

GROUP MEETING

March 5, 1940.
9:30 a.m.

Present: Mr. Gaston
Mr. Sullivan
Mr. Foley
Mr. Cochran
Mr. Graves
Mr. White
Mr. Cotton
Mr. Bell
Mr. Schwarz
Mr. Thompson
Mrs Klots

H.M.Jr: This morning I am very serious. I read in the Washington Post that Charlie West's pay in the Treasury is lost in the House economy drive.

Thompson: Well, it is true that they cut \$15,000 from the appropriation, but that doesn't necessarily apply to his salary.

H.M.Jr: It could.

Thompson: It could, yes.

H.M.Jr: By that time we will know - as Ohio goes, so goes West.

Mr. Bell, would you get in touch with the Federal Reserve people on this story in the New York Tribune?

Bell: It wasn't a bad story.

H.M.Jr: They wrote a very good story and Clarence Linz wrote a nice story, too.

Bell: I haven't got that.

H.M.Jr: He wrote a very good story. Would you ask Rouse, or whatever his name is? And I would like another day, Dan. Give me another day. Give me until noon.

Bell: Well, you ought to be able to tell pretty well by the end of today.

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H.M.Jr: Let's see. I tell you, Mr. Purvis is coming in at 3:00 and as soon as he leaves I will see you.

Bell: You don't want any other discussion before that?

H.M.Jr: Oh, I can't, because I have got a hell of a day today. But sometime as soon as he leaves, I will see you.

Bell: If the market doesn't change much, I think it is pretty well set, but I should think the note market might slow up. There certainly will be some of the holders who won't want this note. There will be some churning in the market today, I should think.

H.M.Jr: Would you please get off a cable right after this meeting to Butterworth? I would like to know all about Sir Henry Self.

Cochran: Yes, sir.

H.M.Jr: Just as promptly as possible, please.

What else, Dan?

Bell: I think we are about in agreement with the Bank of America so far as the Comptroller's Office and the Bank of America are concerned. I think it will be wound up today.

H.M.Jr: Wonderful.

Bell: They worked last night until 11:00 o'clock on that. Mr. Cushing called Mr. Giannini last night on the telephone and they are all ready to come down some time today.

H.M.Jr: Who will come down?

Bell: Mr. Cushing will come down to the Treasury today and have a general meeting.

H.M.Jr: I see.

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Bell: Probably this afternoon.

H.M.Jr: Splendid.

Bell: I think we will certainly get rid of it today or tomorrow, so far as we are concerned.

H.M.Jr: What I think you ought to do is this: I haven't informed the President recently. I think you ought to have this in mind. Before I write the letter to Jones asking for the money, I think I ought to send the President a summary and say I recommend that we go ahead with this and if he approves I will send the enclosed letter to Mr. Jones, you see.

Bell: All right. I think the way they want to handle it - I don't know - is that the Bank will send this memorandum to the Comptroller and say that they will agree to adopt this procedure and then the Comptroller will reply, saying that it is all right, as far as his office is concerned. It won't be an agreement. I understand they don't want to come to any binding agreement. It will be sort of an understanding between the two offices and you ought to get that either today or tomorrow.

H.M.Jr: Well, you won't have any trouble with me. You won't have any trouble with the President.

Bell: I shouldn't think so.

H.M.Jr: He will just take my word for it.

Bell: The other thing is, there have been a number of bills introduced in Congress for the relief of Finland, in one form or another, loans, returned interest has been paid, \$224,000 was paid in December. Mr. Doughton called up yesterday and wanted a hurried report on that and what we are telling him is that in view of the fact that bills to increase the lending authority of the Export-Import Bank have gone through and been signed by the President, the Treasury Department is of the opinion that these various bills on

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this subject are not necessary at this time. Do you want to go that strong, or just raise the question as to whether they are necessary in view of this legislation?

H.M.Jr: Just raise the question.

Bell: All right. That is all I have.

H.M.Jr: Joe, I wish that you would, through the Director of the Export-Import Bank, begin to get for me monthly or weekly summaries of these various - of what these various countries do with the money we lend them now, and particularly Finland. What have they done with what they have already, and Norway, Sweden, China. These various things - I think if you would make it a part of your business - and there might even be a possibility of going and visiting their offices where they do business and see what they look like, whether they are run in a businesslike manner. I think that - now, they may be coming in here, I don't know, with a weekly report.

Cotton: Yes, I get a weekly report of the Bank condition and pending commitments and disbursements, but that isn't exactly what you were talking about. You want to know the uses of the money, I suppose.

H.M.Jr: Yes, and I have particularly Finland in mind. I haven't the faintest idea of what they are doing.

Cotton: They have drawn down very little of that 10 million, practically nothing. The Bank says that they have made arrangements for most of it, but it hasn't been quite closed.

H.M.Jr: The thing, for instance, that surprised me, you see, I come in on this on several funds as sort of informal coordinator for the President on purchases, you see, for these various countries. I get that through what I call the "Collins Committee." I mean the actual purchases, the big purchases.

Cotton: Yes.

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H.M.Jr: Then, I don't know and I can't understand - fully a month or two months ago Finland was talking about buying 50 million rounds of ammunition from Remington and then last week they announced that - it is inexcusable. I know Remington has it. I know they could sell it to them. I know the amount of money that Finland has cash on hand, which is a great deal and which they are not using - am I right?

Cochran: Yes, sir.

H.M.Jr: They are not using it. Maybe it is all committed, you see, but they have a lot of cash on hand, so I am just curious. It just doesn't - there may be an explanation, but --

Cotton: The explanation of that cash balance seems to be hard.

On this other thing, on the Export-Import Bank 10 million dollar credit, of course what they were - I imagine they were trying - I mean, everybody is very hush-hush about these things, but they were trying to work out a trade with the British stuff they bought so it would result in arms shipment from Great Britain.

H.M.Jr: What kind of products are they buying here, see.

Cotton: Right.

H.M.Jr: And you see what I am trying to get - we are doing this thing now on two fronts. I am going to get through Haas - it is very interesting - I can get each day the number of cars that go for export to the port of New York and on a weekly basis the number of cars that move to every port with the exception of the West Coast and they break it down as to commodities, you see. Haas is giving it to me in secret. Now, if, for instance, Finland is buying any amount of the port products which go to England and England gives them something - in other words, I am trying to get this thing all together. White is doing the external thing and yesterday somebody gave the President a figure that these

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combined countries were going to buy two billion dollars in this country, which Harry and I don't think is so, so while Finland is only a piece of - if Finland is buying - how are they going to spend this money and for what? So if you could cover the front that has to do with money loaned by the Export-Import and what it goes for and leave - get us an estimate the way the French and English have given us as to what they are going to spend, it gives me another loophole which I haven't covered.

White: There may be a lag on the expenditures of anywhere from a week to two or three months in the expenditures as compared with the shipments. Possibly Joe might be able to go further than that and find out from the commitments --

H.M.Jr: Yes, that is what I meant. I said that, commitments.

Cotton: Yes, well --

H.M.Jr: Do you get the idea?

Cotton: I get the idea.

H.M.Jr: I talked it over with White and Cochran to make sure we are not duplicating and I am not getting something in here, you see - but if I knew - what I am trying to get from White is a number of things. I am trying to forecast the best I can for the next year, what are these belligerents going to buy from us, also these neutrals adjacent to belligerents. Then we are watching the commitments. If you could cover the Export-Import, that would give us another piece. Isn't that right, Harry?

White: Yes. I am wondering whether he could work through the Export-Import or whether you directly could ask these various agencies, the Finnish and the Norweigan and the Chinese to --

H.M.Jr: I don't know. I want Joe to work it out. He

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does it as my representative.

White: I say either through the Export-Import Bank, the Directors --

H.M.Jr: You have the assignment. Talk it over with Merle and White to make sure there is no duplication.

In the room here, I have got a request on my desk for 150 planes for Finland. Now, the question comes up, how are they going to pay for them, see, and of course the other question was a much more difficult one, where they were going to get them. I mean, sooner or later all of that stuff flows across my desk, but I don't know what these countries - what they are buying. There is a mission here from Belgium. There is a Swiss mission. Merle knows all these people and he could put you in contact. What are the Swiss doing, what are the Belgians doing? I want you to confined yourself to those which are being financed by the Export-Import.

Cotton: Yes.

H.M.Jr: Incidentally, some place, somehow, Cecil Dickson got too accurate a figure on what our secret estimates are for tax receipts for March 15. Is that right?

Bell: For the month of March.

H.M.Jr: Yes, and might I suggest again, I know the people come in, I know it is hard to see them, but will you do this for me, if you see these people or the Kintners and the Alsops or the Pearsons and the Allens, and so forth and so on, tell Chick Schwarz about it, see. I do when I see them. When I see them, Chick Schwarz sits at my side and if I do it I don't see why the other fellows can't do it. But when these people come in, they get a little piece here and a little piece there. You may not attach any significance to it, but if you give it to Chick, Chick being the funnel that it all

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flows through - I don't say that you have to have him there when they are there, but it would be nice if he was there, but at least tell him afterwards and give him the high points of the conversation so that he knows, so at least I have some person that I can hold responsible for information that is going out. I know these fellows run all over the place and I know it is difficult not to see them, and I am not saying that you shouldn't see them, but at least tell Chick about it. To show how I offend myself, I met the AP fellow here a week or ten days ago and he is a very close friend of Mr. Hanes' and he said something to me and I said, "Well, if you notice, I am the first person who mentioned the word 'consumer' in connection with the Associated Gas and Electric." Next day he writes the story. "Morgenthau is the only friend of the consumer," or something like that.

Schwarz: Something like that. That was the emphasis of your activities.

H.M.Jr: And again showing how they emphasized it. "Third Term Rumors Reach a New High. Morgenthau Remark also Held as Sign that he Does Not Look on Chief as Candidate.

"Secretary Morgenthau, close friend and Dutchess County neighbor of President Roosevelt, made a remark during an exchange with correspondents at his press conference this afternoon which indicated to some that in his own mind he does not think the present occupant of the White House will return next year.

"The newspaper men were pressing the Secretary for some inkling of the purpose of a conference at the White House this morning at which the President, Secretary Morgenthau, Chairman Marriner S. Eccles of the Federal Reserve Board and some Government economists were present.

"Each time he replied that his questioners should 'ask Steve Early.' The reference was to Stephen Early, press secretary of the President, whose duty it has been to guard White

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House secrets as well as dispense news when duly authorized.

"When some of his questioners finally indicated the Secretary might, in effect, go over the head of the White House secretary, Mr. Morgenthau said in an undertone, as a sort of afterthought:

"'After all, I've got to live with Early for the rest of the year.'"

I am again saying it, please keep Schwarz advised if you do see representatives of the press and then I can hold him responsible for what is going on.

Haas: Is Dickson an AP man?

H.M.Jr: What is that?

Gaston: International News Service.

Klotz: Here is the --

Haas: AP had a figure in a month ago.

H.M.Jr: They came within 8 million dollars of being right, which is too right.

