Klotz: You are so big hearted.
- H.M.Jr: I don't think I have anything else.
- Bell: I don't drink, Mr. Secretary, but I would drink on that. I think I would get relief on both occasions.
- White: Do you smoke, Dan?
- Bell: No, I don't smoke either, but I would take a cigarette, too.
- H.M.Jr: The days Mrs. Klotz is here, she will handle communications and those days she isn't, Mr. Thompson will.
- Dan? Are you saving everything for 11:00?
- Was I down to Harry?
- White: I started, yes. Secondly, you commented on the conference on gold yesterday. I am wondering whether you might not want to mention --
- H.M.Jr: Oh, for the benefit of those who have weak stomachs on gold, if a group should come together to discuss gold, it isn't gold, it is a discussion to be on the internal economic conditions of the United States, you see. That takes care of all weak stomachs.
- Cochran: Is that going to be international or just domestic?
- White: No, just domestic.
- H.M.Jr: Just domestic. I think the people who have been worrying are quite right about it. So,

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if you hear there is a meeting going on or anything, it is on finding out how we can put the country on a hundred million dollar basis.

Bell: Ninety million first.

White: Let's skip the eighty and go to a hundred.

H.M.Jr: That is right, it is just as easy.

Incidentally, I would love to see Lauch Currie's memorandum on that, the one that the President had. It must have come from Lauch.

Bell: I haven't got it, but I have a memorandum which Mr. Haas made up for me yesterday. The President, I think, is wrong. The trouble is, he covered seven years and he should have covered ten. I think he would have been all right.

H.M.Jr: I asked somebody to - did I write you? I said, "Is Tom Dewey right or wrong?"

Bell: He is right. On the period, if the President had taken 1930, he would have been all right, but he took seven years.

H.M.Jr: Well, I am seeing the President today.

Bell: Of course, they are all after him.

H.M.Jr: Anything else, Harry?

White: I take it you want us to continue to follow those exports. We have a man up in New York.

H.M.Jr: Now, industrial diamonds, you are handling, aren't you?

Gaston: Yes.

White: O. K. That is all.

H.M.Jr: I am still not satisfied with what goes on at Manzanilla.

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- White: Well, I don't know - this information you have, the Russians are starting a regular shipping line to Manzanilla and whether they are shipping that stuff to Mexico because they fear they may have difficulty in getting the stuff out from here or whether it is for marine reasons, I don't know, but apparently they are going to make Manzanilla one of their important export points in the western hemisphere, but I understand that the place certainly isn't equipped to handle the type of material that is going out now, so maybe they expect to spend some money there. It seems to me the story would bear investigating.
- H.M.Jr: Anything else, Harry?
- White: That is all.
- H.M.Jr: Basil?
- Harris: There was an attack by Congressman Brewster in the House that you may have seen. We are getting up an answer to it. It is a highly technical matter. We think we are a hundred percent correct on it. We will have that answer by noon and I have been talking with Danny Bell and we may get somebody on the floor to answer it.
- Gaston: About the naturalization proposition?
- White: They can have it.
- (Discussion off the record)
- Harris: The joke back of this thing is Brewster has been after Joe Davies. The president of the company is Clare Chester, who is about the largest contributor to the Republican party. He overlooked that one.
- Bell: There were several newspaper articles on that. Chick might have something. The

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memorandum might go to Rayburn or somebody on the Ways and Means.

H.M.Jr: Wonderful. The President got a great kick when I told him that you and Norman Thompson were looking after Charlie West in order to help Ohio. He said, "You tell them to look out for the Hatch Act. Tell those two boys, Thompson and Bell, not to go beyond the Hatch Act." The President said particularly to tell you that. He got a great kick that you fellows were taking care of the State of Ohio.

Bell: He got a promotion, I understand.

H.M.Jr: Who?

Bell: West.

H.M.Jr: What do you mean?

Thompson: It is \$7500 after all.

H.M.Jr: He told Gaston the President promised him Assistant Secretary of the Treasury. Don't worry, boys. Even though you press me, I will not give him that.

Bell: I offered him Director of the Budget one time and he wouldn't take it.

H.M.Jr: Anything else?

Harris: I could say something about that Tennessee district, but I think maybe it would be just as well if I would skip that.

H.M.Jr: All right. Is it well in hand?

Harris: Yes, his own hand. There is such a thing as raising the white flag at the right time.

H.M.Jr: Learn to run and fight another day.

Harris: Yes.

H.M.Jr: Well, I didn't hear anything. I see by the ticker the President had lunch with Ed Flynn

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and he had the stuff on his desk. I didn't get any telephone call. I also left on his desk that thing of taking away those \$80,000 worth of jobs in Customs. Everything else all right?

Harris: Yes.

H.M.Jr: George? Did you see those machine tool fellows any more yesterday?

Haas: No, they went to the hotel (handing report to Secretary). They were invited, you know, but they wanted to go to the hotel.

H.M.Jr: I guess they wanted to get right down to business. Anything else, George?

Haas: That is all.

H.M.Jr: George, I don't know whether you send me once a month a report on this Federal Housing. I would like those reports once a month.

Haas: All right, I will see that you get them.

H.M.Jr: They don't look too good.

Haas: No, they are down some.

H.M.Jr: Chick?

Schwarz: I just want to report Mr. Sullivan, Mr. Irey and myself have been in touch with Pegler to straighten him out about the fact that we do look into incomes of labor racketeers.

H.M.Jr: How do you reach Pegler?

Schwarz: Through United Features Syndicate at New York. We found him at the Waldorf yesterday. He is coming down within a week or two. He claims that he was told that by the Bureau, but he can't remember who told him.

H.M.Jr: What Bureau?

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- Schwarz: That we paid no attention to any kind of labor returns. That is his story. He doesn't know who it was.
- H.M.Jr: I was kind of bothered about that story of the Kennedy report which I don't think I have ever seen, have I, Kennedy's analysis of the financial situation of England?
- White: You didn't get anything from me, because I don't know what you are talking about.
- H.M.Jr: I would check up, Merle, and if we haven't, based on this story, I would like to write a letter to Mr. Hull and refer to this story and say if there is such a report in existence that I would like to have a copy of it.
- Cochran: Yes, sir.
- H.M.Jr: And I think that this report of Cochran's - I would like to have Bell and Schwarz and White read it. In trying to trace it down, they claim they got some of the story out of the Treasury Division of Monetary Research.
- White: Kennedy got some?
- H.M.Jr: No.
- Schwarz: Lehrbas.
- White: I don't know him. Is he the Balkan correspondent?
- Schwarz: Yes.
- White: Yes, he has been around and talked to us.
- H.M.Jr: I sent Mr. Hull everything I have and if Mr. Kennedy has a report on the financial situation of England, why don't I get it?
- White: There were several long reports that we did not get, I am sure. We got one very long report by accident, because we saw a reference

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to it in a telegram and we asked Cochran to get it several months ago and then we got it about five or six months later. It was a very careful and long report from the State Department. I didn't know whether that had been repeated or not, but there have been two instances of that. It may have been errors.

H.M.Jr: Herbert, will you read this (handing document to Mr. Gaston)?

How far was I?

Cotton: I understand the Colombian Ambassador is writing you a letter showing his understanding of the situation. I thought you would like to let me look that over before you make anything public, to see if he has got it right or not.

H.M.Jr: I have already asked you to.

Cotton: Oh, you have?

H.M.Jr: I asked you (Cochran) to work with Cotton yesterday, didn't I?

Cochran: You told me to write the letter.

H.M.Jr: Yes, I did.

Cochran: I am sorry, I don't believe you did. I have a whole sheet here.

H.M.Jr: What I had in mind was that I thought I said you and Cotton should prepare an answer for me. Well anyway, if I didn't --

Cochran: Well, it is just an acknowledgment, anyway.

H.M.Jr: I may or may not have. I had intended that Cotton should see it and collaborate. Anything else?

Cochran: I have nothing except this Russian gold story that came out in the press this morning about

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the arrival of the S.S. Kim. That is one of the ships that is going down to Manzanillo.

Schwarz: It is also in the story.

Harris: By the way, Mr. Secretary, yesterday in the Customs hearings, Lodge picked up something about copper and he asked where it was going and we said Russia and he said, "What?" And then he started to delve into it and then he asked for a list of all exports to Russia. We told him that was the Department of Commerce, but we recommended they get it out if they have it.

H.M.Jr: In this room, if the President will let me do it, if some of these boys that don't like Russia want to do something, there is completed in the United States a lathe, 160 feet long, that will manufacture an 18-inch gun, the biggest gun in the world, and this manufacturer has sent down all the plans to the Army and Navy. He is paying the fines on it out of his own pocket for non-delivery, waiting for the Army and Navy to buy it. It is the biggest lathe in the world to make a gun 165 feet long with an 18-inch bore. I called up General Watson last night and I said would he do something and he said no, I had better talk to the President myself, it was too big for him, or words to that effect.

This manufacturer, out of his own pocket, has been paying the penalty, hoping that the Army and Navy - I called up Mr. Edison yesterday to ask him about it and he doesn't even know about it. I spoke to the people last night at the house and they said, "We have been sitting there paying the penalty, hoping somebody in Washington would say, 'Thank you, here is the money.'"

In the contract they wrote with the Russian Government that it could be released to our own Army and Navy. It is a perfectly legitimate Russian contract to deliver a lathe

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165 feet long to make an 18-inch gun and here it is and the manufacturer has been paying the penalty, and in there is a clause - what would you call it, an escape clause? It permits him to sell it to the Army and Navy and he has had the plans and everything else in the Army and Navy since last September and they haven't done anything about it.

White: Has your information to Edison been sufficient to start it rolling?

H.M.Jr: I am not relying on that, I am seeing the President about that, plus the fact that the machine - it is just unbelievable, that the Army and Navy wouldn't do something. But then, I suppose that is why the President uses me, because he can't get results. But he will know about it before I leave town tonight.

White: There was an extremely large crate, supposed to be very valuable, that was awaiting shipment on that boat. They didn't like to open these large crates because it is very expensive to close them and the Customs Bureau has to pay the expense. I don't know what was in it.

H.M.Jr: I am asking the President whether he won't let Captain Puleston make a survey of all of these plants. We know where the stuff is and the figure given me to buy up all of this stuff was between 15 and 20 million dollars. It isn't even like sending one gun. This is a machine that can turn these guns out as big as anything we own ourselves. It is unbelievable, the stupidity of the Army and Navy. It just burns me up. But the President will know about it before I leave. Isn't it unbelievable? This manufacturer says, "Mr. Morgenthau, we sent this all down, the plans and everything, last September and we have been paying the penalty out of our own pocket, hoping that we could take it to an American court to protect it, that there was somebody in Washington who would say thank you and take it off our hands." Then we worry about \$40,000 worth of molybdenum.

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Incidentally, Merle, I want to congratulate you on this monthly statement on the stabilization fund. I see you ran it for less money this last month than we had ever run it before. It is a nice statement. Did you see this, Bell?

Bell: No.

H.M.Jr: It is very nice. We made, in the month of January, the stabilization fund made a half million dollars and that's the lowest running expenses we have ever run. Merle is the first person to take an interest in the expenses.

Herbert?

Gaston: I haven't anything.

H.M.Jr: On this Russian gun stuff, we don't want to get it out, but the President will hit it this afternoon, I know he will. The interesting thing is that the American manufacturer is willing to pay the penalties and he sits there waiting for somebody to come around and take it off his hands. I can't understand why some Senator or Congressman hasn't learned about it before.