Bell: The only thing he did wrong, he applied it to income taxes where the 800 million applies to all revenues. He applied it to income taxes alone.

Haas: Recently?

Bell: Three days ago, I guess.

Haas: Before that, you remember the AP had it right on the nose.

H.M.Jr: Chick, have you got anything?

Schwarz: Under control.

H.M.Jr: Joe?

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Cotton: No.

H.M.Jr: Merle?

Cochran: Leroy-Beaulieu telephoned down last night that Professor Rist had arrived on the Washington and that Mr. Pleven would be on the Clipper.

H.M.Jr: And I sent word to Rist that he has got to be brought in by his Ambassador. I don't want any contact with the President without his Ambassador.

Cochran: Have we received any official word on this new air man who is taking --

H.M.Jr: Mr. Purvis is coming in at 3:00 and he is going to bring him down.

You know, I got a clearance from the President on that Army and Navy thing.

Sullivan: Is that so?

H.M.Jr: Hercules, duPont, to give them four months.

Sullivan: They are making a request.

H.M.Jr: Well, I have asked them to. But it isn't a demand, but I have put it to them three times. If he doesn't get it, they get the powder anyway, because the President never raised the question, but I asked them only yesterday to have it come in that way.

Sullivan: I should think he could do that, at least.

H.M.Jr: I am sure he will.

Foley: There is a letter from Justice on the Indiana situation that I have given to Elmer. Elmer sent out for some additional information. When that comes in, I want to talk to you about it.

H.M.Jr: Justice?

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Foley: Yes.

H.M.Jr: The boys had it yesterday that the show cause order had gone out from Justice, the newspaper men had it.

Foley: They weren't right.

H.M.Jr: O. K. Who is going to see me?

Foley: Well, Elmer wants to get some information. When he gets the information, I will ask to see you.

H.M.Jr: Tell Elmer to come up and see me sometime.
Anything else?

Foley: No.

H.M.Jr: Herbert?

Gaston: I have a memorandum here from our group that you asked to consider the Brazilian Steel matter. The substance of the memorandum is simply that we don't think you should get into it unless you want to have the original committee reconstituted to consider debts and all other features of South American finances.

H.M.Jr: Of course, you people didn't see Miranda. I did last night.

Schwarz: I did.

Gaston: Oh, we have got to get new guidance.

H.M.Jr: I said to her - and she didn't get it at all - "Will you please send word to Dr. Aranha that the Brazilian debt is canceled." She said, "So?"

Klotz: She was marvelous.

H.M.Jr: She sang last night for the President. Since seeing Argentina - I have never seen anything like Miranda since I saw Argentina when I was

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in Geneva. She is playing tonight - the rest of the week. If anybody wants entertainment, she is a great artist. You know, President Souza-Costa said she is worth all the Ambassadors combined. As far as he is concerned, she can fire them all.

Well, I am having lunch with Jesse Jones and I will ask him to - I tell you what I would like you to do, Joe, write me a letter to Mr. Hull, based on the letter which he wrote me, asking me to do this, you see, and say that I don't feel that we are equipped to do this sort of work and therefore if he wants somebody to undertake it outside of the State Department, I suggest he ask Mr. Jones. Have that on my desk before 1:00 o'clock and I can show it to Jesse and ask him if it is agreeable to him.

- Cotton: Can I have the copy of that letter? I think you have it.
- H.M.Jr: Yes, and have it on my desk before 1:00 o'clock.
- Gaston: Larry Duggan called me up and is anxious to know what, if anything, we are going to do. Is there any objection to my telling Larry that we are not likely to do anything?
- H.M.Jr: I can't see it.
- O. K., gentlemen.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 11:25 this forenoon, the Secretary asked me to telephone Minister Procope of Finland in regard to his request made yesterday for 150 pursuit planes and 36 light bombers. The Secretary said these could only be obtained if the Allied Purchasing Commission would be willing to release the desired number of 36 P Curtiss machines and Martin or Douglas light bombers. Consequently, the Secretary had taken this matter up with Mr. Purvis who, in turn, was consulting his people in the premises, and would let the Secretary know the answer within the next day or two. There is possible no other way of obtaining the machines which the Finns desire. If these planes were to be surrendered by the Allied Purchasing Commission, it would mean that delivery to France would be correspondingly reduced, since these types of planes are now on order for France.

I gave this message personally to Minister Procope by telephone at 11:35 a.m. In answer to the Minister's question as to where Purvis might be, I gave him the address of the Washington office of the Franco-American Purchasing Board, and let him know also that Mr. Purvis will be in Washington tomorrow. The Minister's first idea had been to rush to New York to see Mr. Purvis, but I believe now that he will either await word from the Secretary himself, or endeavor to get in touch with Mr. Purvis when the latter visits Washington.

The Minister said he was also preparing the data in regard to Finnish purchases in the United States which he promised us yesterday would be made available. He said he would send me the documents as soon as completed.

When the Minister came to my office yesterday afternoon, following his conference with the Secretary, I gave to him a memorandum from Mr. Bell's office in regard to the Irish liberation loan.

B. W. S.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The movement in the sterling rate today was very similar to that which occurred yesterday, with a decline in Amsterdam being followed by a steadying of the quotation in the New York market. Just before our opening, sterling was quoted in Amsterdam at 3.89, the lowest rate since December 1, 1939. Business was done at this rate when the market opened in New York but then a steadier tone appeared and sterling advanced to 3.90 just before noontime. Until mid-afternoon, the quotation fluctuated within a narrow range. At about that time a firmer tendency again developed and the rate reached a high of 3.90-3/8 at the close.

From the figures that follow, it will be seen that today's turnover was not far below the greatly expanded volume recorded yesterday.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £840,000 from the following sources:

By commercial concerns.....	£ 174,000
By foreign banks (Europe, Far East and South America)..	£ 636,000
By Federal Reserve Bank of New York (for Yugoslavia)...	£ 30,000
Total.....	£ 840,000

Purchases of spot sterling amounted to £642,000, as indicated below:

By commercial concerns.....	£ 426,000
By foreign banks (Europe and Far East).....	£ 216,000
Total.....	£ 642,000

The quotations for one-month and three-months forward sterling widened to 1-1/4¢ and 4¢ discount per pound respectively.

The following reporting banks sold cotton bills totaling £41,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 17,000 by the National City Bank
16,000 by the Guaranty Trust Company
4,000 by the Chase National Bank
3,000 by the Bankers Trust Company
1,000 by the Irving Trust Company
<u>£ 41,000 Total</u>

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The discount for the Canadian dollar widened today to close at 14-3/8%. This is the lowest rate for that currency recorded since mid-1933. It was reported that a New York bank received an order from Chicago to sell about 100,000 Canadian dollars. Due to the extreme thinness of the market, this order had a depressing effect on the rate. The marked absence of buyers of Canadian dollars is readily explained by the fact that, under the present Canadian Exchange Control regulations, the uses which may be made of Canadian dollars purchased in the free market are extremely limited.

The other important currencies closed as follows:

French franc	.0221-1/8
Guilders	.5313-1/2
Swiss franc	.2242-1/2
Belgas	.1690

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

\$ 1,180,000 from the National Bank of Rumania
350,000 from the Bank of the Colombian Republic
<u> </u>
\$ 1,530,000 Total

The Federal Reserve Bank of New York reported that the following shipments of gold were being sent to it:

\$ 3,292,000 from Canada, shipped by the Bank of Canada, Ottawa, for sale to the U. S. Assay Office.
2,251,000 from Switzerland, shipped by the Swiss National Bank for its own account.
2,246,000 from England, shipped by the Bank of England for account of the Swiss National Bank.
2,106,000 from Colombia, shipped by the Bank of the Colombian Republic for its own account.
<u> </u>
\$ 9,895,000 Total

The disposition of the last three shipments is unknown at the present time, but in all probability they will be earmarked at the Federal Reserve Bank.

On the report of February 28 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$20,925,000, an increase of \$622,000 in the short position. The net changes in the positions are as follows:

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<u>COUNTRY</u>	<u>SHORT POSITION FEBRUARY 21</u>	<u>SHORT POSITION FEBRUARY 28</u>	<u>INCREASE IN SHORT POSITION</u>
England	\$10,414,000	\$ 9,919,000	\$ 495,000 (Decrease)
Europe	5,408,000	6,560,000	1,152,000
Canada	191,000	68,000	123,000 (Decrease)
Latin America	510,000	579,000	69,000
Japan*	2,622,000	2,735,000	113,000
Other Asia	1,256,000	1,065,000	171,000 (Decrease)
All others	78,000 (Long)	1,000 (Long)	77,000 (Decrease in Long Position)
Total	\$20,303,000	\$20,925,000	\$ 622,000

* Includes Korea and Manchuria

The quotation for silver in Bombay advanced by about $3/4\phi$ to an equivalent of 41.46ϕ .

Following yesterday's rise in the London silver market quotations, a mild reaction set in today. The prices for spot and forward silver both fell $5/16d$ to $20-15/16d$ and $20-13/16d$ respectively. The U. S. equivalents were 36.65ϕ and 36.20ϕ .

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

We made seven purchases of silver totaling 559,000 ounces under the Silver Purchase Act. Of this amount, 300,000 ounces represented sales from inventory and the remaining 259,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 200,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

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Regraded Unclassified

RE CHARGES AGAINST MR. HATHCOCK

March 5, 1940.
10:00 a.m.

Present: Congressman Doughton
Mr. Sullivan
Mr. Schwarz
Mr. Foley
Mr. Thompson

H.M.Jr: Well, do you (Doughton) want to state your understanding of Hathcock's complaint, whatever his complaint is, or should we state our complaint against Hathcock?

Doughton: I think it would be best to do that, your complaint made against Hathcock, and if there are charges, I was going to suggest that if there are charges preferred against Hathcock - now, please understand I am not taking sides in this matter. I know Hathcock very well and if there is anything I can do to help smooth the thing out and get it settled in a way that the Board can function like it should, remove the dissension, I would like to do that. If I can't help accomplish that, as far as I am concerned, unless it becomes the - my duty as Chairman of the Committee to take some action about it which I have discussed with our Chief Counsel, of course, I will get out of it. I am not looking for any new responsibilities. I have got some work to do that pertains primarily to my responsibilities. My Committee has some responsibility about some things, but I doubt if they reach this case, but if they do, then I will come in when I am sure that they do, but I have been very hopeful from what I have heard that the matter can be straightened out and smoothed out and the disagreements settled in some way. so that the Board could function as it should.

I don't know what the Chairman or other members of the Board may have against Mr. Hathcock. Mr. Hathcock has talked to me about it and feels in some respects that he hasn't been given the consideration due him in certain respects. In other words, he said to me that he knows that things are not working satisfactorily down there, smoothly.

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I think this, if you will pardon the suggestion, if there are really complaints either way that can't be settled without it, it has to go into a general discussion and investigation, that the charges ought to be preferred in writing and give him so long to answer those charges. I never can deal with a case until I get all the facts.

Thompson: That is a good idea.