If anybody wants to see me, if they will tell McKay, we will fix it up. I am seeing Bell from 11:00 to 12:00. If I don't see you all again, I won't be on the telephone so it is safe to play golf or tiddle winks. I hope you all get some fun while I am gone.

Thompson: If the weather man will behave.

Bell: You probably will want to get the last thing on this conference this afternoon.

H.M.Jr: Yes. Well, I have kept myself - the only person I am seeing, I am seeing Jerome Frank, which you had better sit in on.

Bell: What time is that?

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H.M.Jr: He is coming at 3:00. But it won't take but a few minutes. I want to tell him about Gifford, who is here on British securities. You (Cochran) had better be in on that, too, so that you will know about it and Mr. Bell may want you to contact Gifford while I am gone so there isn't too much falls on him.

White: Are you going to be at that conference? You might want to read that memorandum of their foreign exchange assets that we prepared a few days ago for the British.

H.M.Jr: What is that, Harry?

White: On the British. It will give you some idea of what they are up against, possibly, if you are going to take any action.

H.M.Jr: Why, do you want to come in at 3:00?

White: No, I don't.

H.M.Jr: Are you interested?

White: Not enough to come around, no.

H.M.Jr: If it is difficult, I can get you a pair of roller skates.

O. K.

*Albert to ...*  
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DEPARTMENT OF AGRICULTURE  
WASHINGTON



February 8, 1940

Hon. Henry Morgenthau, Jr.

Secretary of the Treasury

Dear Henry:

The newspaper notice of the President's appointment of an interdepartmental committee "to represent the United States government in all matters relating to the purchase of military or naval supplies, materials and equipment purchased in the United States by the United States government or by foreign governments," has just been brought to my attention.

This suggests that you might be interested in the attached letter which I received from Thomas E. Wilson of the Wilson Packing Company, who is a member of our Agricultural Advisory Council. I have given this letter to the State Department but I think you should have it in your capacity as liaison officer between the President and this new committee.

Sincerely yours,

*H Wallace*

Enclosure

Secretary

February 8, 1940

Hon. Henry Morgenthau, Jr.

Secretary of the Treasury

Dear Henry:

The newspaper notice of the President's appointment of an interdepartmental committee "to represent the United States government in all matters relating to the purchase of military or naval supplies, materials and equipment purchased in the United States by the United States government or by foreign governments," has just been brought to my attention.

This suggests that you might be interested in the attached letter which I received from Thomas E. Wilson of the Wilson Packing Company, who is a member of our Agricultural Advisory Council. I have given this letter to the State Department but I think you should have it in your capacity as liaison officer between the President and this new committee.

Sincerely yours,

SECRETARY OF THE TREASURY  
(Signed)

Hawallance

Secretary

Enclosure

WILSON & CO., INC.  
Chicago

January 22, 1940

Dear Mr. Secretary:

There have been several new developments pertaining to the pork and lard export trade with the United Kingdom since the meeting of the Agricultural Advisory Council in your office on January 16.

You are, no doubt, aware of the fact that the British Government has added hams, bacon and lard to the list of products, the imports of which are prohibited except under license. This order became effective January 20, but does not apply to pork and lard en route to the United Kingdom prior to that date. Our British representatives believe it will be possible to obtain license for shipping product intended for United Kingdom in cure on January 20, but as yet we have not received any absolute assurances that this request will be granted.

Our representatives are very pessimistic about the possibilities of shipping additional supplies under license. They have recommended that we discontinue processing bacon and hams for England, and we are following their recommendation. The outlook is equally unfavorable for the shipment of lard. In view of these developments it now looks as though there is a strong likelihood that operation under the import license will be about equivalent to an embargo on American pork and lard similar to that in effect for certain other American farm products.

We have been advised indirectly that Canadian shipments to the United Kingdom have exceeded 7 million pounds weekly during several recent weeks, which is far in excess of the required volume of 2,000 long tons weekly under the United Kingdom-Canadian agreement, and the Canadian product is of course being purchased at a relatively high price. It has been rumored that the British Government contemplates asking the Canadian Bacon Board to curtail shipments somewhat and arrange for Canadian packers to store the product for British account to be shipped at a later date. All of this provides additional evidence that the British Government intends to purchase very little, if any, pork products from the United States.

I hope it will be possible for you to use your good offices in registering a strong protest with the British Government against this recent action apparently intended to exclude American pork products from the British market. We appreciate, of course, the magnitude of the problems confronting the United Kingdom at this time and the necessity for careful control over their foreign exchange; but in view of the steps that have been taken by the United States which permit the purchase of greatly needed war materials in this country, it would seem that we are fully justified in protesting the discrimination shown against the United States farm products, especially pork and lard, essential food items of which we have a surplus and are available at such low prices.

Sincerely yours,

/s/ Thos. E. Wilson

Hon. Henry A. Wallace  
Secretary of Agriculture  
Washington, D. C.

February 12, 1940.

My dear Mr. Secretary:

In the absence of the Secretary I am acknowledging your letter of February 8th, which encloses a copy of a communication you have received from Mr. Thomas E. Wilson, Wilson and Company, Incorporated, Chicago, Illinois. I know that Mr. Morgenthau will be glad to see this letter, and I shall bring it to his attention as soon as he is back in the office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Honorable Henry A. Wallace,  
Secretary of Agriculture,  
Washington, D. C.

GEF/dbs

By Messenger 3<sup>15</sup> pm 2/12/40

February 13, 1940.

My dear Mr. Secretary:

In the absence of the Secretary I am acknowledging your letter of February 8th, which encloses a copy of a communication you have received from Mr. Thomas H. Wilson, Wilson and Company, Incorporated, Chicago, Illinois. I know that Mr. Mergenthau will be glad to see this letter, and I shall bring it to his attention as soon as he is back in the office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Honorable Henry A. Wallace,  
Secretary of Agriculture,  
Washington, D. C.

GEF/dbs

By Messenger 3<sup>15</sup> pm 2/13/40

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H. S. Klotz,  
Private Secretary.

Honorable Henry A. Wallace,  
Secretary of Agriculture,  
Washington, D. C.

By Messenger 3 *15 pm 2/12/40*

GEF/dbs



## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

February 8, 1940

## MEMORANDUM FOR THE SECRETARY

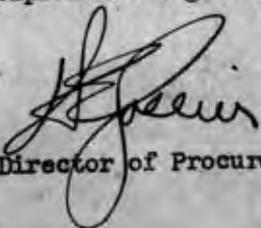
Mr. Stillwell phoned me yesterday afternoon at 5:30 and stated that yesterday's meeting with the engine manufacturers had served to further crystallize the machine tool situation and that he felt deliveries could be speeded up to meet dates which had been promised.

Mr. Ward of Pratt & Whitney also talked with me later and stated that he felt that yesterday's meeting would result most advantageously to the airplane industry.

While talking with Mr. Stillwell he also reiterated a desire that representatives of the machine tool industry be allowed to sit in on the next meeting that might be had between the airplane industry and Allied representatives. He was informed that he would be advised when such meeting was scheduled and invited to send representatives to it.

He also stated that, unless some difficulties presently unseen developed, he doubted if it would be necessary for them to come to Washington again on the 21st as suggested. On this matter, however, he promised to contact me further at a later date.

He asked me to particularly express to you his very deep appreciation, as well as that of the machine tool industry, for the interest that you have taken in this matter and for the helpful meetings that you arranged.

  
Director of Procurement

**TREASURY DEPARTMENT**  
**INTER OFFICE COMMUNICATION***(Mr. Hester)*

DATE February 8, 1940.

TO Secretary Morgenthau  
FROM Mr. Haas *BA*

Dr. Lubin just telephoned me and said that the Civil Aeronautics Authority had asked his bureau for employment figures for the various airplane companies. Dr. Lubin's bureau advised the Civil Aeronautics Authority that the employment figures were confidential, but they would be glad to furnish them to the Authority if the individual companies would advise Dr. Lubin to release them. (It was by this arrangement that we obtained the employment figures.) This suggested arrangement aggravated the Authority and they said they would contact the companies direct to get the employment figures. Dr. Lubin said they wanted the figures because they were concerned about commercial plane production in this country.

Dr. Lubin thought you should know about this before you left town, as he was apprehensive that this agency might upset the program on which you are now working.

DWB discussed the above with Haas 2-9-40 - and with Hester of the CAA on 2-13-40 (Haas present when he talked with Hester over phone)

Approved  
2-8-40

PROPOSAL FOR PERMANENT SETTLEMENT  
OF THE DIRECT DOLLAR DEBT  
OF THE COLOMBIAN GOVERNMENT

---

1. The proposal relates to \$45 millions principal face amount of direct obligations, i. e. the amount assumed to be outstanding exclusive of repatriated bonds which cannot be tendered for sinking fund purposes. It is assumed that the Government-guaranteed mortgage bank debt will be otherwise taken care of.
2. The \$45 millions of old bonds will become an equivalent face amount of 35-year term bonds, maturing 1975.
3. Current interest at 3% for the first 15 years and 4% thereafter. In addition to current interest, during the first 15 years payment on account of unpaid interest arrears accrued will be made at the rate of 1% on the currently outstanding face amount of bonds, resulting in an effective interest rate throughout the life of the settlement of 4%.
4. No sinking fund obligations in the first year. Thereafter each year there will be applied for sinking fund purposes, by purchase of bonds on tender or redemption, any saving in interest over the maximum amount required by way of interest in any prior year and, in addition, the Colombian Government will agree to put the Fiscal Agent in funds to retire a minimum of \$600 thousand face amount of bonds. In any year in which the value of Colombian exports to the United States fell below the amount of some base year agreed upon, the obligation to put the Fiscal Agent in funds to retire \$600 thousand face amount of bonds would be waived, but the Colombian Government would guarantee to pay the Fiscal Agent a minimum of \$2 millions each year for service of the bonds, including sinking fund purposes.

## EXCERPT OF CONFERENCE WITH UNDERSECRETARY

February 8, 1940

11:00 a. m.

(Mr. Cotton entered the conference)

H.M.Jr: It was just a piece of Morgenthau luck.

Bell: Well, it went very well and I thought they were very pleased to get it.

Cotton: Mr. Traphagen called me yesterday, day before, I guess it was and I talked to Mr. Bell a little about it. If you will remember, he wrote me a letter setting forth the proposition for a permanent settlement he thought he could get through the Council. Since this temporary agreement was agreed to, he put it up to the Council and said he could get it through. I thought you might want to consider it. He says that he is unwilling to put it forward, because he feels that he will be treaded on. He thinks that has happened before, but if the Colombians would put it up, he would accept it and could guarantee getting it through. I told him I would tell you about it.

H.M.Jr: What is the proposal?

Cotton: Well, this summarizes it (handing proposal to Secretary).

H.M.Jr: Well, it is just a matter of physical time. I can't sit down with these gentlemen between now and 5:00 o'clock. And, as I was saying to Bell, I think we had a piece of luck the other day that everybody just happened to be psychologically ready to state that they wanted to settle and it was a piece of luck, but without seeing these people face to face, I wouldn't want to - I wouldn't know what would happen.

Bell: Does Laylin know any part of this?

- 2 -

Cotton: No, not unless Traphagen told him. I talked to Larry Duggan a little bit about it. He was over here one day. I explained it to him and I think he hoped that possibly something might be done with it. I am not very optimistic, because I think they are still pretty far apart, but at least this is something the Council would accept. Now, whether it would be the time to use it, or whether it can be used, it is hard to tell.

H.M.Jr: What do you think, Dan? Whatever is going to be done, you are going to have to do it in the next ten days.

Bell: Well, I think that this 4 percent rate in 15 years might be a stumbling block.