Doughton: Of course, that is for you and not for me to decide. I just make that suggestion for what it is worth.

H.M.Jr: Norman, what is the usual procedure with a matter of a Treasury employee? Norman Thompson is my Administrative Assistant. He is the fellow that keeps me out of jail and sees that I do these things properly. He has a hard time.

Thompson: Well, if there is some disagreement between members, we usually try to work that out, but if it reaches a state where there are charges going back and forth, the proper procedure is to file charges and have them answered.

H.M.Jr: There have been charges made to me, so talking out loud here - we will do our homework in front of my old friend (Doughton) here. I don't see why that suggestion of the Chairman isn't a good way to proceed, that these charges be written out and presented to Mr. Hathcock and he has a chance to answer them.

Thompson: That is the usual procedure.

Doughton: That is what suggested itself to me. He hasn't preferred any charges. He has just explained to me his situation down there.

H.M.Jr: No, we --

Doughton: It is very unsatisfactory. You have charges?

H.M.Jr: Well, as a matter of fact it has been recommended

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to me that I dismiss this man. It has been recommended that this man should be dismissed on account of his conduct. I mean, it has been definitely recommended.

- Doughton: I got the impression of something of that kind from our conversation on the phone, although you didn't say specifically.
- H.M.Jr: Definitely, I have a recommendation that the man be dismissed from the Treasury.
- Doughton: Is this all going on the record?
- H.M.Jr: There is only one copy and I get it and nobody else gets it. There is only one copy.
- Doughton: I want to say this. I don't know anything about - only what he has related to me. I have known Hathcock a long time. He was appointed here upon my recommendation and request many years ago and then he resigned to practice law and then he was reinstated. He was up in the Chief Counsel's office quite a while.
- I think this about Hathcock: I think I am justified in - it would take considerable evidence - of course, evidence could be adduced that could change my mind. I think there are two things about Hathcock. I think he is honest and I think he is capable. I can establish the fact that down in the Chief Counsel's office he prevented a lot of fraud down there. There were a lot of folks wanted to get rid of him down there because he was kind of in their way.
- H.M.Jr: Did Johnny Hanes ever talk to you about Hathcock?
- Doughton: He mentioned something to me about Hathcock one time and I am satisfied that he didn't give me any facts, but I am satisfied that the crowd wanted to blow him up down there and they were trying to prejudice or poison other parties against Hathcock. I think he

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has had his enemies in a lot of people because they couldn't accomplish things in the way of tax refunds because he was in the way. I think it can be demonstrated. I think one man was dismissed because he uncovered outright a case of fraud.

- H.M.Jr: Johnny Hanes complained to me, not once but a number of times, bitterly about Hathcock.
- Doughton: Did he base that complaint on Hathcock's treatment of him or reports that had been made to him?
- H.M.Jr: I don't know. He came in here on a number of occasions and complained and on account of Hanes' complaint to me --
- Doughton: I tell you where I think you would get a --
- H.M.Jr: On account of Hanes' complaint to me, he was taken out of the Bureau and put on this Processing Tax Board.
- Doughton: I think you would find - it is strange if he was taken out of the Bureau. I understand that - it was stated to me when he was put on this Processing Tax Board that he had no business being appointed there. He was removed from the Chief Counsel's office because he was unsatisfactory down there. He was promoted down there and his salary was increased and he was told when that was done that he would be recommended for a better job if he wanted it. So it is strange to be promoting a man as long as he stayed there when he was giving trouble and was unsatisfactory. I think you will find that in the record.
- H.M.Jr: I never met Hathcock. I am only familiar with him, as I say, on account of Hanes' complaint about him to me and on account of that thing, he was taken out of that position in order to stop the friction and get him in a place where we thought he would be harmless, but evidently in his present position the things that he has done are such that - if everybody acted

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the way they tell me Hathcock acts, we just couldn't run the Treasury, but I have never met the man. I have no feeling one way or the other. I just like to run the Bureau on a fair --

Doughton: I think you do, so do I.

H.M.Jr: So I think your suggestion of putting everything that we have in writing and giving it to Hathcock and give him a chance to answer it --

Doughton: That just occurred to me that that would be the proper way to proceed. I tell you where you can get some information on Hathcock that I think - general information about his character and ability and services. Mr. Cannon was - he was Chairman of this Board. He was in the Chief Counsel's office. He has worked with Hathcock for years. He is a man from my district and is outstanding in ability and character. He knows Hathcock, I guess, better than any man here in Washington.

H.M.Jr: Well, I never met the man.

Doughton: And if you called him in you would get the low-down on Hathcock. I think this about Hathcock - I may be wrong, I may have to change my views. I think he is honest and I think he is capable. I think he is being kicked around down there in certain places until he has got sore and nervous and maybe resents a lot of things he oughtn't to and maybe - perhaps he does or says things that are not justified on account of this treatment that has been accorded him. That is my opinion. I am just talking here now - I understand that the Chairman of the Board doesn't speak to him. I understand that he increased the salary of all the other secretaries but his and doesn't do that because he said he didn't like him. He gives him one room and gives the others two. That may not be true. It has been reported to me. That is strange treatment if it is so. If he is wrong, he should be straightened out.

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- Sullivan: Mr. Secretary, the Commissioner and the Chief Counsel are in the building and I am wondering if Mr. --
- Doughton: A little louder, please.
- H.M.Jr: I think the suggestion that Mr. Doughton made is that we get this thing in writing.
- Doughton: I think that is the way to proceed.
- H.M.Jr: I think that is the proper way to proceed and after all, the Chairman is a very busy man. He has got a lot of important things up there before him and it was very nice of him to come down on a busy day and give us his help and we will get this thing in writing. We will give it to Hathcock and then when Hathcock answers I will go over it and if you have the time, I will come up to see you or you can come down to see me.
- Doughton: I will be glad to take the time.
- H.M.Jr: And we will go over our charges and his answers together.
- Doughton: I want to be just as fair to one side as the other.
- H.M.Jr: And before I make up my mind, you and I will talk it over.
- Doughton: That is exactly the right position, as I view it.
- H.M.Jr: You and I will talk it over after we have the two and we will have the thing briefed and boiled down and you will take a look at it and then you and I will decide what is fair.
- Doughton: I have talked to our Chief Counsel about some of the things that Hathcock has complained about and been complaining to him about, and my opinion is - it may turn out differently - my opinion is you will find cause for complaint both ways after the record is all laid on the desk. That

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is my opinion. I may change my mind and say it is all one way. I don't think it is a one-sided question at all.

NOTE FOR THE SECRETARY'S
DIARY FOR MARCH 5, 1940

At lunch today the Secretary discussed with Mr. Jones the pending request of China for additional Export-Import Bank credits. Mr. Jones said that he had seen Chen and would reach a conclusion in the matter within the next week or so.

He will keep the Secretary informed of developments through Mr. Cotton.

J.P.C.H.

JPC, JR.

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Treasury Department
Division of Monetary Research

Date.....3/7/40.....19

To: Miss Chauncey

From: H. D. White

This information was given
to the Secretary orally yesterday.

The incoming material was given
to Capt. Puleston at the Secretary's
request.

TREASURY DEPARTMENT

218

INTER-OFFICE COMMUNICATION

DATE March 5, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Memoranda and Proceedings of Meetings Between the Chinese Government Officials and the American Advisory Transportation Experts Submitted by Mr. M. E. Sheahan

The memoranda discuss in great detail the problems involved in a reorganization of China's motor transport communications and contain the recommendations of the American Advisory Experts concerning the training and licensing of drivers and mechanics, the establishment of adequate repair facilities, the means of improving existing roads, the establishment of centralized government control over the use of the highways and the personnel required for such supervision but there is contained in the report no indication whether or not there will soon be facilities for greatly increased truck transportation.

Difficulties of obtaining imports into China are becoming very serious.

Mr. Sheahan sums up the Chinese transportation situation in his memoranda of November 13, 1939 as follows:

"The present situation in my opinion is an emergency one only and calling for emergency measures, for example, there are approximately 80,000 tons of Government freight at Haiphong and about half that amount of commercial freight awaiting movement, for the first time in over a month the French-Indo-China Railway is ready to resume operations between Haiphong, Hanoi and Kunming. Assuming that this Railway can only haul 500 tons a day to Kunming, if a similar amount could be transported via the South-eastern route to Kwelyang it would be a matter of but 4 to 6 months before the entire port of Haiphong will be cleared of congestion and it is doubtful if normal traffic demands through French Indo-China ports would exceed 10,000 to 15,000 tons per month after that time. This amount of tonnage in my opinion could be handled by the

Division of Monetary
Research

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French Indo-China Railway provided they could be encouraged to operate from Laokai to Kunming during night time hours. I do not believe night operation over this area presents any particularly difficult problems except perhaps during the extreme rainy season, and even then through adequate advance protection, night operations could undoubtedly be continued on a reduced scale."

(Incidentally, in a consular dispatch of December 19, from W. R. Peek, Counselor of the Embassy at Chungking, Mr. Peek claims that Mr. Sheahan is over-optimistic in his view of the traffic situation.)

But since the making of this statement by Mr. Sheahan the Japanese have bombed the French-Indo-China Railway and cabled reports state that the amount of goods transported over this railway in January and February of this year has been negligible. In view of these later developments it would be interesting to learn how the Chinese expect to import additional purchases.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 5, 1940

TO Secretary Morgenthau
FROM Mr. White

1. Gold imports during January and February totalled over \$500 million.
2. (a) Our trade balance, so far as we can ascertain, will account for less than one-half that amount, and recorded capital movements are less than \$10 million.
(b) The net balance on all other service items is negligible and we believe that even shipping should not yield any significant revenue to the United States.
(c) According to Mr. Sullivan, to his knowledge, the British and French have spent only small sums, probably less than \$10 million as advance payments on future contracts, but Mr. Sullivan says there may well be payments which he would not know about.
3. There is nothing definite in the cables that we have received which would help us explain the discrepancy of over \$200 million in net foreign expenditures in the United States in the past two months.

Could you ask Mr. Purvis what proportion, if any, of the \$87 million reported as spent out of both British and French special accounts was for goods or plant expenditure that would not show up in our export figures?

After receiving Mr. Purvis' answer we will be able to prepare a set of questions to be asked of Mr. Ashton-Gwatkin, Mr. Rist or Mr. Butterworth.

We should have more information on this to enable us to better estimate our trade with the British and French Empires for 1940.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE March 5, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

BALANCES AND EARMARKED GOLD

FINLAND
(February 21)

(Thousands Omitted)

Bank of Finland gold held under earmark with N. Y. Reserve Bank.	\$11,800
Bank of Finland dollar balances with N. Y. Reserve Bank	10,900
Bank of Finland dollar balances with other banks	3,600
Private Finnish funds with N. Y. Banks	7,200
Total	<u>\$33,600</u>

As of 12 noon March 5 the balances of the Bank of Finland with the Federal Reserve Bank of New York were as follows:

Gold	\$14,521,000
Dollars	8,354,800
Miscellaneous securities, etc.	1,284,000
Total	<u>\$24,159,800</u>

B. M. G.



TREASURY DEPARTMENT

222

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON

5 March 1940.

MEMORANDUM FOR HON. HENRY MORGENTHAU, JR.,
THE SECRETARY OF THE TREASURY.