Cotton: I told him I didn't think he could get this settlement on that interest rate the way things were going and he said well, it was as far as he could go, that they would prefer to stand on the temporary settlement, that they would not cut this down. I think he varied the sinking fund provision a little bit, but not on the interest. He is a pretty straight fellow, I think. That is his last word.

Well, perhaps you might want to -- I just showed it to Duggan, I mean. It is not in the possession of the State Department or Jones or anybody else.

Bell: Well, it might be that if you have no objection that if they ask for a meeting that we might get together with Jones and Welles beforehand and discuss as to how a thing like this might be handled.

H.M.Jr: I will leave it to you.

Bell: If we think the time is good or we have another psychological situation as you referred to, maybe we can put it forward as just a suggestion for consideration rather than seeing the negotiations break down.

- 3 -

Cotton: Right. I would suggest that when you get this note from Traphagen -- it seemed to me the Ambassador's letter to you was not quite complete in the sense of he didn't mention when the interest would be paid. You said it ought to be paid half on the 15th. He doesn't say that in his letter and also he doesn't say anything about the negotiations to go forward on the guaranteed debt, either, which were specific enough. So I think when Traphagen writes us, in a transmitting letter, or something, we might say issues have been called to our attention which were agreed to.

H.M.Jr: It is a good point.

Cotton: All right.

H.M.Jr: Thank you.

Bell: He doesn't say anything about it in his letter, does he, Traphagen?

Cotton: Has the Traphagen letter come in?

H.M.Jr: I hadn't seen it.

Bell: Mrs. Klotz just handed it to me.

H.M.Jr: I see.

Cotton: Well, he doesn't mention it, either, does he?

Bell: No.

H.M.Jr: Turbay said he would do that. When Welles calls me up today on this thing, I will remind him to remind Turbay it is to be the 15th.

oo O oo O oo

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE Febr. 8, 1940.

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

Jan. 30: A cargo of about 330,000 bushels of wheat was sold by an exporter for shipment from the Columbia River to Shanghai.

Imports of wheat flour into Cuba in 1939, which totaled 1,042,000 bags of 200 pounds each, are reported as the largest recorded in the last ten years and compare with imports of 1,034,000 bags in 1938. This shows the growing importance of wheat flour in Cuba's national diet.

Jan. 31: Sales of Manitoba wheat were estimated at about 300,000 bushels to the Continent. No demand appeared for United States wheat.

Exports of wheat from the United States in the week ending January 27 totaled 126,000 bushels. Wheat exports thus far this season totaled 13,387,000 bushels.

Feb. 1: It was estimated that approximately 200,000 bushels of United States wheat were sold to the Continent and possibly 400,000 to 500,000 to the United Kingdom. It was also reported that some small lots of hard wheat had been sold for shipment from the Gulf to the Continent.

Feb. 3: Very little wheat has been sold abroad since the war started but there is a possibility that some additional sales will be made soon on Pacific Coast wheat if freight space can be obtained at a reasonable price. It is estimated that about 4,000,000 bushels of Argentine wheat have been lost by sinking up to January 1, but this is regarded as very small. No report is given as to the amount of Canadian and other grain lost.

Secretary Morgenthau - 2

It is thought that there will be very little foreign demand for United States corn when Argentine corn is available in larger quantities.

Feb. 5: A cargo of wheat was worked to Shanghai from the Pacific Coast on a subsidy basis. A good-sized export business was also done in flour to China and the Philippines. The bulk of this export flour business was done by country mills. There is a demand for several more cargoes of flour if space can be secured at the right figure.

Neutrals are reported to have bought 500,000 bushels of United States corn.

February 8, 1940  
2:52 p.m.

HMJr: Hello.

Arthur  
Purvis: Yes, Mr. Secretary.

HMJr: Mr. Purvis, you know that memorandum you gave me  
about Mr. Rist

P: Yes.

HMJr: And

P: Yes, that's right.

HMJr: And I showed it to the President.

P: Yes.

HMJr: And he said it was all right, let him come.

P: Oh, splendid! I'm delighted.

HMJr: So that clears that.

P: Thank you so much.

HMJr: So.....

P: I feel very pleased about that.

HMJr: All right.

P: And I do hope you have a nice holiday.

HMJr: I'm going to.

P: (Laughs) I know -- all right, splendid.

HMJr: All right.

P: Thank you very much.

HMJr: Goodbye.

P: Goodbye.

February 8, 1940  
3:00 p.m.

HMJr: Hello.

Operator: Captain Puleston is out until three-thirty.

HMJr: Well, what's his man's name down there?

O: Mr. Kamarck.

HMJr: Yeah, let me talk to him.

O: Right.

(Brief pause.)

HMJr: Hello.

O: Yes, sir.

HMJr: Is he there?

O: Yes, he's there.

HMJr: What's the matter with that fellow down there?

O: Mr. Kamarck.

HMJr: This is the Secretary speaking.

Andrew M.  
Kamarck: Yes, sir.

HMJr: This morning Captain Puleston gave me a memorandum on an 18-inch gun.

K: Yes, sir.

HMJr: Well, I gave that to the President, so I'd like the Captain to give Mrs. Klotz another copy for my files.

K: Yes, sir.

HMJr: And tell Captain Puleston that the President is referring that to the Munitions Board.

K: Yes, sir.

HMJr: O. K.

K: All right. Goodbye.

February 8, 1940

I called Sumner Welles at 8:15 this morning after I had seen in the papers that the Republic of Colombia bonds had gone up one point and suggested that we announce today that Colombia and the Protective Bondholders Committee had come to an agreement the details of which would be announced on February 15th. I said I thought that we were taking an unnecessary risk by keeping this an official secret while all the members of the Bondholders Committee knew it and the public did not. Welles agreed with me and said that he would let me know later in the day how the Colombians would feel about it.

February 8, 1940

My dear Senator:

The additional information concerning Russian gold which I referred to in my letter to you of February 1, 1940, is now available.

The Bureau of the Mint reports the receipt of gold bars bearing a Russian stamp and Russian gold coin in the following amounts during the calendar years 1934 to 1939:

<u>Calendar Year</u>	<u>Refined Bullion Bearing Russian stamp</u>	<u>Russian Coin</u>	<u>Total</u>
1934	\$ -	\$ 1,672	1,707 <sup>1/2</sup>
1935	-	140	140
1936	3,839,360	-	3,839,360
1937	110,674,690	35	110,674,725
1938	48,941,270	70	48,941,340
1939	52,979,338	6,045	52,985,383

<sup>1/2</sup> Includes crude bullion in the amount of \$35.

The Mint reports however do not indicate the country from which this gold was actually shipped. As set forth in my letter to you of February 1, 1940, the Department of Commerce reported that only \$31 million of gold was imported directly from Russia during this period.

For your further information, the Mint reports that approximately \$5 million of gold shipped directly from Russia (Vladivostok) has just arrived at San Francisco. This gold is being sold to the U. S. Mint at San Francisco.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Arthur H. Vandenberg,

United States Senate.

copied from JSH:esh - 2-7-40 draft  
with changes made by  
DWB:ce - 2-8-40

File to Mr. Thompson

Forwarded from Bell's office at 11:20 a.m. 2/8/40 and file turned over to us. (Copies sent to Senators Wagner and Barkley from Foley's office.)

JT

PLAIN

LONDON

Dated February 9, 1940

Rec'd 3:43 p.m.

Secretary of State,  
Washington.

350, February 9, 7 p.m.

FOR TREASURY FROM BUTTERWORTH

Simon made a speech in the House of Commons on his policy of subsidizing wheat, milk, meat and bacon, reported in paragraph 2 of my 290, February 1, and defined "its general significance" as follows:

1. He admitted "that taken by itself, unless it is accompanied by other things, it is not really a complete policy at all" and he referred to Keynes' letter (paragraph 2, my 315, February 5, 6 p.m.) and concurred that "it was rather in the nature of an ingredient in a comprehensive policy".

2. He emphasized that "the policy of rationing the rise of prices might be regarded as a contribution to the rationing of the rise of wages" and in this connection he made much of the fact that although the food index rose 19 points from the outbreak of war to December 1 he had by his intervention prevented a further rise of 12 points.

3. He stated "that with definite exceptions you cannot  
wisely

-2- #350, Feb. 9, 7 p.m., from London

wisely take deliberate steps, exchequer steps, to make articles of consumption cheaper than they would otherwise be unless you are also to take steps to secure that the result will not be an increase in their consumption."

Although Simon did not define in specific terms what the "comprehensive policy" was to be, there are not a few who are pressing for such precision.

As to specific expenditure, it has been running at £1,115,000 a week made up of £480,000 for wheat, £235,000 for milk, £320,000 for meat and £80,000 for bacon. (These figures are exclusive of the subsidies which have been paid over a period of years to home producers). On this basis the Treasury's loss would amount to nearly £58 million a year rather than the £50 million a year stated in the initial announcement. This tends to reinforce the view expressed in the last paragraph of my 315, February 5, 6 p.m.

The concluding paragraph of an editorial in today's TIMES is a noteworthy, authoritative summary.

"From Sir John Simon's speech it is clear that the policy of the Government is so far as practicable to check any further increase in the cost of those things which are absolutely necessary. Rent is already controlled. An attempt is now being made to stabilize the prices of essential foodstuffs and  
the

-3- #350, Feb. 9, 7 p.m., from London

the Chancellor intimated that consideration is being given to the cost of clothing, the most important of the other items in the cost-of-living index. This is a most difficult problem but it plainly cannot be left to settle itself. Heavy calls from the services and from the export trade will leave the supply of wool for home civilian consumption so far behind the demand that if nothing is done to prevent it prices will soar so high that people with small incomes will be unable to afford a decent suit of clothes. Various suggestions have been made - for example the provision of standard types of different garments to be sold at standard prices possibly under some system of rationing but so far no definite plan seems to have been put before the Government. If the cost of living can be held more or less stationary there will be much less pressure to increase wages. This however it is well to repeat is only one side of the effort to ward off inflation. In order to be effective it demands a system of rationing much more comprehensive than has yet been contemplated since the less spent on rationed goods the more there will be left to spend on those that are not rationed and the more difficult it will be to keep their prices within bounds. The other side of the effort is the diversion by means of taxation and saving of purchasing power from the private consumer

-4- #350, Feb. 9, 7 p.m., from London

consumer to the government sufficient to secure the necessary equilibrium between it and the reduced supply of goods available for civilian consumption".

JOHNSON

CSB

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

BY FEB 10 11 11

RECEIVED  
FEBRUARY 10 1941

STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

171

INTER-OFFICE COMMUNICATION

DATE February 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Following this morning's staff meeting, I telephoned Mr. Stone in the Office of the Secretary of State. I mentioned the article by Lehrbas which appeared in the Washington Star on February 6, and I referred to the press reports which had come out at the time of Ambassador Kennedy's return to the United States, speculating as to the significance of the confidential report, which it was understood the Ambassador was making to our Government, presumably upon the British financial and economic situation, and general capacity for carrying on the war. I told Mr. Stone that we had never seen such a report in the Treasury Department, and let him know of our interest in being permitted access to such a document if it really exists. Stone said that he knew nothing of such a report, but would inquire and let me hear from him. If such a report is in the Department of State, he said that naturally it would be a pleasure to send it over to the Secretary. When Stone volunteered to speak with Lehrbas, whom he knows and whom Secretary Hull regards highly, in regard to the origin of his story, I asked Stone to refrain from this since certain inquiries had already been made. I told him that our principal interest is in seeing the Kennedy report.



February 9, 1940

Mr. Stone telephoned me back from the State Department this morning. He stated that it had been impossible to confirm that there was any confidential report of the character in question from our Embassy in London, excepting the document on securities which the Secretary of the Treasury had arranged for the State Department to have. Mr. Stone said that there was no report from Mr. Kennedy, as far as the State Department was aware. If there had been any, it presumably was made to the President alone.



TREASURY DEPARTMENT

172

INTER-OFFICE COMMUNICATION

DATE February 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

There was very little activity in the foreign exchange market today. After opening at 3.98-1/4, sterling advanced in the mid-morning to a high of 3.98-1/2. During the afternoon, the rate eased to close at 3.98.

Sales of spot sterling by the four reporting banks totaled £222,000, from the following sources:

By commercial concerns.....	£ 54,000
By foreign banks (Europe and South America).....	£ 168,000
Total.....	£ 222,000

Purchases of spot sterling amounted to £152,000, as indicated below:

By commercial concerns.....	£ 132,000
By foreign banks (South America).....	£ 20,000
Total.....	£ 152,000

The following reporting banks sold cotton bills totaling £28,000 to the British Control on the basis of the official rate of 4.02-1/2.

£ 15,000 by the Guaranty Trust Company
13,000 by the National City Bank
£ 28,000 Total

The other important currencies closed as follows:

French francs	.0225-1/2
Guilders	.5320
Swiss francs	.2242-1/2
Belgas	.1683
Canadian dollars	13 % discount

The Federal Reserve Bank of New York purchased 75,000 Swiss francs and 30,000 belgas for the Bank of Latvia.

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

\$15,000,000 from the National Bank of Switzerland
620,000 from the National Bank of Belgium
\$15,620,000 Total

- 2 -

The Federal Reserve Bank of New York reported that two shipments of gold were being consigned to it by the South African Reserve Bank, to be earmarked for account of the following banks:

\$4,458,000 for account of the Bank of Sweden  
 2,681,000 for account of the Netherlands Bank  
 \$7,139,000 Total

Today's silver quotation in the Bombay market worked out to the equivalent of 39.86¢. The gain of about 7/16¢ exactly offset the drop which occurred yesterday.

The London fixing prices for spot and forward silver were unchanged at 21-1/2d and 21-3/8d respectively. The U. S. equivalents were 38.52¢ and 38.05¢.

Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

We made nineteen purchases of silver totaling 2,562,000 ounces under the Silver Purchase Act. The sources of this silver were as follows:

	<u>Ounces</u>
Inventory silver.....	1,096,000
New production from foreign countries..	862,000
Trading silver.....	538,000
Secondary materials.....	<u>66,000</u>
Total.....	2,562,000

The newly produced silver was bought for forward delivery, and silver in the other three categories was for delivery tomorrow in New York.

The substantial increase in the amount of silver offered to us was due to the report appearing on the Dow Jones ticker that the silver subcommittee of the Senate Banking and Currency Committee had approved the Townsend Bill for repeal of foreign silver purchase provisions in the Silver Purchase Act. According to the Dow Jones news item, Chairman Wagner of the Banking group stated that the subcommittee would make a report to the full committee on the Townsend measure at its meeting next Tuesday. The aforementioned news item noted that there is considerable support in Congress for the legislation, and that last session Chairman Eccles of the Federal Reserve Bank advocated the suspension of further silver purchases from foreign sources.

We also purchased 40,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

**CONFIDENTIAL**

- 3 -

Mr. Knoke telephoned me from New York today to give the following figures obtained in confidence from the Chase Bank in regard to Russian balances with that bank as of the close of business on February 7, compared with January 26. The account of the State Bank of Russia declined from \$4,500,000 to \$940,000. Letters of credit of the State Bank rose from \$6,200,000 to \$9,700,000. The Amtorg balance declined from \$1,000,000 to \$890,000. Amtorg letters of credit declined slightly from \$2,100,000 to \$2,022,000. The significant feature of these figures is the indication that less business is being done with Russia on a normal credit basis, and that letters of credit must be put up before American exporters will ship to Russia. The principal in-payments into the State Bank account during the period under review included \$2,600,000 made by the Swiss Bank Corporation; \$500,000 from the Union Bank of Switzerland and \$850,000 from the Rotterdam Bank. It is possible that these sums may have been the proceeds of Russian gold sales, it being logical that Russia should attempt to dispose of gold on nearby markets, now that shipment to England is practically closed. Among the out-payments from the State Bank of Russia account was one to Amtorg of \$2,600,000 and two to the Banco di Roma, each of \$250,000. Further inquiry is being made to determine the significance of the payments to the Italian bank. One out-payment from the Amtorg was the sum of \$150,000 to the Commissioner of the World's Fair at New York.

In connection with the shipment of Russian gold from Vladivostok which reached San Francisco yesterday, Mr. Rovensky told Mr. Knoke that the Chase had no word of this shipment until last Friday, although the possibility of the Chase handling shipments of Russian gold from Vladivostok to the Pacific Coast had been the subject of correspondence several months ago.



**CONFIDENTIAL**

# STRICTLY CONFIDENTIAL

175

## TREASURY DEPARTMENT

### INTER-OFFICE COMMUNICATION

DATE February 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 11:15 today Mr. Chen dropped in to see me. He had visited earlier in the day with Messrs. Jones and Pierson. When congratulating Mr. Jones upon the success of the move in the Senate to increase the funds of the Export-Import Bank and to make it possible for China to be eligible to receive a further credit of \$20,000,000, Mr. Jones told Mr. Chen not to be too optimistic prematurely, since there might be some difficulty in the House. Mr. Jones also told Chen to work with Mr. Pierson toward reducing the list of Chinese requirements, since \$75,000,000 is entirely out of question. Chen is working in this direction. He told me that he sought to have the anticipated new credit of \$20,000,000 be of a revolving nature. Mr. Jones refused, but agreed to talk the matter over again with Mr. Chen if the full credit should be utilized, and further funds needed. Chen said also that Mr. Jones withdrew his promise that the original credit of \$25,000,000 to China should be considered a revolving one. It appears that Jones was willing to attempt to make this a revolving credit, if legislation to increase the bank's funds should have failed, but that now with the outlook favorable for a new credit to China, he is not willing to take steps toward making the outstanding credit revolving, or to pledge that any new one will from the start have such a character.

Mr. Chen is much encouraged, and was anxious to tell the Secretary personally, or if this is not possible, through me, how much he appreciated the assistance which the Secretary has rendered in the premises. Chen is sure that this aid will be most timely, and will do much to strengthen Chinese morale.

  
Mr. Chen called again at 4:30 this afternoon to let me know that he had seen Messrs. Jones and Pierson at 4 o'clock. Mr. Jones had agreed to the idea of a \$20,000,000 credit for seven years, against 40,000 tons of tin to be delivered over a period of years. Mr. Jones turned Mr. Chen over to Mr. Pierson to discuss terms of the contract. Mr. Chen is trying to get the interest reduced below  $4\frac{1}{2}\%$ . The whole project is still contingent, of course, upon Congress appropriating the money.



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BUREAU OF FOREIGN AND DOMESTIC COMMERCE  
OFFICE OF THE DIRECTOR

2/9/40

From DIRECTOR

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

For

The attached notes on Economic Develop-  
ments dated February 8, 1940 are sent  
to you at the request of Mr. Noble,  
Under Secretary of Commerce.

*James W. Young*  
James W. Young,  
Director.

## DOMESTIC ECONOMIC DEVELOPMENTS

PRELIMINARY TABULATION of December data from the Bureau's new current business information service provides quantitative data which support the analysis of the business situation presented in last week's report. The thread of the analysis need not be repeated here but you will find details in attached tables very interesting.

Particularly to be noted is the decline in new orders from November to December of 15 percent and the large reductions among the durable goods industries. New business in the steel industry was not only below November by a fifth but it was off from a year ago by approximately the same percentage. The rapid contraction of steel production has occasioned considerable comment but it is not surprising in view of the above. For all other major durable goods industries, December 1939 was much higher than a year ago.

EXAMPLES: November-December declines in new orders.

Iron and steel.....	-13 percent
Nonferrous metals.....	- 8 "
Electrical machinery .....	-21 "
Machinery (other) .....	- 7 "
Transportation equipment (except autos).....	-36 "
Furniture and other finished lumber.....	-22 "

SIGNIFICANCE: This slackening in new business accounts for the decline in production now in progress. The Reserve Board's index of industrial production was 120 for January after 128 for December. We had previously figured on 115 for February, but it looks now as though it will be lower—perhaps 112. (See attached chart for inventory picture.)

THE FALLING OFF of new orders has been reflected in decided weakness in prices of industrial raw materials since the first of the year. (See attached chart.) About one-third of the advance in this sensitive index subsequent to the outbreak of war has been cancelled.

EXAMPLES:

		<u>Dec. 29, 1939</u>	<u>Feb. 7, 1940</u>
Copper	(cents per lb.)	12.50	11.25
Zinc	"	6.39	5.89
Lead	"	5.50	5.00
Tin	"	49.00	45.00
Hides	"	15.00	13.00
Steel scrap	(dol. per ton)	17.67	17.08
Silk	(dol. per lb.)	4.50	3.20
Print cloth	(cents per yard)	5.50	5.25

**SIGNIFICANCE:** Not much buying interest has been created by the price concessions to date as most consumers of these materials are well stocked as result of previous aggressive purchasing.

**EXTENT** to which profits were increased by the fourth quarter expansion in production is indicated in attached chart. We estimate on data now available that the earnings of the 167 corporations charted increased about 50 percent over the fourth quarter of 1938 and were not far below the 1937 peak. (Of course, these are the larger and generally more successful companies.) Outstanding gains were made in automobiles, steel, and chemicals.

**EXAMPLES:**

	Fourth Quarter	
	1939	1938
	(Million dollars)	
United States Steel	28.8	4.4
Bethlehem Steel	13.0	3.7
Inland Steel	4.6	1.8
Youngstown Sheet & Tube	3.7	0.1
Du Pont (Ex-General Motors Dividend)	17.9	11.6
Hercules Powder	1.7	1.1
General Motors	73.7	63.8
Caterpillar Tractor	2.1	1.2
Westinghouse	4.8	2.8

**SIGNIFICANCE:** This demonstrates that the cause of low profits has been lack of volume and not unfavorable cost-price relationships. The profits currently being reported are large by the standards of previous good years.

**BRIGHT SPOT** at the moment is the export picture. The export total for January, with some documents still missing, is 349 million dollars. This compares with the final figure of 357 million for December and 210 million for January 1939. The final January 1940 figures will undoubtedly exceed December. (We shall analyze the trade in next week's report when the completed tabulations are available.)