SUBJECT: Government owned powder factories (Army and Navy),
capacity of.

1. Referring to your telephone message to Admiral Spear on Monday, March 4th, inquiring as to the rates of production of the Army and Navy owned powder factories, and whether or not it would be possible to increase the production of these government-owned plants thereby releasing to commercial plants a corresponding production of powder for sale to other Governments -- the investigation of this subject reveals the following:

2. The production at the Indian Head, Maryland, Powder Factory is now at the rate of 15,000 pounds per day, or 3-1/2 million pounds per year. Increasing this production to 25,000 pounds per day, or 10,000 pounds additional, will give an additional production of 2-1/2 million pounds per year. In order to accomplish this, it will be necessary to take on approximately 175 more men for employment at the Indian Head Powder Factory. It is estimated that the production at the rate of 25,000 pounds per day can be accomplished in approximately four weeks' time. However, it will be desirable to retain some minor production at the DuPont Plant, in order to keep the DuPont Powder Company in line to meet the Navy's needs when the Army is buying little or no powder. The procurement of powder from DuPont and the manufacture of powder at Indian Head provide a very valuable yardstick as to price.

3. As regards production at the Army's Plant at Picatinny Arsenal, this Plant is now operating at 10,000 pounds per day with existing solvent recovery equipment. The present equipment and capacity are being employed at the maximum on current orders, and this Plant cannot increase its production with the present equipment. It is expected that installation of additional equipment will be completed in the fall of 1940 and that the capacity at Picatinny will then be 18,000 pounds per day. Therefore, the answer to the question, "Can the Picatinny Arsenal increase its production?" must be ~~assured~~ in the negative.

H. E. COLLINS,
Chairman,

The President's Liaison Committee.

March 5, 1940

3:45 p.m.

Present:

Minister of Finland, Mr. Procope
Captain Collins
Mr. Cochran

HM,Jr: You know these gentlemen.

Minister: Yes, I know them. You know what the matter is about.

HM,Jr: I asked and they tell me it is planes.

Minister: Yes. I got from our Field Marshal, Saturday, a telegram asking me, telling me that the Commander-in-Chief of our air forces had contacted your Naval Attache, Commander Pihl, and asked for 150 pursuit planes and for 36 fast two-engine bombers.

HM,Jr: I knew about the 100.

Minister: 100, yes.

HM,Jr: 150 pursuits and 36 bombers? I did not know that.

Minister: Yes. And particularly the Pursuits are of great importance. An answer to the question is extremely urgent and asked me to give reply as soon as possible, so as the telegram was from the Field Marshal, I asked for the privilege of seeing the President and I saw him on Sunday and he told me the man who has to deal with this is you and that you could perhaps help me.

HM,Jr: You don't know -- you just want a good pursuit plane.

Minister: Good pursuit plane at once. Of course, I don't like your old pursuit plane with speed of 180.

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The President told me you had that. I did not know, but your P-36 would be perfect for us. They are, of course, not as good as the P-40, but still

HM, Jr: But they are better than what the Russians have. The P-36.

Minister: They are good for us. I think they are splendid planes.

HM, Jr: I don't think the Russians have anything that begin to equal them. The Russians have no German planes?

Minister: I don't know. The Russians, in any case, are fighting better now than at the beginning of the fight, so I guess that they have got German planes.

HM, Jr: Where are we going to produce 150 planes?

Capt. Collins: I don't know of any Government contracts outstanding on P-36's. There may be some. I don't know how we can produce them privately.

HM, Jr: Army can't sell planes they have taken title to.

Minister: Why not? If you get other planes instead.

HM, Jr: Have you got the Brewster planes yet?

Minister: They are all on the other side. That worked out in a perfect way. If they are in Finland yet, I could not tell you, but they are on the other side, safely.

HM, Jr: This is a tough contract.

Minister: How do you mean, tough?

HM, Jr: Well, to produce 150 planes. Where the hell are you going to produce 150 planes? I don't see any other possibility than just to get them in some way from Army stocks. We replace them by better.

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I will go to work on it right away to see what I can do. I will give you some idea in 24 hours. I won't let any grass grow.

Minister: Thank you. You know, we are in a terrible plight, but on the other hand, the fact that the Field Marshal insists on getting them, that shows that he is rather confident how the fight will go on. He must have something in mind. Some attack in mind.

HM, Jr: You have got plenty of money here.

Minister: In the States? Now? How much money, I don't know?

Minister: Balances of earmarked gold -- just forget you heard this.

Capt. Collins: Oh, yes!

HM, Jr: \$33,600,000. That's right, isn't it?

Mr. Cochran: That includes private balances, the bottom figure.

HM, Jr: Oh! \$24,000,000 is Government. Bank of Finland, \$24,000,000.

Minister: Are there \$9,000,000 of private funds? They are, of course, all paid, all in the hands of the Bank of Finland. Bank of Finland can dispose of them. Yes, to some of them I have contributed. Some are Hoover money, about \$2,000,000.

HM, Jr: Now, Mr. Minister, let me go to work on this right away.

Minister: Thank you.

HM, Jr: And I will talk right now with Captain Collins.

Minister: Good! \$33,000,000 is, of course, not much money.

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HM, Jr: If it is humanly possible to get it, I will get it for you.

Minister: Thank you. May I tell you that I have a program for buying war materials from this country in different ways. I did not specify how, going up to \$24,000,000, only in this country, and then of our balances here we have to pay other countries, because I take it we have practically no balances in Paris.

HM, Jr: If you would care to tell me, in strict confidence, or tell Mr. Cochran about it, I would like to know about it. I am trying to get from all countries what they are buying and add them up.

Minister: Oh, what we are going to buy here? Certainly!

HM, Jr: That's part of the job I am doing for the President.

Minister: I am very glad. We had my people, just this morning, to make up a list of what we have to pay in the next two months here.

HM, Jr: If you would give me that in confidence.

Minister: Certainly!

Mr. Cochran: You gave me once, some months ago, a list of what you needed.

Minister: Are you not now speaking about military? That was civilian, Mr. Cochran. I would be very glad to do that.

HM, Jr: O. K.

Minister: And I may again give some verbal explanations to Mr. Cochran:

HM, Jr: You let Mr. Cochran know and he will come up to your Legation whenever you want to see him.

Minister: May I ask you, what's going to happen

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on the so-called Hoover loan, the war loan?

HM, Jr: Ask Bell what is the status of that.

Minister: You say that you are going to work upon this now. Can I phone you?

HM, Jr: I will phone you. I will let you know definitely.

Minister: Because I am

HM, Jr: Either Captain Collins or I. Definitely phone him tomorrow and let him know.

Minister: I can wait until tomorrow.

Capt. Collins: We will phone you tomorrow and let you know what the status is.

HM, Jr: You (Collins) phone the Minister definitely.

Minister: Please try to help us. I know you will. The situation is probably this: We have got less from the rest of the Powers that we hoped to get, because at a certain moment, a few weeks ago, when there were some people who tried to give us airplanes, some private people here, and we could have bought a small quantity of any pursuit planes but a small quantity of light bombers, this combined Grauman and Brewster planes, ten or fifteen of them, I got an answer from Finland that they do not like to have them now. If I can get money, buy ammunition. And I have a lot of orders to buy, a lot of buying orders, I will show Mr. Cochran, are under condition that I can financethem.

HM, Jr: Let me go to work on this, because I want to do it now.

(At this point, the Minister and Mr. Cochran left, Capt. Collins remaining.)

HM, Jr: I thought I would call up the President and say "how badly does he want the thing" and if he

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wants it, it gets down to taking something away from the Army and Navy and the thought I had, if he was willing to do this, I understand the Army has no more P-36's on hand?

Capt. Collins: You mean on order?

HM, Jr: On order. But would he be willing to release some of the stuff of the Army and Navy and let it be made up, just the way we did on the powder deal.

Capt. Collins: Defer their contracts.

HM, Jr: Yes.

Capt. Collins: Diversion of contracts is the only way to get them; take something off of the production line. That takes engines as well as planes. But that's the only answer to this problem of his.

HM, Jr: And if he says "yes", I thought we would send for Arnold and Towers and the three of us talk it over and put it up to them still tonight and let them be thinking about it.

Capt. Collins: That's all right.

HM, Jr: But I am going to ask the President and see if he will talk to me.

(At this point, HM, Jr placed a call for the President and the following is HM, Jr's side of the conversation.)

"Good evening.

Procope just left here. He wants to take 150 pursuit planes and 36 bombers.

Well, if you really want me to go after it, I will see what I can get, but I am going to have to take something away from the Army and Navy.

Well, what I thought, if you approve, I will talk

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to General Arnold and Admiral Towers with Collins and put it up to them and then if I have a program I will bring it over to you, but I wanted to be sure you really wanted me to have it.

I understand.

Thank you."

HM, Jr: He says if we can without getting into awfully hot water, but he thought we would take it away from the French and English. Well, that does not help them any. He also said "What did Procope do? Take your watch away?".

(At this point, HM, Jr placed a call for General Arnold and one for Admiral Towers and invited them or whoever was acting for them to be in his office at 4:30.)

HM, Jr: They could not sell their own P-36 to them?

Capt. Collins: They have some law in the Army whereby they can sell condemned material.

HM, Jr: How can they condemn a plane?

Capt. Collins: That's just it. To condemn a ship, some of them less than two years old, I would not want to tell them that, because you would never be able to laugh that off on the Hill.

I am afraid we are a little late for those boys. It's four o'clock.

HM, Jr: Well, I have my financing to do now and you wait around and we will meet again at 4:30.

oOo-oOo

March 5, 1940

4:30 p.m.

Present:

General Arnold
General Brett
General Yount
Admiral Towers
Captain Collins

HM,Jr: I appreciate you people dropping everything to come over, but I have a tough assignment from the President.

He told our friend, Procope, to come over and see me. I just called him up and he said he wished we would all get together and see what we could do to sell the Finns, for cash, 150 modern pursuit planes and 36 two-engine bombers. There's the problem. And, of course, they want it tomorrow.

General Arnold: They want immediate delivery?

HM,Jr: Immediate delivery.

General Arnold: Don't look at me, Jack.

HM,Jr: Who feels generous?

Admiral Towers: Of course, the Navy cannot legally, in any manner that I know of, sell planes that they have already accepted and we furnished the Finnish Legation with the information as to what we have on order from the manufacturer and we have advised them that they are free to consult with the two manufacturing firms concerned and to ask for delivery schedules from those firms based upon the assumption that planes now being built to Navy order can be diverted to Finnish order.

HM,Jr: Which two companies are those?

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Admiral Towers: That's the Grumman, of Beth Page, and the Brewster. The Brewster planes, incidentally, are the ones we are getting in the place of the first ones we let the Finns have and are in Finland today.