TOTAL NET SALES REPORTED, BY INDUSTRIES

December 1939 Report

Industries	: No. firms : : Reporting :	: Percentage Change :		: Net : Sales :
		December 1939	from	
		Nov. 1939	Dec. 1938	
				(000 omitted)
Food and Kindred Products .....	44	+ 0.5	+ 1.4	\$ 181,326
Tobacco .....	10	- 9.3	- 1.1	35,387
Textiles .....	51	+ 0.5	+15.9	39,896
Apparel and Other Finished Products .....	8	-22.5	- 9.1	2,356
Lumber and Timber Basic Products .....	12	- 8.9	+35.5	4,103
Furniture and Finished Lumber Products ..	24	-18.4	+15.8	7,687
Paper and Allied Products .....	34	- 5.5	+10.3	26,406
Printing, Publishing, and Allied Industries .....	6	- 1.5	- 1.0	3,183
Chemicals and Allied Products .....	44	-12.5	+15.7	42,078
Products of Petroleum, Coal and Natural Gas .....	18	+ 0.1	+ 9.5	97,323
Rubber Products .....	16	- 9.9	+ 9.9	20,804
Leather and Leather Products .....	16	- 9.7	+10.9	16,960
Stones, Clay, and Glass Products .....	20	-10.9	+25.6	17,411
Iron and Steel and Their Products .....	69	0.0	+52.0	222,242
Transportation Equipment (except Auto- mobiles) .....	21	+ 3.4	+22.8	29,395
Non-Ferrous Metals and Their Products ...	19	+ 7.0	+54.3	55,043
Electrical Machinery .....	41	- 3.4	+23.3	79,385
Machinery (except Electrical) .....	79	+ 3.1	+33.9	36,633
Automobiles and Auto Equipment .....	40	+ 1.9	+24.2	297,864
Miscellaneous Manufacturing Industries ..	15	+ 3.0	+ 7.2	6,129
<b>TOTAL .....</b>	<b>587</b>	<b>- 0.9</b>	<b>+24.1</b>	<b>1,221,611</b>

**TOTAL NEW GENERAL INVESTMENT IN INDUSTRIES**

December 1959 Report

Industries	No. firms Reporting:	Percentage Change:		Total New Orders
		December 1959 Nov. 1959	Dec. 1958	
				(000 omitted)
Food and Kindred Products .....	6	+ 8.5	+ 4.8	\$ 15,768
Tobacco .....	"	-	-	"
Textiles .....	28	+40.9	+45.6	22,077
Apparel and Other Finished Products ....	3	-73.9	-34.1	705
Lumber and Timber Basis Products .....	7	- 8.6	- 0.1	2,000
Furniture and Finished Lumber Products .	13	-21.6	+19.0	2,520
Paper and Allied Products.....	12	-11.0	+ 9.9	9,400
Printing, Publishing, and Allied Industries .....	"	-	-	"
Chemicals and Allied Products .....	8	+44.9	+ 7.9	16,435
Products of Petroleum, Coal and Natural Gas .....	"	-	-	"
Rubber Products .....	4	+60.7	+32.9	1,430
Leather and Leather Products .....	10	-28.4	- 0.7	10,703
Stone, Clay, and Glass Products .....	8	-15.5	+19.5	6,921
Iron and Steel and Their Products	34	-20.0	-18.9	123,379
Transportation Equipment (except Automobiles) .....	18	-35.9	+227.6	28,448
Non-Ferrous Metals and Their Products ..	12	- 7.9	+66.4	23,189
Electrical Machinery .....	27	-20.7	+25.1	24,061
Machinery (except Electrical) .....	51	- 8.2	+47.9	25,936
Automobiles and Auto Equipment .....	15	-48.5	+45.2	20,820
Miscellaneous Manufacturing Industries .	5	- 8.0	+18.7	1,943
<b>TOTAL.....</b>	<b>262</b>	<b>-18.2</b>	<b>+15.4</b>	<b>300,277</b>

CONFIDENTIAL

## TOTAL UNFILLED ORDERS REPORTED, BY INDUSTRIES

December 1939 Report

Industries	'No. firms 'Reporting'	'Percentage Change' December 1939		Total Unfilled Orders (000 omitted)
		from 'Nov. 1939'	'Dec. 1938'	
Food and Kindred Products . . . . .	6	+ 5.2	+ 31.8	\$ 11,514
Tobacco . . . . .	—	—	—	—
Textiles . . . . .	24	+ 2.7	+ 37.9	32,319
Apparel and Other Finished Products . . . . .	4	+ 5.9	+ 18.8	5,009
Lumber and Timber Basic Products . . . . .	7	- 4.6	+ 45.4	3,881
Furniture and Finished Lumber Products . . . . .	14	- 7.6	+ 123.3	5,322
Paper and Allied Products . . . . .	17	- 13.3	+ 42.7	13,790
Printing, Publishing, and Allied Industries . . . . .	—	—	—	—
Chemicals and Allied Products . . . . .	11	+ 19.0	+ 48.2	14,193
Products of Petroleum, Coal and Natural Gas . . . . .	—	—	—	—
Rubber Products . . . . .	6	- 4.6	+ 114.6	2,822
Leather and Leather Products . . . . .	11	+ 7.6	+ 27.3	17,770
Stone, Clay, and Glass Products . . . . .	8	- 5.2	+ 40.5	10,046
Iron and Steel and Their Products . . . . .	38	- 9.3	+ 90.2	475,951
Transportation Equipment (except Auto- mobiles) . . . . .	18	+ 3.0	+ 233.2	427,758
Non-Ferrous Metals and Their Products . . . . .	12	- 9.4	+ 75.9	50,807
Electrical Machinery . . . . .	25	- 2.5	+ 70.0	216,447
Machinery (except Electrical) . . . . .	51	+ 3.0	+ 90.3	67,814
Automobiles and Auto Equipment . . . . .	14	- 15.5	+ 78.4	36,908
Miscellaneous Manufacturing Industries . . . . .	5	- 13.6	+ 57.4	1,996
<b>TOTAL . . . . .</b>	<b>273</b>	<b>- 3.5</b>	<b>+ 106.3</b>	<b>1,395,329</b>

TOTAL INVENTORIES REPORTED, BY INDUSTRIES

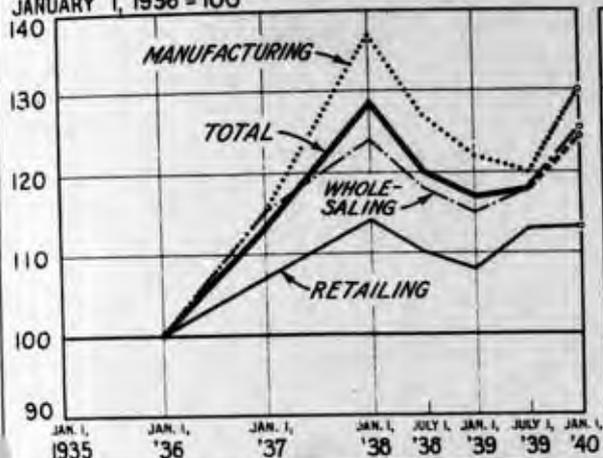
December 1939 Report

Industries	No. firms Reporting	Percentage Change:		Total Inventories
		December 1939 from Nov. 1939	December 1939 from Dec. 1938	
				(000 omitted)
Food and Kindred Products.....	40	+ 3.7	+ 2.6	\$ 364,219
Tobacco.....	9	+ 0.4	- 1.0	236,226
Textiles.....	44	- 1.7	+13.7	105,634
Apparel and Other Finished Products.....	7	+14.0	+43.1	8,581
Lumber and Timber Basic Products.....	10	+ 2.3	+ 5.4	12,753
Furniture and Finished Lumber Products..	22	+ 6.0	+ 9.6	26,288
Paper and Allied Products.....	34	+ 4.3	+ 3.2	53,880
Printing, Publishing, and Allied Industries.....	6	+ 6.2	+ 8.8	4,910
Chemicals and Allied Products.....	39	+ 4.8	+ 0.1	123,530
Products of Petroleum, Coal and Natural Gas.....	17	- 0.5	- 3.2	218,278
Rubber Products.....	15	+ 9.4	+11.6	68,994
Leather and Leather Products.....	14	+ 7.9	+ 8.2	75,520
Stone, Clay, and Glass Products.....	18	+ 6.6	+ 7.3	45,836
Iron and Steel and Their Products.....	60	+ 0.6	+11.7	680,934
Transportation Equipment (except Automobiles).....	20	+ 5.4	+44.2	77,183
Nonferrous Metals and Their Products....	17	+ 3.0	- 1.8	78,757
Electrical Machinery.....	36	+ 5.2	+ 1.3	139,688
Machinery (except Electrical).....	69	+ 2.7	+ 7.3	117,171
Automobiles and Auto Equipment.....	38	+ 0.9	+17.4	388,999
Miscellaneous Manufacturing Industries..	12	+ 3.7	+12.5	15,259
<b>TOTAL.....</b>	<b>527</b>	<b>+ 2.2</b>	<b>+ 7.5</b>	<b>2,842,640</b>

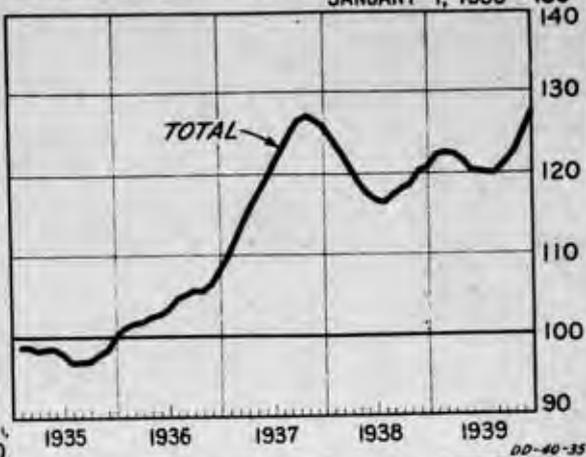
Inventory Value and Trends, 1935-39 (Dun & Bradstreet and U. S. Department of Commerce).

Note.--Value of inventories (Dun & Bradstreet series), for January 1, 1940 was estimated by the Department of Commerce upon the basis of changes in sample data during the last half of 1939. The monthly index of total inventories in terms of January 1, 1936 dollars is based upon the Dun & Bradstreet series; adjustments for wholesale price trends, and interpolations for monthly figures have been made by the Department of Commerce. This index also has been adjusted for seasonal variations.