HM, Jr: All 43?

Admiral Towers: They all left this country three weeks ago.

HM, Jr: He says they are there.

General Arnold: The same law that governs your (Admiral Towers') activities governs ours, so the only possible chance would be the P-40, because the P-39's have not gone far enough to do anything. The P-38 is along nowhere and the only other one we have coming along is the P-40. How far along is the P-40?

General Brett: P-40's? They start in, coming in quantities, along about May and June.

General Arnold: May and June. They want them yesterday.

General Brett: There is some delay on that, because of the Allison engines. Allison has some accumulated shortage running along about March or April of 40 engines that they hope to make up later on, but they don't actually clear their skirts until August.

General Arnold: The law is what hurts there, because there is no way you can turn over airplanes we now have delivered and part of our Air Corps equipment. No way you can do that.

HM, Jr: Of course, talking here in the room, strictly in the room, I don't see that it would help very much if we looked to anything that the French or English had on order. I don't see how that helps the situation at all.

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General Arnold: The French have some pursuit planes coming through.

General Yount: Two-engine bombers.

General Brett: Wait just a minute. I will tell you about that.

General Arnold: The Douglas Company is still producing the two-engine bombers.

General Brett: The French, according to my book, on the 875 which is the modified P-36, have had 550 on contract, 15 due in February, 45 in March, 62 in April

General Arnold: They are coming through right now, about 2 a day.

General Brett: .. 73 in May, 60 in June and 67 in July. That's the order on the #875 which is the P-36-c. Original order amounted to 550 airplanes. That's in process of delivery right now. The total they could get by the latter part of April, a total of about 115 planes.

HM, Jr: Of the P-36?

General Arnold: P-36, "c" type.

General Brett: Norway has an order for 875, of which they have 24 coming in February and March.

Capt. Collins: Can't touch those.

General Arnold: This is all just about six months ago, too far along for us. Our production was not supposed to start until late Spring.

General Brett: The French P-40's don't come until July.

HM, Jr: I thought Allison was boasting how they were ahead on their engine -- everything was lovely with Allison!

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General Arnold: Allison is behind right now regardless of all their boasting.

HM, Jr: I mean, Allison, in all the meetings I have had, they don't need any help; they are all right.

General Arnold: Yes, sir; but they are not all right, because they have not trained personnel on the machine tools.

HM, Jr: Do you mind, on the French deliveries of the P-36?

General Brett: According to my book, were due: 15 in February (which is over); 45, March; 62, April; 73, May; 80, June.

HM, Jr: This is French. Do you know anything else anybody has got? Anything else?

Admiral Towers: The Belgians have a small order with the Brewster Company and deliveries on that should start a little ahead.

General Brett: Wait a minute. Maybe I can give you that. The Belgians have on order 40 Brewsters, due: 1 in February; 10 in March; 20 in April; 9 in May, with four spares coming in during April.

HM, Jr: I could not go to the Belgians and ask them to release them.

General Brett: Any other classes of pursuits that are being shipped for foreign orders?

Admiral Towers: Republics, to Sweden.

General Brett: That's a Swedish order. I don't think you can touch that. I don't think Republic has anything except -- no, they have a total of 15 - 60 - 84 - 116 - 178 Republics under order which are being delivered. First deliveries in February. 9 in March; 13 - 17 in April; 18 in May; 22 in June and 19 in July.

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General Arnold: Is that Sweden?

General Brett: Those all go to Sweden. They are similar to our P-41. They are a pursuit airplane -- no, wait a minute; they aren't, either. They have only got 60 of the P-35, which is a pursuit airplane. They have apparently ordered 52 of a light bomber, single engine job. Then they have another 60 under order of the pursuit type.

General Arnold: 120 of pursuits under order?

General Brett: About 120 pursuits and 52 of the light bomber. Now, who else might be in that picture?

HM,Jr: What is the Navy position in the Brewsters?

Admiral Towers: Navy has 43 Brewsters on order. Scheduled deliveries call for 16 in June and 27 in July. Actually, I think they will begin delivering in May.

HM,Jr: But you have given away once already.

Admiral Towers: They are replacement planes for the ones we let the Finns have.

General Brett: You had 54 of those, Admiral?

Admiral Towers: Yes.

General Brett: I have you scheduled for 54. 10 in May, 15 in June, 18 in July and 11 in August.

Admiral Towers: That's wrong. They delivered 10 before the diversion to the Finns was made, leaving a balance of 43 which the Finns got.

HM,Jr: And you have some Grummans?

Admiral Towers: We have Grummans.

General Brett: The Belgians have an order with the Brewster people, according to my books.

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Admiral Towers: Yes; you read that out.

General Brett: Yes, I read that out.

Admiral Towers: We have Grummans: 2 in March, 6 in April, 6 in May, and strung along about that rate. The rate of delivery could be greatly increased. This represents pretty nearly the only business the Grumman Company has. We figured Grumman to produce, to work up to a rate of 18 per month by June, which means that in May, instead of delivering 6, he could probably deliver 12.

HM,Jr: And then the other thing you said, about the French, was that the only thing which is on order are those Douglas.

General Arnold: Your Douglas delivery, George, they are on the way now. They are right in the middle of their order now.

HM,Jr: How long would it take Douglas to turn out 33?

Capt. Collins: 36.

General Arnold: They were supposed to be reaching about one and a half a day right now.

General Brett: The French have a total of 370 of those, and have run in where they are right in the midst of it right now. In other words, there is 25 of the DB-7 due for March. There are 35 due in April.

HM,Jr: Well, that's enough.

General Brett: Don't you see, they are right in the midst of deliveries. That's the light, twin-engine bomber.

Capt. Collins: They are behind schedule.

HM,Jr: Martin is finished with one order?

General Arnold: He's just finished up the tail.

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end so has to carry it over to the next order.

HM, Jr: Could he deliver 33 planes for us?

General Arnold: Martin was doing two a day at the peak and he's slowed up. He's doing one a day now.

Admiral Towers: He told me yesterday he expected to hit three a day on the new order.

General Arnold: That's about three or four months from now.

HM, Jr: You got any ideas, Harry?

Captain Collins: No, sir.

HM, Jr: I don't think there is any more chance than a snow ball in Hell of the French giving this thing up.

General Yount: The Minister told me he could not do any business with the French on this other deal and I tried to sidetrack him off to the French and British then. They would not talk business at all.

HM, Jr: Why don't some of these people go down to Italy and buy some planes?

General Arnold: They had a mission down there trying to buy airplanes, but it fell through. Why it fell through, of course I don't know.

HM, Jr: Why couldn't the Finns? Maybe they would sell to the Finns where they would not sell to the British and French.

General Arnold: It looks to me that would be a much better proposition than trying to get them over here, because the Italians, I understand, want to sell airplanes.

General Yount: Wonder if the Germans would let them.

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Admiral Towers: The Italians put on to all their offers to sell, as I understand, the requirement that the purchaser furnish a lot of raw material.

General Arnold: Is that it?

Admiral Towers: Yes. They apparently are suffering from a shortage of raw materials.

HM, Jr: This is a tough assignment.

The Army has completed their contract on the P-36?

General Arnold: Yes, sir. We have not bought any for sometime.

HM, Jr: And have they started delivery on the P-40?

General Brett: Number one is just about come out.

HM, Jr: And you are giving 25 of those to the French?

General Brett: They come along -- I don't exactly know.

HM, Jr: A couple of months, don't you?

General Arnold: As I remember, they come through in May -- April or May.

Admiral Towers: The British also have a rather large order with Brewster, deliveries beginning late Spring. One hundred fifty, isn't it?

Captain Collins: I think so.

HM, Jr: Well, I will think it over. And I don't mind asking the French. They can laugh at me.

General Arnold: They are in better position than anybody else, because they have planes coming through

-9-

and if this is a critical situation, it looks to me they ought to be willing to play ball too.

HM, Jr: And they have the people here now.

Admiral Towers: And they have not lost many planes in combat.

HM, Jr: Just to digress. Did you get your mission to go abroad?

General Arnold: Not yet. We have one man in France and have not anybody in England. England won't clear them. England is holding back for some reason. I don't know why.

HM, Jr: When I spoke to the President he said he was going to do it. How many people would the Army want to send to France and how many to England?

General Arnold: We originally started to have a mission, as I remember it

General Yount: ... about six or seven.

General Arnold: Three to France, and four to England. Then we had to change that because for some reason we could not get the mission idea approved and so we switched to the Assistant Attache idea and then it was reduced to one to France and two to England and we got the one on the way to France now and the two to England have never been cleared by the British.

HM, Jr: How many does the Navy want to send?

Admiral Towers: I am afraid I can't answer that question accurately, because the various specialities of the Navy are involved. For instance, the Bureau of Ordnance wants to send some and we want to send at least one to France and England and we have had a Naval Attache over there on a special mission. He's now back. I think the last figures I heard of were a total of about seven to the two countries.

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HM,Jr: You gentlemen would not mind if I took it up with the President once more.

General Arnold: I wish you would, very much, because we need that information very much.

HM,Jr: There isn't a day the English or French don't ask me favors and I have nothing to ask of them, so it is very easy for me to say "How about this?".

General Arnold: I think it would be grand.

Admiral Towers: I don't think either country has refused to, but they have not approved.

HM,Jr: Every day they ask me something special. They can't refuse.

The other thing about which I am very curious: when you get the Spitfire, which we worked so hard to get to Canada for you; it's there, of course -- have they assembled it?

General Arnold: I don't know. I asked this: We have a Military Air Attache going up there tomorrow, his first visit, to see how conditions are -- on the tenth of this month -- and I asked him when he was up there to make the necessary arrangements to get our engineers up there. I thought that would be quicker.

HM,Jr: If you need any help there, I can help.

General Arnold: We have done something else. We are trying to get two Morelan engines back here for test; trying to buy them; may need help for them. But if we don't get an answer very soon

General Brett: The Rolls-Royce?

General Arnold: Latest Spitfire engine. We want to test them against Allison.

HM,Jr: Those things are comparatively easy for me to do. Comparatively easy.

-11-

General Brett: I expect an answer on that very shortly. The Rolls-Royce people were over here to see me the other day. I finally managed to get hold of the right people and they said they would give me an answer very soon.

HM, Jr: We don't know yet what this new mission has in mind, but I am going to meet with them Thursday for the first time and after I do know I will let you know.

General Arnold: I think that's very important, Sir, because they asked something that is going to throw the whole industry out of balance. I think we ought to watch that very closely. I don't think we ought to let the industry get completely out of balance.

HM, Jr: No, no! When I know what they want, we will get it to you.

General Arnold: All right, Sir.

HM, Jr: But we don't know yet. And the amusing thing is there is an Englishman here and a Frenchman in New York and they have been in the same Continent for four days and haven't met yet.

General Arnold: Is this man, Self, going to take Purvis' position?

HM, Jr: No. He's under Purvis. He's a civil servant and evidently very close to Sir John Simon. It was at Sir John Simon's request that he came over, but he will work under Purvis. But they are going to come in Thursday afternoon and tell me. Then, if they know what they want

General Arnold: Haven't they made up their mind?

HM, Jr: I don't think so.

General Arnold: In my opinion, time is one of

-12-

the most important elements they have and they are losing it every day.

HM, Jr: From what they said today, I don't think they know, but just as soon as I know I will pass it along.

(At this point, all left except Captain Collins.)

HM, Jr: Much better to let these people know; much better. It's like the machine tool people. If they sit in on the thing at the beginning, they feel better about it. And they ought to know. Gee Whiz! I give them 15 minutes' notice and they come over. Isn't it better for them to get it from me or from a newspaper reporter or airplane engine people?

Captain Collins: On this meeting, Purvis expressed a desire, they prefer to have an informal conversation with the manufacturers separately. They want me in on it. Do you see any objections to that? Not as a Board meeting. Wouldn't have members of the Board present. They want to do it informally and then sit down with the Board.

HM, Jr: I think I would have the Army and Navy know right from the start what's going on.

Spear was very nice while you were gone.

Capt. Collins: Of course, you can get exactly the same results if you could sell the French the idea of shooting 150 pursuits and 25 bombers right over there. That would be the answer to this fellow's prayer.

HM, Jr: Well, let me sleep on it. I don't know what the answer is.

oOo-oOo

FEDERAL RESERVE BANK
OF NEW YORK

32(r)

242

OFFICE CORRESPONDENCE

DATE March 5, 1940.

TO: CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called at 10:10 a.m. today. He noticed, he said, that the franc had been weaker in New York last night. Was there any special reason for that? I replied that business here in French francs was, generally speaking, small, 20/25,000,000 francs a day probably representing the volume. Yesterday's weakness had, in my opinion, been due entirely to the weakness of sterling which had been under some pressure from foreign banks in the Far East, in South America and also in Europe. I suggested that I check into the market a little and find out what had been going on in French francs, say, for a week back and then cable him the result of our inquiries tonight. This Cariguel gratefully accepted.

LWK:KW

TO THE DIRECTOR
FEDERAL RESERVE BANK
OF NEW YORK

MAR 8 1940

RECEIVED

March financing
 RE OPEN MARKET

March 5, 1940.
 11:30 a.m.

Present: Mr. Haas
 Mr. Hadley
 Mr. Bell
 Mrs Klotz

Haas: You will be interested to know that Eccles called up Piser and wanted the price before the market opened and Piser called up and said, "Have you fellows made a price on these things?" He said they had no idea until they saw what happened to the market, but Eccles was pressing them for a price before the market. They don't even know what the duPont is.

Hadley: No, but they are tying that in with a three-quarter percent issue. They seem to think that is the most logical.

H.M.Jr: It is a nice thing. Eccles will come back and tell us 5/8ths, or something.

Bell: I hope it doesn't go any higher. As a matter of fact, I would like to see it sink at 5/8ths. I am afraid if that thing goes up too high, say, 101.8 to 12/32nds, we will be giving them too much gravy.

H.M.Jr: How much does it - how much does the Fed own of these?

Hadley: 136.

H.M.Jr: Maybe they will want cash for them. Do they own 136?

Hadley: Yes.

Bell: They just recently sold out their 3-3/8ths percent bonds.

H.M.Jr: So.

Bell: I said they might be accused of having inside information.

(Telephone conversation with Mr. Rouse)

- 2 -

H.M.Jr: It pays to tell nobody nothing. Then it gets out in the papers as little as possible. Has your friend Goldschmidt been around?

Bell: He is trying to get me on the phone now.

H.M.Jr: Tell him to go jump in the ocean.

Bell: They have hooked this up with the working balance, trying to reduce the working balance by paying off 3-3/8ths.

H.M.Jr: I see.

Bell: It isn't bad except that it is hitting the rights values pretty hard.

H.M.Jr: I talked to George this morning. Remind me of my conversation. I want to pursue this thing again and I want George to come through with a memorandum and that is the question about the baby bonds. I think George has got an answer. Instead of changing the rate, there is a possibility of cutting down on the amount any one person can hold.

Bell: That is right. I am prepared to talk to you about that any time you want to. I have got a memorandum from George.

H.M.Jr: Let's take a few minutes right now.

Bell: I am also getting one from the Federal Reserve of New York. They have been quite interested and Bob Rouse is going to give me one this week.

H.M.Jr: What is the matter with this suggestion?

Bell: I am in favor of that. You see, we started to discuss this before the war last August or July. At that time we were prepared to recommend that you reduce the \$10,000 limitation to \$3,000, which would give an annuity to a person who is buying them for that purpose of \$250 a month throughout the year and in 10 years you would have that confined, see, to \$50,000 limit for one person.

- 3 -

H.M.Jr: That is a little bit more than I wanted to go. I was thinking in terms of cutting it in half. You (Haas) thought that was too much.

Haas: No, I would just as soon go the three. But I think it is just a matter of preference. I look at it this way, Mr. Secretary. What you do, it isn't the - you may do something now that doesn't work and then you can do a little more.

H.M.Jr: My thought is, no person can buy more than \$5,000 face amount.

Bell: Yes, that would be \$37.50.

H.M.Jr: Were you talking face amount?

Bell: Yes, \$3,000 face amount, so that they would have an annuity in the end of \$250 a month.

H.M.Jr: You would have to give them a little notice.

Bell: It would take some time to put this into effect.

H.M.Jr: Make it effective April first.

Bell: When we decided last fall that we wouldn't touch it, they started immediately to get out new circulars. Now they are just off the press a week ago.

Haas: I would like to see another thing done, too.

H.M.Jr: How long does it take to run those off?

Bell: Another thing we suggested at that time rather than changing the rate was making it a length of 10 years or 12 years.

H.M.Jr: Have we the right to do that?

Bell: It is up to 20 years, I think, on the statute.

- 4 -

Haas: The thing I had running through my mind was a little different than that.

H.M.Jr: Have we got the right to do that?

Bell: I think so.

Haas: You might think of this: You remember, Dan, the War Savings stamps had a strong maturity bonus. In other words, they changed the valuations schedule - in other words, what the bond would be worth on redemption in two years, and so on, so that a man has every incentive, Mr. Secretary, to hold it for the full 10 years. Then you cut down liquidation pressure on us for a certain interval, you see.

H.M.Jr: That is all right, but there is another new thought.

Bell: That is an annuity.

H.M.Jr: Increase it to 12 years.

Haas: That is another way of cutting the rate.

H.M.Jr: You see, 12 years - how would that work out?

Bell: Well, we would have to figure out the rate, but it seems to me, George, you have got a pretty strong inducement in your present rate because a man who turns in a bond for six or seven years, he is really sacrificing a pretty high yield on that bond and he can't get that in the market any place.

H.M.Jr: And you know that 2,9 only comes in the last year.

Bell: That is an average. The last year he makes - well --

Haas: We have got it all figured out in the memorandum.

Bell: Five or six percent, doesn't he?

- 5 -

- Haas: About six.
- H.M.Jr: But if he kept it nine years, you don't get anything like 2,9.
- Bell: Not as an average, but in the ninth year he is getting about five percent on his money.
- Haas: I wanted to make it steeper.
- H.M.Jr: I think there are two ideas here, one, to extend it, make it a 12-year period. Think about it.
- Bell: Well, I have had all this material. I was getting it in New York. I wanted to talk to you about it after this thing was over. You see, the argument that has been put up to us is that as soon as this interest rate stiffens, you are going to get a lot of these bonds cashed in and the people are going to invest that money in industry. I don't think that is close to us at all, because when a person holds his bonds three or four or five years, he is getting a much higher rate than 2,9.
- Haas: I wanted to make it still higher.
- Bell: Interest rates have got to go up materially before he is going to cash that bond in and take the cash.
- H.M.Jr: All right. We will talk about it. This is a nice picture.
- Bell: Yes. The bad feature about Savings bonds at the present time is that it uses up a third of our debt, your dollar security, for which you get no cash.
- H.M.Jr: Of course, the thing that I would like to do the most would be not to change anything except the amount.
- Bell: I think that would be very effective and it also meets the purpose for which Savings bonds were started, something for the small investor.

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H.M.Jr: And then, as the situation changes, you can always raise the limit again.

Haas: You can do something else.

H.M.Jr: . Supposing we want to raise it that way, we can always raise it again, but my thought - what I am sitting here - I would just say after the first of April nobody can buy in any one year more than \$5,000 face amount of bonds for this year.

Bell: Yes, it is all right. A man that has \$10,000 to invest every January isn't a small investor.

H.M.Jr: That would cut it. I wonder how much that would cut it down.

Bell: We have got some dope on that.

Haas: I mean, I wonder --

Bell: It would cut it down materially. We have got statistics showing those facts.

H.M.Jr: Why don't you go into that for me?

Bell: O. K.

Haas: Say, Mr. Secretary, I had one thing. Fred Laughton called me up and said that they would like to have an estimate for the fiscal year '42.

H.M.Jr: Who is Fred Laughton?

Bell: Assistant Budget Director.

H.M.Jr: For '42?

Haas: Yes.

H.M.Jr: He is crazy. Tell him to go jump in the ocean.

Haas: He said they are - on the expenditures, they are assuming that things would stay about as they are. They don't know of anything else to assume. What we could give them, we assume

- 7 -

that calendar year '41 is going to be as we
we would estimate '40.

H.M.Jr: Tell him to go buy a crystal and look in it,
and I say so.

Bell: Well, they are probably working on some program.
You remember when we --

H.M.Jr: Let's find out what the program is. Turn them
down and see what happens.

March 5, 1940

Mr. Fole

Mr. Cochran

Will you kindly send the following cablegram

"American Embassy London. For Huttoworth from the Secretary
of the Treasury.

Please cable report on identity and official status of
Mr Henry Gold."

H.M.S.

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12
13

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

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

NO.: 416

FOR BUTTERWORTH FROM SECRETARY MORGENTHAU.

You are requested to cable a report to the Treasury
on Sir Henry Self's identity and his official status.

HULL
(HF)

EA:LWW

TO THE SECRETARY
TREASURY DEPARTMENT
WASHINGTON, D. C.

MAR 10 1940

RECEIVED
SECRETARY'S OFFICE

JR

PLAIN

London

Dated March 5, 1940

Rec'd 1:36 p.m.

Secretary of State,
Washington.

552, March 5, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. Sir Robert Kindersley, President of the National Savings Committee, announced last night that the savings campaign had resulted in the sale of national savings certificates and defence bonds totalling pounds 100 million in the 100 days since the campaign began and that some 60,000 savings groups had been formed. Incidentally the war is already costing about pounds 6 million a day; taxation is producing about pounds 3 million a day and with savings bonds and certificates bringing in pounds 1 million a day, the current per diem gap stands at about pounds 2 million.