VALUE OF INVENTORIES, UNADJUSTED  
JANUARY 1, 1936 = 100

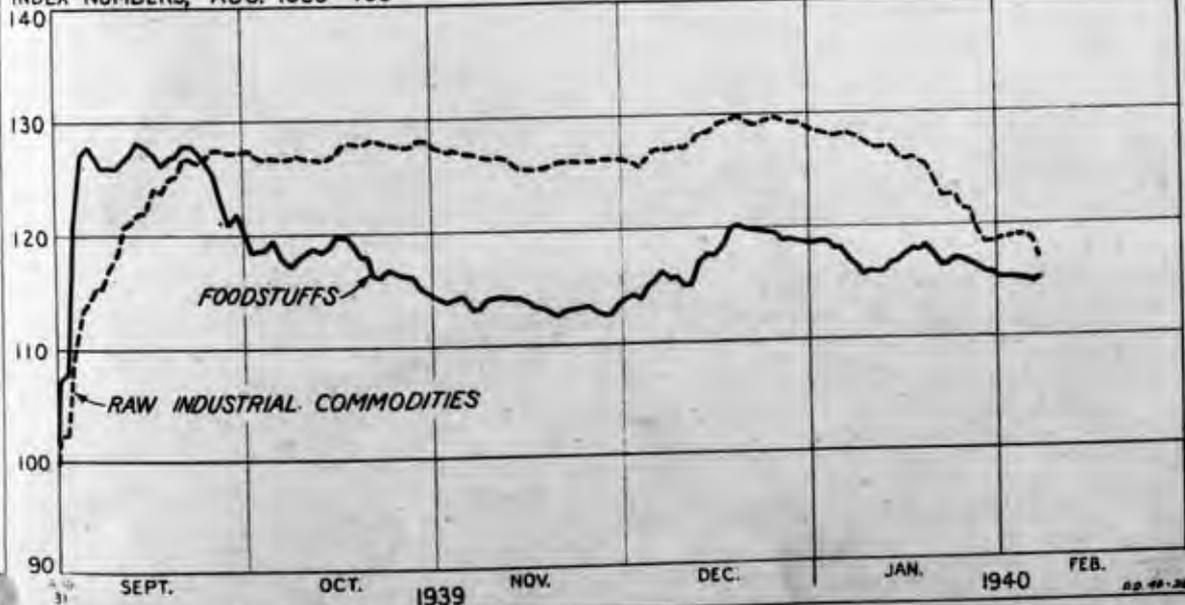


PHYSICAL VOLUME OF INVENTORIES, SEASONALLY ADJUSTED  
JANUARY 1, 1936 = 100

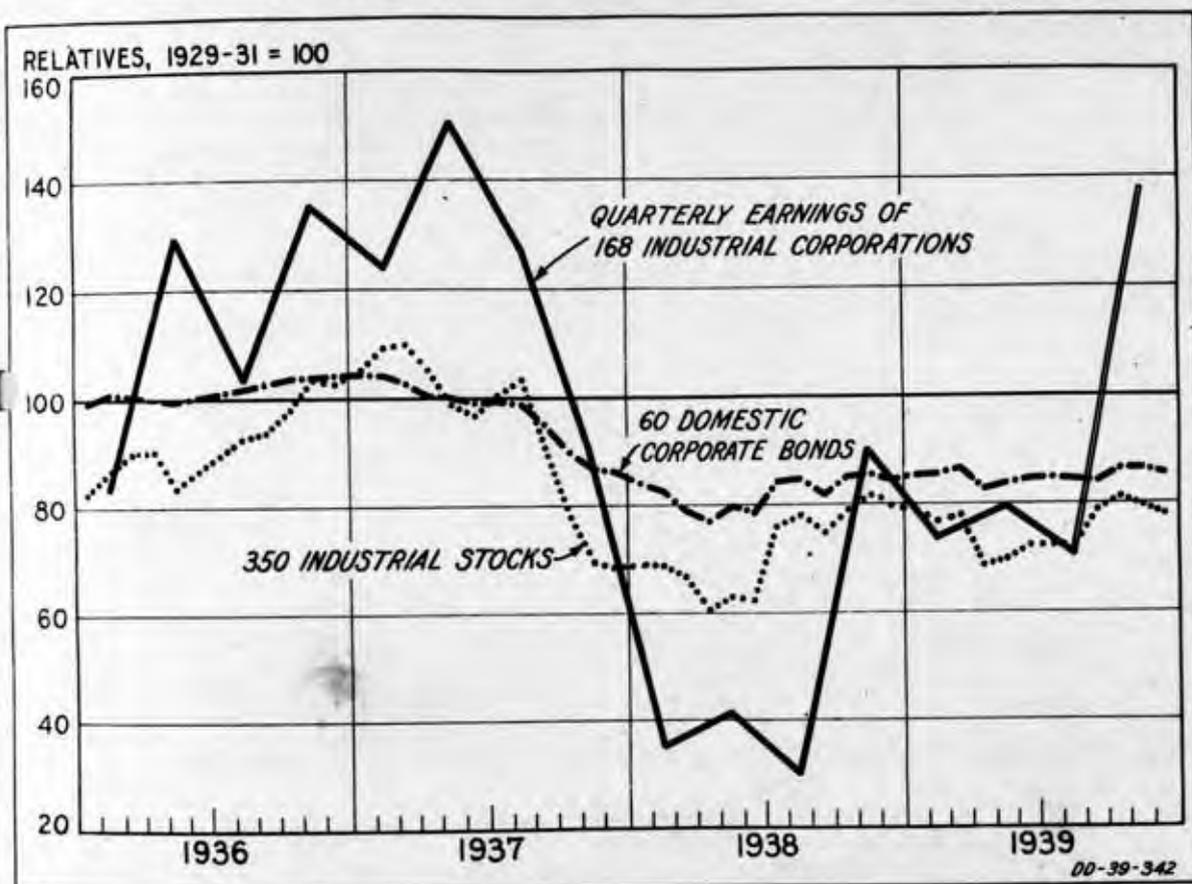


Indexes of Spot Market Daily Prices of 12 Foodstuffs and 16 Raw Industrial Commodities, August 31, 1939 - February 7, 1940 (U. S. Department of Labor)

INDEX NUMBERS, AUG. 1939 = 100



Indexes of Industrial Stock Prices, Domestic Corporate Bond Prices, and Quarterly Earnings of Industrial Corporations, 1936-39 (Basic figures for stock and bond prices are from Standard Statistics Company, Inc., and quarterly earnings data are from the Federal Reserve Bank of New York, except for the fourth quarter of 1939, which was estimated by the U. S. Department of Commerce).



Italy: Prospects for the sale of American cotton were improved at the turn of the year by increased credit facilities and by the advancing prices and scarcity of all other varieties of cotton. The latter has left the foreign market almost entirely to American cotton. The scarcity of Indian cotton was due to the larger purchases of that crop by the Japanese and an increase in price which made it non-competitive with American cotton. The Italian authorities have been much more liberal in the issuance of import permits and credits for cotton during December. The Italian mills are very busy with war and export orders but not to supply the domestic demand.

It is reported that the Italian cotton brokers are planning to establish trade connections with exporters in the Balkan countries with a view to replacing the Bremen firms in the transit trade.

Denmark: It is reported confidentially that the British offer of increased prices for Danish bacon and butter is tied up with a demand that the Danish sellers export on a blocked credit system and on a balance between exports and imports.

Danish exports to Germany during September, October, and November, showed an increase of 16 million kroner as compared with the corresponding period in 1938, while exports to England during the same period showed an increase of only 1 million kroner. Imports from Germany during the same period showed an increase of 10 million kroner as compared with a decrease of 18 million kroner in imports from England.

Denmark has experienced difficulty in obtaining coal supplies from England and Germany, due to the sinking of coal ships from England and the German rail transportation difficulties. There is a very urgent need for feedstuffs and grain.

Great Britain: The upward trend in the British price level is indicated by the order of the Ministry of Supply control of February 1, which fixes new maximum prices for iron and steel, representing an increase of 3 shillings per ton for pig iron and 1 pound per ton for semi-finished and heavy steel finished products.

Chile: An accounting of the Chilean-German position after almost 5 years of compensation trade indicates that instead of Chile being caught with bloated asset surpluses at the outbreak of the war, the balance is in favor of Germany.

Chile (cont'd): It is reported that in connection with the outstanding order in Germany for 16 articulated trains, 3 electric locomotives and other railway equipment, involving 10 million marks, on which Chile had paid about 1/3 on account, it has been arranged through diplomatic negotiations with the Allies to allow the delivery of the equipment only to the value of the advance payment. It is also reported that the Chilean government is compiling, at the request of the British Embassy, information in regard to the unfilled orders for German goods at the outbreak of the war for which payments had already been made or for which Chilean importers had assumed obligations. It is assumed that this is with a view to the delivery of such prewar orders.

Bureau of Foreign and Domestic Commerce  
February 8, 1940

## WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939			1940		Percent increase Feb. 3, 1940 from	
	Feb. 4	Aug. 26	Sept. 16	Jan. 27	Feb. 3	Feb. 4, 1939	Aug. 26, 1939
All commodities . . . . .	76.6	74.8	79.3	79.1	78.8	2.9	5.3
Farm products . . . . .	67.1	61.1	69.7	69.2	69.6	3.7	13.9
Foods . . . . .	71.0	66.7	75.5	71.4	71.7	1.0	7.5
All commodities other than farm products and foods . . . . .	80.4	80.4	82.4	84.0	83.6	4.0	4.0
Hides and leather products . . . . .	92.9	92.6	98.3	103.9	103.0	10.9	11.2
Textile products . . . . .	65.5	67.4	71.4	76.7	75.3	15.0	11.7
Fuel and lighting materials . . . . .	73.5	73.2	74.1	73.4	73.3	- 0.3	0.1
Metals and metal products . . . . .	94.5	93.5	94.9	95.7	95.6	1.2	2.2
Building materials . . . . .	89.3	89.7	90.7	93.7	93.1	4.3	3.8
Chemicals and drugs . . . . .	76.2	74.2	77.1	77.6	77.5	1.7	4.4
House-furnishing goods . . . . .	87.2	87.0	87.1	90.2	89.5	2.6	2.9
Miscellaneous . . . . .	72.9	73.1	76.1	77.4	77.1	5.8	5.5
Raw materials . . . . .	70.4	66.2	73.0	73.3	73.2	4.0	10.6
Semimanufactured articles . . . . .	74.7	74.4	82.0	81.2	80.3	7.5	7.9
Finished products . . . . .	80.2	79.3	82.3	81.9	81.7	1.9	3.0

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

## SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		Feb. 8	Aug. 30	Sept. 13	Jan. 31	Feb. 7
Mercury, electrolytic, N.Y. . . . .	per lb.	11 1/4	10 1/2	12	12	11 1/4
Mercury, prompt shipment, N.Y. . . . .	do	4.85	5.05	5.50	5.25	5.00
Mercury, N.Y. . . . .	do	4.84	5.14	6.64	5.89	5.89
Mercury, straits, N.Y. . . . .	do	45 3/5	49 3/4	75	45 3/4	45 1/8
Mercury, plantation, N.Y. . . . .	do	15 5/8	16 7/8	22 1/2	18 7/8	18 7/8
Mercury, light native cows, Chicago. . . . .	do	10	11	15	13	13 1/4
Mercury, 13-15 denier, 78% scriplane, New York . . . . .	per lb.	2.10	2.72	3.21	3.15	3.25
Mercury, middling, av. 10 markets . . . . .	per lb.	8.49	8.53	9.01	10.26	10.55
Mercury, cloth, 60x64, 38 1/2 inches, N.Y. . . . .	per yd.	4 1/4	4 5/8	5 3/8	5 1/4	5 1/4
Mercury, tops, Mar. 1940 futures, N.Y. . . . .	per lb.	2/82.6	3/81.5	3/111.9	99.0	100.0
Mercury, raw, 96, duty free, N.Y. . . . .	do	2.75	2.92	3.70	2.85	2.80
Mercury, Accra, N.Y. . . . .	do	4.66	4.38	6.45	5.45	5.37
Mercury, Santos, No. 4, N.Y. . . . .	do	8	7 5/8	7 3/4	7 1/2	7 1/2
Mercury, cash, Chicago. . . . .	do	6.37	5.65	7.75	5.90	6.12
Mercury, cottonseed oil, Mar. 1940 futures, N.Y. . . . .	do	2/6.49	3/5.61	3/7.30	6.77	6.93
Mercury, cottonseed oil, May 1940 futures, Chicago . . . . .	per bu.	4/68 1/2	3/67 1/4	3/85 3/8	96 3/8	98
Mercury, good and choice, 220-240 lbs., Chicago. . . . .	per cwt.	5/7.90	6.88	8.13	5.40	5.38
Mercury, beef, medium, 750-1,100 lbs., Chicago. . . . .	do	8.75	8.38	8.88	8.88	8.50

Nominal.

March 1939 futures.

December 1939 futures.

May 1939 futures.

Hogs weighing 220-250 pounds.

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

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

Date	Pig Iron <sup>1/</sup>	Steel Scrap <sup>2/</sup>	Finished Steel <sup>3/</sup>
	(Dollars per gross ton)		(Cents per pound)
1939:			
February 7	20.61	14.875	2.286
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.50	2.236
November 26	22.61	18.58	2.261
1940:			
January 30	22.61	17.33	2.261
February 6	22.61	17.08	2.261

<sup>1/</sup> Based on average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

<sup>2/</sup> Based on No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

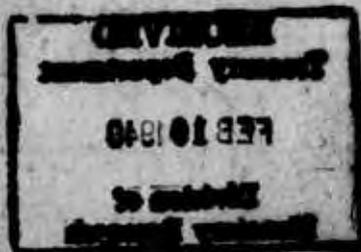
<sup>3/</sup> Based on steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Source: The Iron Age.

## PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Date	Motor gasoline, 65 octane	Light fuel oil, number 2	Diesel oil, ships' bunkers	Bunker oil, grade "O", cargoes
	(Cents per gallon)		(Dollars per barrel)	
1939:				
February 8	4.50 - 4.75	3.975 - 3.625	1.45	0.675 - 0.70
August 30	4.75 - 5.00	3.975 - 3.75	1.45	0.78 - 0.80
September 13	6.25 - 6.875	3.875 - 4.00	1.45	0.825 - 1.00
1940:				
January 31	5.50 - 6.00	4.125	1.70	1.00 - 1.05
February 7	5.50 - 6.00	4.125	1.70	1.00 - 1.05

Source: Platt's Oilgram.



CONFERENCE WITH UNDERSECRETARY

February 8, 1940.  
11:00 a.m.Present: Mr. Bell  
Mr. CottonH.M.Jr: Dan, I thought there was so much, we might  
make a record, if you don't mind.Bell: I don't mind. I have got a lot of stuff  
here.

This is Haas' memorandum (February 7) and he took the New York Times article on what the President said. There was no formal statement or anything. Here is what the President said, in effect, and this is what Dewey said, see. Now, the President intimated from his statement that there was no change in the total local and private debts and then he said that - I mean, the total government debts, that is, state and government, and the private debts, he said, were much lower, and then he said the total debts were lower.

Now, Dewey says that the total governmental debt increased  $26\frac{1}{2}$  billion and that is all government, because the state and local only went down about 130, see, but the private debts were  $17\frac{1}{2}$  billion less than they were back in '32. Therefore, there has been a net increase in the total debt of 9 billion dollars.

H.M.Jr: That is what Dewey says?

Bell: That is what Dewey says, and the figures in this A.A.A. report bear that out.

H.M.Jr: What do you mean by that?

Bell: This is gotten out by the economists in the three A's. Dewey says the President could have consulted this report or the Treasury report. The only thing he could have consulted in this report was this figure and that was - we didn't take in private debts at all. Now, there is the 148, which is '32 that Dewey quotes, and there is the President's figure -

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I mean, there is the total figure, which is a difference of 9 billion, showing an increase of that much. If the President had taken '30, 160 million, he would have shown a reduction of 3 billion dollars. He should have taken --

H.M.Jr: Well, this is Lauch Currie's fault.

Bell: I don't know whose it is. I should say that I would let the White House answer it or the Democratic Committee.

H.M.Jr: This is the memorandum and Dewey's statement and we won't do anything else unless we are asked to.

Bell: I wouldn't.

H.M.Jr: I was asked at my press conference and I said, "I am not going to make any comment on that."

Bell: That is right. Here is Basil Harris' recommendation for reinstating those three Customs stations. I hate to do it, but I suppose there is nothing left but to do it. He does it on the basis of the new revenue statements in those districts, but the real reason is McKellar.

H.M.Jr: How much is involved?

Bell: About 70 or 80 thousand dollars in employees down there is the main thing as far as McKellar is concerned.

H.M.Jr: I guess he is up against it, isn't he?

Bell: I think so. I think he has got to do it. It hurts to do those things.

Now, I wanted to show you a picture on the financial situation and I think we have got to wait a while just to see what Congress does with this whole budget before we can come to any definite conclusions, but --

H.M.Jr: Excuse me just one second.

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Bell: Our Savings Bonds are coming in, of course, pretty fast, and the only financing we contemplate in this picture is the 150 million for, say, RFC or Commodity Credit in May, and 500 million in June and then another 150 million for Commodity Credit or RFC, whichever you care to have. In July, 250 million for Straus. He says he wants 200 million between July and October. We may have to carry him for a few months. I put 200 million in September, because under this set-up we wouldn't borrow any money in September. As to our balances, they run down to a billion one in June and that is almost in accord with the budget.

H.M.Jr: Good.

Bell: But just taking this picture as it is and tying it up with the budget, plus the Government agencies outside of the budget, you get your balances down here, see, and here you come down to a minus. I did that to show you what is in this picture.

H.M.Jr: That is May, '41, that is a minus?

Bell: That is right. Now, there is not in this picture the two items that the President had in his budget, one, the 700 million to be returned from the corporations and the other, the 460 million of additional taxes. They are trying to get rid of the additional taxes on the Hill. I thought you would like to know how the deficit is going to look on December 31.

H.M.Jr: What year?

Bell: 1940. That is 2 billion 770 that we start out with on February 1, borrowing power, and we add U. S. Savings Bonds, which we estimate will be a billion one, including the future accrual of discount, the old age reserve, unemployment trust, retirement funds, and so forth and new money, that is, major financing, 500 million, making it two billion eight and

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then we have sources of debt decrease which is 45 million of Treasury bills hanging over until June and miscellaneous items and the month-to-month debt retirement brings it down to 2 billion 527, so that you would have a leeway on December 31 of 243 million, exclusive of your 460 taxes and your 700 million of returned money.

Now, your balance on December 31, according to this figure, would only be 500 million. Now, that is running awfully close.

H.M.Jr: Too close.

Bell: I think it is nothing to worry about just yet, but along in April and May we have really got to get down to brass tacks on this thing.

Now, I think that if we got in a pinch we could buy some of the stabilization fund gold to carry us through January to get this thing through or we could refuse to invest old age reserve accounts, 500 million. I don't believe you can do it on the unemployment trust, because we have to give them their interest figures every quarter.

H.M.Jr: How do you mean, buying stabilization gold?

Bell: We can buy two or three or four hundred million dollars of stabilization gold and put it in the general fund and then when you came to December, this 737, maybe you could retire a couple of million.

H.M.Jr: Why in the hell aren't we going to get that 700 million?

Bell: I am not saying we are not, but I think pretty soon we have got to take a stand with the Budget that it is necessary that they do something very definite before Congress leaves town, in case they need legislation, and we will go to bat for it.

H.M.Jr: The one thing that you have - did you ask for any new money in March?

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Bell: No. We are contemplating refunding the 737 in June and the bonds. I have got a call here I want to talk to you about.

H.M.Jr: But no new money?

Bell: No.

H.M.Jr: Any new money in June?

Bell: 500 million. Our balance here gets down to a billion one and it would be only 600 million if you don't borrow. That just about hits the budget balance. It may be here that you could increase Commodity Credit to 200 and RFC to 200.

H.M.Jr: Why don't they go through with that 700 million?

Bell: I think they are working on it, but I think they are a little slow. I think they have got to move up their clock before April.

H.M.Jr: Why don't we write a letter on the 700 million?

Bell: Well, you could do that or I could get in touch with Smith and just say it is important that we have this thing settled before Congress leaves.

H.M.Jr: I would do that.

Bell: I just wanted to show you that that is the picture. We might as well discuss that call thing before we get away from it.

There are 353 million of 3-3/8 percent bonds to be called on June 15 and that call notice has to be four months ahead of time, which means it has to be released on the 13th and go out to the banks on the 14th. That is just a letter on the public debt as a matter of procedure (February 8).

That is a call notice which goes out to registered owners and all the banks and is

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published in the papers all over the country.  
(February 14).

This is the press release: "The Secretary indicated that it is probable that prior to the redemption date holders of these bonds may be offered the privilege of exchanging them for other obligations." That is the usual thing. This will be released on the morning of the 14th.

H.M.Jr:

I see.

Bell:

You gave me this thing from the President to handle. Do you want me to handle that at a Cabinet meeting sometime, just discuss it with them and tell them what we did?

H.M.Jr:

Yes. You will be going to Cabinet tomorrow.

Bell:

And I could just tell him what we did at our meeting. If he wants it changed, we will have to change it.

There were two things I wanted to discuss. One was whether or not you would be willing to set up a permanent fiscal organization within the Treasury under the reorganization powers, if we could set it up. You remember we talked about our permanent thing last year and there has been a lot of talk about a permanent Undersecretary. I don't think that ought to be done. I don't think there ought to be a permanent Undersecretary.

H.M.Jr:

I mentioned it to the President and he said under the Brownlow Plan that the Secretary and the Undersecretary should be Presidential appointees.

Bell:

I think that is right.

E.M.Jr:

But he didn't say anything about Assistant Secretary. Evidently there is a Brownlow Plan on this thing.

Bell:

They feel that everything under the Undersecretary ought to be Civil Service. That plan wasn't

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accepted and I think there is a feeling of the lawyers and the Budget that we could set up in the Treasury a permanent fiscal organization, headed by, say, a fiscal assistant secretary, permanent if you wanted to do that, and then all the agencies under that set-up would be Civil Service.

H.M.Jr: I am for that.

Bell: We could get rid of the political appointments in Treasury, Assistant Treasurer, Treasurer, Registrar, Assistant Registrar. We could bring in the men, but they haven't been put under this.

H.M.Jr: Why not put them in?

Bell: I think Thompson would be in favor of that so that you could straighten that out. You might have to write into this order that the people who are now holding jobs would hold them until a change of administration, but then they would be filled by Civil Service employees.

H.M.Jr: Couldn't you have that ready for me when I come back?

Bell: I want to work on it while you are away.

H.M.Jr: I would like Harold Graves to be used on that, too.

Bell: This is the reorganization, handled in Larry Barnard's place, and then in conjunction with Budget people --

H.M.Jr: Get the things fixed up and I would be delighted to see it go through and have you head it.

Bell: Well, I am interested, of course, in my permanent status.

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H.M.Jr: Naturally. I would be delighted to do it, but in the matter of the set-up, I think that Graves is so good on reorganization I would like you to use him.

Bell: Yes. He is a good boy. Well, I didn't want to be in the position of taking the Mint out from under Harold and putting it under my organization.

H.M.Jr: Well, ask him.

Bell: I don't care.

H.M.Jr: Ask him.

Bell: O. K. I think Thompson would like to see it set up permanently.

H.M.Jr: Then when I come back you will have something.

Bell: That is all I wanted to do, was study and consult the Bureau of the Budget while you are away so we will be ready to shoot. We have got a deadline of March 1.

H.M.Jr: I will be back by the 19th.

Bell: Yes, I know you will. We have to pretty well prepared right away.

You had no chance on annuities, I take it.

H.M.Jr: No.

Bell: Altmeyer and Miss Perkins wanted a copy of the memorandum.

H.M.Jr: Give it to them.

Bell: You have no objection?

H.M.Jr: No.

Bell: Some time ago I talked to you about a special depository bond. Remember, I told you we were

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having difficulty getting these banks to do our business on social securities, particularly unemployment trust. Some of them said that they didn't want to pledge high premium bonds for these accounts. They said, "You probably will tell us we have to liquidate the account at a time when Government securities are selling much below what we pay for them and then we have a substantial loss," and they have said, "Now, if you had a depository bond which we could buy and would be redeemed whenever the account goes out and either at the option of the Secretary or the bank, we could go along." That just suits our scheme, because whenever we walk into a bank and say, "What are your cost figures?" one bank will say, "We are earning three and a half." Another bank will say, "We are earning two and three-quarters," and we have got to take their figures, whereas if we had these bonds we could take two percent and their earning on that deposit and then apply it as what they do for us and a service and I think it would help us out.

H.M.Jr: Can we do this?

Bell: Yes, this has been thought over for months. It has gone over the legal staff and --

H.M.Jr: Well, would they deal in them?

Bell: No, they would be registered in the name of the bank, held by the Treasurer of the United States and not transferable.

H.M.Jr: What is the matter with them?

Bell: I think it is the thing to do.

H.M.Jr: Do we have to get legislation?

Bell: No, we have got plenty of authority.

That is the letter to the President. (February 8)  
The limit would be 75 million. I think it

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would enable us not only to get deposits but also to qualify them for doing the financial agency business without a deposit.

H.M.Jr: I see.

Bell: Now, there is the press release (See attached copy). I don't know whether you want to - the lawyers have all been over it.

Now, this is in response to the Senate Resolution 150. I just brought these in to show you. You see, there would be a book like that on each agency, Federal Land Banks, and the contents of this book is uniform for every agency, history and development, financial policies, accounting, auditing, collections and disbursing, sources and uses of funds obtained from the Treasury, inter-agency relationships and financial operation. Each book contains that content of each agency. Then the second book contains all the financial data for a period of ten years, if they go back that far, and they are all as nearly uniform as we could make them and then Book 1 will have this letter in it from you, which is 23 pages long, plus a consolidated - Book 2 will be a consolidation of all of these statements.

H.M.Jr: Do I sign this?

Bell: Yes. There isn't anything in this letter, except we are suggesting that the Comptroller General audit these accounts and that he be authorized to go outside and hire public accountants, doing it on a commercial basis, furnish us a copy of the audit so that we can make a financial review, and call attention to the fact that the President issued an executive order in 1934, I think it was, directing all of these accounts to be audited by the Comptroller General and further, that he directed them to submit the reports to us, which we report in a consolidated statement once a month, and also that he recommended

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to Congress the Commodity Credit and then next year followed it up with the recommendation that all the others be on that basis. That is the only thing in there that the departments might get peeved at the Treasury about, but I think it is a darned good recommendation.

H.M.Jr: I do, too.

Bell: Cochran - the Committee on Expenditures requested a statement from you on the comments and recommendations contained in the annual report of the Comptroller General of the United States on the subject of accounting and accountability. We have written this 10-page report and there are some little caustic remarks in it, but I think maybe sometimes you have got to be that way.

H.M.Jr: Well, I will take it.

Bell: Well, the Comptroller General said that - criticized Congress for granting relief to the disbursing officers. He says the disbursing officers are paid for their responsibility and ought to be held liable for their money. Allen gets \$7500 and disbursed 6½ million.

H.M.Jr: And you came to his defense?

Bell: Yes, and all the other disbursing officers that disbursed millions of dollars. I don't know whether you saw this about the Post Dispatch. That is Stewart McDonald's pet project in St. Louis and the insurance company had to foreclose. There is all of that stuff. It says Uncle Sam holds the bag. We had to issue debentures to the insurance company. It is a million and a half dollar project.

H.M.Jr: I knew we had a lot of criticism about that thing when they first wanted to make it.

Bell: Well, it is in our hands.

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- H.M.Jr: What was the matter with it?
- Bell: Apparently it didn't pay. It is a big apartment house project out in a section of the city where people who have the money to pay the rent would not live, so Gene Sloan tells me. He said it was the laughing stock of the community out there. I just thought you would be interested in it.
- H.M.Jr: When they are guaranteeing, whether it is homes or loans or business men, they ought to keep them down to \$25,000. Then if one goes bust, another may not.
- Bell: This guarantee thing has to be handled very carefully.
- H.M.Jr: Is that all?
- Bell: Yes, that is all I have got. I have gotten through sooner than I expected. I know what Cotton wants.
- H.M.Jr: What does he want?
- Bell: Well, he thinks maybe that - we had a success of making a suggestion the other day for a temporary arrangement with Colombia. You made that suggestion and they grabbed it. Now, both sides here are afraid to make suggestions because they are afraid the other one will try to trim it down, particularly Traphagen is willing to compromise a little but he isn't willing to put it forward because he said, "If I do, they will just do what they did before, they will trim it. They were up to two million one time and I was down to a million eight." Now, if we could just put down on paper some suggestions and say, "Well now, here is --"
- H.M.Jr: All right. Joe Cotton wanted me to put the pressure on Colombia.
- Bell: No, I wouldn't do that.

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- H.M.Jr: But that is what he wanted me to do. Instead of that, I put the pressure on the Bondholders' Committee and we got results. Joe and I are just a hundred percent apart on this thing.
- Bell: Supposing we just said we had a little success with this other suggestion and, "Here is a suggestion if you are about to break up you can take for what it is worth. If it has any merit, the two of you can get together on it."
- H.M.Jr: I don't even know what the suggestion is.
- Bell: I don't either, but it is some two million dollars and then there is the limitation on it that if the exports fall below, say, 1939, why, they won't have to pay any more than a certain amount.
- H.M.Jr: Dan, without --
- Bell: I would hate to see this thing break up.
- H.M.Jr: If that was a psychological success, it was just nip and tuck and Jesse Jones was tired and Welles was anxious for a success and Traphagen wanted it and I just happened to hit it when the iron was hot and everything melted. I might do it again and I might be unlucky.
- (Mr. Cotton entered the conference)
- H.M.Jr: It was just a piece of Morgenthau luck.
- Bell: Well, it went very well and I thought they were very pleased to get it.
- Cotton: Mr. Traphagen called me yesterday, day before, I guess it was and I talked to Mr. Bell a little about it. If you will remember, he wrote me a letter setting forth the proposition for a permanent settlement he thought he could get through the Council. Since this

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temporary agreement was agreed to, he put it up to the Council and said he could get it through. I thought you might want to consider it. He says that he is unwilling to put it forward, because he feels that he will be treaded on. He thinks that has happened before, but if the Colombians would put it up, he would accept it and could guarantee getting it through. I told him I would tell you about it.

H.M.Jr: What is the proposal?

Cotton: Well, this summarizes it (handing proposal to Secretary).

H.M.Jr: Well, it is just a matter of physical time. I can't sit down with these gentlemen between now and 5:00 o'clock. And, as I was saying to Bell, I think we had a piece of luck the other day that everybody just happened to be psychologically ready to state that they wanted to settle and it was a piece of luck, but without seeing these people face to face, I wouldn't want to - I wouldn't know what would happen.

Bell: Does Laylin know any part of this?

Cotton: No, not unless Traphagen told him. I talked with Larry Duggan a little bit about it. He was over here one day. I explained it to him and I think he hoped that possibly something might be done with it. I am not very optimistic, because I think they are still pretty far apart, but this is at least something the Council would accept. Now, whether it would be the time to use it, or whether it can be used, it is hard to tell.

H.M.Jr: What do you think, Dan? Whatever is going to be done, you are going to have to do it in the next ten days.

Bell: Well, I think that this 4 percent rate in 15 years might be a stumbling block.

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Cotton: I told him I didn't think he could get this settlement on that interest rate the way things were going and he said well, it was as far as he could go, that they would prefer to stand on the temporary settlement, that they would not cut this down. I think he varied the sinking fund provision a little bit, but not on the interest. He is a pretty straight fellow, I think. That is his last word.

Well, perhaps you might want to - I just showed it to Duggan, I mean. It is not in the possession of the State Department or Jones or anybody else.

Bell: Well, it might be that if you have no objection that if they ask for a meeting that we might get together with Jones and Welles beforehand and just discuss as to how a thing like this might be handled.

H.M.Jr: I will leave it to you.

Bell: If we think the time is good or we have another psychological situation as you referred to, maybe we can put it forward as just a suggestion for consideration rather than seeing the negotiations break down.

Cotton: Right. I would suggest that when you get this note from Traphagen - it seemed to me the Ambassador's letter to you was not quite complete in the sense of he didn't mention when the interest would be paid. You said it ought to be paid half on the 15th. He doesn't say that in his letter and also he doesn't say anything about the negotiations to go forward on the guaranteed debt, either, which were specific enough. So I think when Traphagen writes us, in a transmitting letter, or something, we might say issues have been called to our attention which were agreed to.

H.M.Jr: It is a good point.

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Cotton: All right.

H.M.Jr: Thank you.

Bell: He doesn't say anything about it in his letter, does he, Traphagen?

Cotton: Has the Traphagen letter come in?

H.M.Jr: I hadn't seen it.

Bell: Mrs. Klotz just handed it to me.

H.M.Jr: I see.

Cotton: Well, he doesn't mention it, either, does he?

Bell: No.

H.M.Jr: Turbay said he would do that. When Welles calls me up today on this thing, I will remind him to remind Turbay it is to be the 15th.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 7, 1940

to Mr. D. W. Bell  
 FROM Mr. Haas *BA*  
 Subject: Statements of the President and of Mr. Thomas Dewey  
 with Respect to Debts

No text is available of the President's statement of Monday, February 5, with respect to the movements of public and private debts since 1932. We are relying in this memorandum, therefore, upon the account of the President's remarks appearing in the New York Times for Tuesday, February 6. The text of Mr. Dewey's retort is quoted in the New York Herald Tribune for Wednesday, February 7.

Mr. Dewey states that he obtained his figures from a report by the Agricultural Adjustment Administration, Division of Program Planning, Agricultural-Industrial Relations Section. A copy of this report is attached to this memorandum. As will be seen from the following table comparing the statements of the President and of Mr. Dewey with the figures in the AAA report, Mr. Dewey did follow it very carefully, deviating only to round figures.

Changes in Public and Private Debts Since 1932

	The President	Dewey	AAA
(In millions of dollars)			
Federal debt (including agencies)	*	*	+ 26,619
State and local debt	*	- 130	- 130
Total Government debt	No change	+ 26,500	+ 26,489
Private debt	<u>Much lower</u>	<u>- 17,500</u>	<u>- 17,582</u>
Total debt	Lower	+ 9,000	+ 8,907

\*No figure given.

It will be observed, on the face of the comparison, that the alleged \$9 billions discrepancy is really a discrepancy of at least that amount, plus the amount of the decrease which the President may have believed to have taken place in the total public and private debt since 1932. According to both Dewey and the AAA report, this total rose about \$9 billions during the period under consideration.

The figures in the AAA report are in substantial agreement with those of the Treasury with respect to Federal and State and local debts. They are taken from the tables on tax-exempt securities in the annual reports of the Secretary of the Treasury, and are on a gross basis. In several places the AAA report uses preliminary figures or estimates for which better figures are now available but none of these make any substantive difference. A comparison of the AAA figures with the published Treasury figures is contained in the appendix to this memorandum.

The figures with respect to private debt are, of course, subject to a wide margin of error and do not purport to be inclusive of all such debts. They appear to have been drawn from standard sources, however, and there seems to be no a priori reason why they should be challenged.

## APPENDIX

Comparison of Public Debt Statistics Presented  
by AAA and in the Treasury Annual Report for 1939

(Millions of dollars)

	AAA	Treas- ury <sup>1/</sup>	Excess (+), or deficiency (-) of AAA figures
U. S. direct debt			
June 30, 1932	19,161	19,162	- 1
June 30, 1939	39,886	39,892	- 6
Debt of Federal instrumen- talities			
June 30, 1932	2,130	2,130	
June 30, 1939	8,024	7,988	+ 36
State and local debt			
June 30, 1932	19,330	19,330	
June 30, 1939	19,200	19,626	- 426
Total Governmental debt			
June 30, 1932	40,621	40,622	- 1
June 30, 1939	67,110	67,506	- 396

Treasury Department, Division of Research and  
Statistics.

February 7, 1940.

<sup>1/</sup> Gross amounts outstanding as shown in tables on tax-exempt securities, pp. 508-12, Annual Report of the Secretary of the Treasury for 1939.