2. Accordingly the Chancellor of the Exchequer announced in the House of Commons this afternoon the issuance at par of a pounds 300 million three per cent loan 1955/59. He took the unusual step of announcing the terms of a week in advance of the opening of the list "in order that the investors may have ample time to make arrangements

-2- #552, March 5, 7 p.m., from London.

arrangements to subscribe the fullest possible amounts". In referring to the rate of interest he remarked that it "accords with the Government's avowed policy of borrowing as cheaply as possible and at the same time is a reasonable one from the investors point of view". He also took the precaution of issuing a warning that "the amounts the Government will need to borrow during the next 12 months will of course be considerably greater than the amount of this loan but that a first issue for a limited amount is convenient to the Treasury from several points of view and I think it will also be in the general interests of the investors." Incidentally in recent weeks informal approaches have been made to the large institutional investors to ensure their ready cooperation. The announcement was well received in the City and in unofficial quotations the 3-1/2 per cent perpetual war loan rose almost a point to close at 100.

3. Asked in the House of Commons if he was aware that under existing arrangements it was possible for British holders of sterling to sell their sterling in the unofficial market abroad because in certain circumstances such transactions would only involve transfers from one inland account to another, the Chancellor of the Exchequer stated that the sale of sterling by residents in the United Kingdom,

-3- #552, March 5, 7 p.m., from London.

Kingdom, except through authorized dealers, was prohibited under the defence (finance) regulations and that any person infringing the regulations made himself liable to penalty. Asked also if he was aware that there was a wide discrepancy between official American pre-war estimates of British dollar assets and the amount of such assets declared since the war and if he intended to cause investigations to be made into this discrepancy, the Chancellor of the Exchequer said it would not be in the public interest to publish the amount of British dollar assets which had been declared; should instances of evasion come to light they would be severely dealt with but that in saying that he must not be taken as accepting the suggestion in the first part of the question.

JOHNSON

HPD

Market Tendency
RE OPEN MARKET

March 5, 1940.
4:15 p.m.

Present: Mr. Bell
Mr. Haas
Mr. Hadley
Mrs Klotz

H.M.Jr: What is the news?

Hadley: Well, the rights closed at par 30 with light trading, which lines up very well with the three-quarters percent and doesn't give them too much premium, and in the last hour from 3:00 to 4:00 the long bonds moved up one to two 32nds above the 3:00 o'clock close, so the net gain on the day for them is around 10 or 11/32nds and the long notes net loss on the day is an average of about four percent.

H.M.Jr: Well, that is normal.

Hadley: Yes, a very good market.

Bell: I can give you a part of the progress at New York as far as they have gone:

Rich, Hanseatic Corporation: The market is in a condition where it will grumble a little but will take what the Treasury gives them and be grateful for it. The Treasury, by the action of refunding only the notes has dampened the speculation in rights. He thinks it would be a mistake to go further at this time by trying to cut down the premium. He therefore recommends a coupon of $3/4$ of 1%, which should sell in this market at about one point premium. Under present conditions he thinks that would be a fair concession. He also believes that a practical elimination of the rights, that is, going down lower on the coupon would be a very bad thing at this time.

Mills and Repp, Discount Corporation: They say the most of the talk in the Street is from a .55 to .60 basis. They do not think the Treasury has any problem at all. If there is no change in the present market between now and the time that you make up your mind, they recommend the three-quarters percent. The present market

- 2 -

indicates that such a coupon would sell from 101 to 101-1/4. They feel that the added weight of \$738,000,000 on the note market will push the market down to a lower premium of around one point. The talk in the Street indicates three thoughts regarding this re-funding: (1) What does the Secretary of the Treasury know about world conditions that the market does not know; (2) appreciation of the problem of combining a refunding of 1-1/2% coupon and a 3-3/8% coupon, and (3) an attempt on the part of the Treasury to kill speculation in rights.

It is interesting, isn't it?

Devine: He has no position in rights and therefore no personal interest. He recommends not more than 3/4 of 1% and not less than 5/8 of 1%, depending upon how generous the Treasury feels. He says that the 3/4% coupon will sell on a .55 basis and command a premium of from one to one and one-eighths points. He recommends a 5/8% coupon only if the Treasury desires to further squeeze the right values. He was asked if he would favor a 3/4% coupon at a premium of, say, 1/4 in order to get the right values down between 3/4 and one point premium. He said absolutely no. If the Treasury wants to get the right values down he strongly recommends a 5/8% at par, but he wants to call attention to the fact that the Treasury's action has cost the holders a severe penalty and he would not recommend going any further.

Pope, First of Boston: The market, he says, is strong today. He has no idea where it is going. On the present basis a 3/4% coupon will sell between a .55 and .60 basis with a premium of 3/4 to one point. He does not feel that this premium would be giving away an unreasonable amount and certainly would assure success. If more assurance is needed by the Treasury he would put on a coupon of 7/8% which would command a premium of from 1-3/8 to 1-5/8 points. He does not, however, recommend a 7/8 coupon.

- 3 -

Notwithstanding his previous recommendations regarding the cutting down of right values, he does not feel that the holders of these rights should receive any further jolts. He feels the action of the Treasury has been quite severe enough for one time.

Would you like to put this off until tomorrow noon?

H.M.Jr: I won't do it tomorrow.

Bell: You won't?

H.M.Jr: No.

Bell: I thought you were holding this conference for the purpose of making a decision tonight.

H.M.Jr: No; what made you think that?

Bell: You told me this morning and you told me last night.

H.M.Jr: That we would have a conference this afternoon.

Bell: I asked you for more time and you said, "Granted," in one of your weak moments.

H.M.Jr: Well, you don't hold a fellow when he is down, do you?

Bell: Well, I thought you would have a bad day.

H.M.Jr: Would you get a fellow down and hit him in the jaw?

Bell: I thought you had a bad day.

H.M.Jr: A good bad day. Today or yesterday?

Bell: Well, I thought maybe you had another one.

H.M.Jr: Today?

Bell: Yes.

- 4 -

H.M.Jr: No.

Bell: No? I thought you were rushed.

H.M.Jr: Well, I have had all this business but nothing unpleasant.

Bell: Well, you would like to put it off until tomorrow noon?

H.M.Jr: I tell you why, Dan, this thing hasn't shaken down yet. I want to give it time to shake down.

Bell: You mean this time tomorrow?

H.M.Jr: Oh, after lunch, maybe. I want - you see after you look at the thing it varies. It started at par 30, went up to par 40 and it is down to --

Hadley: Par 30 is what it closed.

H.M.Jr: Give it another day.

Bell: I think it was confused.

Hadley: This was a sudden demand in the middle of the day that pushed those rights up.

H.M.Jr: You said they even paid 100-1/8. I would like to let this thing shake down. Why not take all the time we can? That is the way I feel.

Bell: You know our work is very simple and we are through practically. All we need to do is get the coupon and we are ready, but the banks have to mail these things and get them out and that is quite a job.

H.M.Jr: I will give you an appointment now for tomorrow, 2:15. I won't renege on that. Tell Eccles to be available at 2:15.

Bell: You just want to talk to him on the telephone?

- 5 -

H.M.Jr: Yes.

Bell: Is that what he wants to talk to you about?

H.M.Jr: Sure.

Bell: Tonight?

H.M.Jr: Sure.

March 5, 1940

Telephone call from the Federal Reserve
Bank of New York

-oOo-

Rich, Hanseatic Corporation: The market is in a condition where it will grumble but will take what it gets and be grateful. The Treasury, by this action, has dampened speculation in rights and he thinks it would be a mistake to go further at this time. He therefore recommends a coupon of $3/4$ of 1% which should sell in this market at about one point premium. Under present conditions he thinks that that would be a fair concession. He also believes that a practical elimination of the rights would be very bad at this time.

Mills and Repp, Discount Corporation: The most pessimistic talk in the Street is a .60 basis and the most optimistic is a .55 basis. They do not think that the Treasury has any problem at all. If there is no change in the market between now and the time the Treasury is ready to proceed, they recommend a $3/4\%$ coupon. While the present market indicates that such a coupon would sell from 101 to $101-1/4$, they feel that the added weight of \$738,000,000 on the note market will push the market down to a lower premium of around one point. The talk in the

- 2 -

market indicates three thoughts: (1) What does the Secretary of the Treasury know about world conditions that the market does not know; (2) appreciation of the problem of combining a refunding of 1-1/2% coupon and a 3-3/8% coupon; (3) an attempt on the part of the Treasury to kill speculation in rights.

Devine: He has no position in rights and therefore no personal interest. He recommends not more than 3/4 of 1% and not less than 5/8 of 1% depending on how generous the Treasury feels. He says that the 3/4% coupon will sell on a .55 basis and command a premium of from one to one and one-eighths points. He recommends a 5/8% coupon only if the Treasury desires to further squeeze the right values. He was asked if he would favor a 3/4% coupon at a premium of, say, 1/4 in order to get the right values down to between 3/4 and one point premium. He said absolutely no. If the Treasury wants to get the right values down he strongly recommends a 5/8% at par, but he wants to call attention to the fact that the Treasury's action has cost the holders a severe ^{not} penalty and that he would recommend going any further.

Pope, First of Boston: The market, he says, is strong today and he has no idea where it is going. On the present basis a 3/4% coupon will sell between a .55 and .60 basis with a premium of 3/4 to one point. He does not feel that this premium would be giving away an unreasonable amount and certainly would assure

- 3 -

success. If more assurance is needed by the Treasury he would put on a coupon of $7/8\%$ which would command a premium of from $1-3/8$ to $1-5/8$ points. He does not, however, recommend a $7/8\%$ coupon. Notwithstanding his previous recommendations regarding the cutting down of right values, he does not feel that the holders of these rights should receive the jolt all at once. He feels that the action of the Treasury has been quite severe enough for this time.

March 5, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

*MS*Re: Brazilian Debt.

Adolf Berle called at 10:30 this morning and failing to reach you because of the meeting in your office at that time, talked to me. He merely wished to bring us up to date on the developments with respect to the Brazilian debt.

In his latest conference with Caffery, Aranha said that he had done all he could do and they could not better their latest offer. He asked Caffery to ascertain whether the Bondholders' Protective Council would be willing, if they could not approve, to stand aside and make no comment if the Brazilian Government should announce an offer to the American bondholders in line with Aranha's latest proposal, leaving it up to the individual bondholders to decide whether they would accept installments on this basis. Aranha told Caffery that since Vargas was leaving the Capital tomorrow, March 6th, unless this proposed offer was announced the whole matter would have to be dropped with the prospect that there would be no new offer for some time to come. Caffery in his latest cable strongly recommended that the Bondholders' Council should not stand in the way of the offer, as he felt that this was the best that could be done.

Francis White was called to Washington yesterday and spent two hours at the State Department. Berle says the State Department did not support the Aranha offer, but put it up straight to the Bondholders' Protective Council to decide whether to veto the proposition or to stand mute and let the individual bondholders decide. White at length indicated that he would call a meeting of the Council today and would suggest issuing a statement which would say that the Council had not participated in the negotiations with Aranha, and that if the Brazilian offer was not formally made now it was questionable whether any other offer would be made for a considerable time to come.

- 2 -

This information was cabled to Caffery, with the word that there must be no deviation by the Brazilian Government from the terms of the offer as outlined by Aranha to Caffery.

MS

PARAPHRASE OF TELEGRAM SENT

TO: The American Embassy, Bogotá

NO.: 46

DATE: March 5, 1940

We have been informed by the Colombian Ambassador in Washington that he is waiting for detailed information with reference to specific projects which is needed to properly present the request of the Colombian Government for a loan from the Export-Import Bank. It is our understanding that before offering comment, on what Colombia desires to achieve the various agencies in Washington who are concerned with the extension of credits prefer to receive definite information regarding Colombia's objectives.

HULL (AAB)

TO THE SECRETARY
OF THE STATE
WASHINGTON
MARCH 15 1940

MAR 15 1940

MAR 15 1940

COPY OF TELEGRAM SENT

March 5, 1940

The Honorable

Francis White,

Foreign Bondholders Protective Council,

90 Broad Street,

New York City.

Have requested Caffery to try to hold matters open pending our receipt of further word from you.

The Department's position is that it has obtained the best offer possible. The Council's decision as to the course it follows must be exclusively its own responsibility. The Department believes it should not accept your telephone communication in view of the fact that you coupled it with the statement that it was taken only on the assumption that Department had requested such action.

A. A. BERLE, JR.

Assistant Secretary of State

MAR 5 1940

My dear Mr. Secretary:

I have considered carefully the suggestion in your letter to me of February 24, that the possibilities relative to the development of a local steel industry in Brazil should be explored by the so-called Committee of Three.

In my view, the Committee of Three was dissolved upon the conclusion of the temporary settlement of the Colombian debt last month. Accordingly, I do not feel able to participate in the Brazilian steel matter. Further, in so far as purely technical cooperation might be desired, I feel that, due to the press of business, the Treasury should not assume a new additional burden of this nature. If the Department of State desires the help of other departments or agencies of this Government in the consideration of this matter, I venture to suggest that the Export-Import Bank and the Department of Commerce are the more appropriate agencies.

I am sending copies of this letter to Mr. Jones and Mr. Noble.

Sincerely,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

The Honorable
The Secretary of State.

JPC, JR:BJ 3/5/40

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

By Messenger

4¹⁵ pm 3/5/40

A.P. C.H.

DEPARTMENT OF STATE
WASHINGTONIn reply refer to
RA*February 24, 1940*

My dear Mr. Secretary:

The Department has had recently before it the matter of the Brazilian steel project, on the technical phases of which a Commission of the United States Steel Corporation in the latter part of 1939 rendered a favorable report. The proposal envisages a modern steel plant with an initial capacity of 285,000 tons of finished steel products and financed jointly in Brazil and in the United States. Although details have not yet been elaborated, it is estimated that Brazil would contribute a minimum of 26,000 contos (\$13,000,000) in milreis, and United States interests, between \$17,000,000 and \$25,000,000, principally for equipment.

Early in January 1940 the Board of Directors of the Steel Corporation decided against participation of the Corporation in the venture, but the matter has been kept

alive

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

-2-

alive by the Brazilian Government which continues to be very much interested in the proposal. In fact, the Brazilian Ambassador has stated to the Department that the establishment of a steel industry is one of the major aspirations of President Vargas' administration.

Shortly after the decision of the United States Steel Corporation was made known, the Department was apprized by the Corporation of the serious consideration which had been given the project by Ford, Bacon and Davis, Incorporated, of New York. On February 15, Mr. George W. Bacon, Chairman of the Board of the firm, confirmed to the Department that his company had been giving the matter serious thought. However, before it could proceed with a thorough exploration of the project, Mr. Bacon affirmed, it desired to ascertain this Government's attitude, including, it was inferred, the availability and extent of possible financial participation by governmental agencies.

It would appear that the matter is one which might now properly be examined by the Committee of which you, Mr. Jesse Jones, and Mr. Welles of this Department, are the members. I believe that a meeting of the Committee for this purpose should be held at as early a date as practicable and that Mr. Bacon and his associates be

heard

-3-

heard by the Committee following a preliminary discussion. In the absence of both Mr. Welles and Dr. Feis, I shall request Mr. Duggan, Chief of the Division of the American Republics, to represent this Department. When I have heard from you concerning the convenient date for the meeting, I shall be glad to arrange with Mr. Bacon for his presence in Washington.

I am enclosing for your information copies of a brief memorandum describing the Brazilian steel project, and of a memorandum of conversation of February 23 with the Brazilian Ambassador. The Office of the Economic Adviser and the Division of the American Republics have assembled a considerable file on the steel project which is at your disposal should you wish additional information on the subject.

Sincerely yours,



Enclosures:

1. Memorandum dated
February 24, 1940.
2. Memorandum of conversation dated February 23,
1940.

Department of State

BUREAU
DIVISION

RA

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

Secretary Morgenthau

DEPARTMENT OF STATE

271

Memorandum of Conversation

DATE: February 28, 1949

SUBJECT: **Brazilian Steel Project**

PARTICIPANTS: **The Brazilian Ambassador, Mr. Carlos Martins;
Mr. Felt;
Mr. Briggs;
Mr. Wainwright.**

COPIES TO: **Mr. Felt
Secretary Morgenthau
Mr. James Jones**

*** 1-1488

Ambassador Martins called at his request to lay informally before the Department the latest views of President Vargas on the steel project, as contained in a letter the Ambassador had just received.

The Ambassador said that the Brazilian Government was proceeding with the organization of a Brazilian siderurgical company. The Brazilian Government, furthermore, was considering a plan to finance this company with funds from its Government saving bank (Caixa Economica), pension funds, and an allotment from the special budget for public works under the four-year plan. The contributions from each would be as follows:

-2-

Salva Economica - 400,000 contos, or	\$20,000,000
Pension funds - 50,000 contos, or	2,500,000
Special public works budget - 50,000 contos, or	<u>2,500,000</u>
Total	\$25,000,000

The President had authorized the Ambassador to sound out this Government on the availability of Export-Import Bank funds, from the \$50,000,000 in "the agreements of March 1959", for machinery and equipment to be purchased in the United States for the plant, to the extent of some \$17,000,000, the corresponding purchase contracts to be guaranteed by the Bank of Brazil.

The Ambassador concluded with the remark that in all probability the President had not received his latest letter reporting to the President the interest of Ford, Bacon and Davis, Incorporated, in the steel project. The Ambassador felt that in view of this development, of which the President was not yet aware, the démarche along the lines of the President's letter might well be held in abeyance.

Dr. Fala stated that it had been the consensus in all of the meetings held on the subject that a Brazilian company was indispensable. He was accordingly pleased to learn that the Brazilian Government was of the same opinion. He related to the Ambassador the steps which had been taken

in

-3-

in the Department and stated that, while the Department would of course be prepared at any time to arrange for the Ambassador to see Mr. Jesse Jones in connection with the possible availability of funds, we agreed that this approach might well be deferred until after consideration of the project by the Committee of Three, in the light of the views recently communicated to the Department by Mr. Robert H. Mason, Chairman of Ford, Mason and Davis. Mr. Felt informed the Ambassador that an effort would be made to arrange a meeting of the Committee of Three some time during the coming week, and the Ambassador, in accordance with this procedure, stated that he would not initiate any of the steps indicated by President Vargas until the sense of the Committee of Three was known.

RM: Wainwright: GMS

February 24, 1940

Summary of Brazilian Steel Project

The steel plant proposed by the United States Steel Corporation Commission which visited Brazil in the latter part of 1939 would call for a capital expenditure, on the basis of prices in August 1939, of approximately \$35,000,000, 63 per cent in United States dollars, and 37 per cent in Brazilian currency. The plant would have a capacity of 285,000 tons of finished steel products per annum and also market about 50,000 tons of foundry coke and 50,000 tons of pig. It would use all Brazilian raw materials excepting coal, which would be imported from the United States until the satisfactory coking qualities of Brazilian coal from new mines were proven. The present Brazilian per capita consumption of steel products is about 20 pounds per annum, and the output of the proposed plant would double this consumption.

The Steel Corporation's report, although optimistic in so far as the technical aspects of the plant itself were concerned, made it clear that certain conditions relating to improvement of Brazilian transportation facilities

-2-

facilities, and certain changes relating to mining, immigration, and other laws, would have to be met by the Brazilian Government to make the proposition attractive to American capital. The improvements of transportation facilities would require an expenditure of between seven and fourteen million dollars, mostly in equipment, over and above the expenditures for the steel plant alone.

In the above cost estimates, allowance has not been made for rise in prices since August, 1939.

Early in January 1940 the United States Steel Corporation Board of Directors decided not to participate in the steel development program. The Brazilian Government was keenly disappointed, and through its Ambassador has frequently consulted the Department with a view to ascertaining what other approaches might be open.

At the several inter-Departmental meetings held to discuss the matter, the opinion was reached that without a very large participation on the part of the United States Government the venture could not be carried forward. In the meantime, however, information reached the Department that there was a firm which might be interested in the undertaking, and a few days ago the Department

learned

-3-

learned that this firm was Ford, Bacon and Davis, Incorporated, which had given serious thought to the project and which enjoys an excellent reputation. Messrs. Bacon and Towers of this firm, on February 18, called at the Department and stated in substance that the firm of Ford Bacon and Davis would be willing to explore the matter further with a view to finding a formula satisfactory alike to the Brazilian Government and to the United States interests who might advance the capital provided it was clearly understood that the American Government was sympathetic to the project and that the Brazilian Government did in fact want the industry.

RA:WVW:GBA

PLEASE RETURN TO MR. COCHRAN

Rio de Janeiro, February 14, 1940

No. 2347

**SUBJECT: Proposed Construction of Steel
Plant in Brazil.**

**ORIGINAL AND THREE COPIES BY AIRMAIL -- CONFIRMATION
COPY BY STRAMER.**

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

Referring to previous correspondence concerning the project for the construction of a steel plant in Brazil and with special reference to my despatch No. 2402 of January 27, 1940, I have the honor to report that the Brazilian Minister for Foreign Affairs told me this morning that his Ambassador in Washington had written President Vargas that he had been advised by the Under

Secretary of State and Dr. Feis that it would be better if the steel business here were not handled by the United States Steel Corporation and that it would be better for some other concern to handle it. I asked Dr. Aranha if he were sure that that was the report of the Brazilian Ambassador. He said he had not seen the letter, but that he was sure that President Vargas had told him that. I remarked that in my opinion there was possibly some misunderstanding about this. I told him that I would write at once to the Department.

Respectfully yours,

Jefferson Caffery.

JG:als
File No. 844.1

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 10/10/01 BY 60322

Regraded Unclassified

March 5, 1940

3:05 pm

Present:

Mr. Purvis
Mr. Cochran
Mrs. Klotz

HM, Jr: I brought Bloch-Laine in a plane, but I warned him not to come on the plane. He went to bed.

HM, Jr: On behalf of the Canadian Government, the Canadian Minister informed me, we have legitimized you.

Mr. Purvis: I feel distinctly encouraged.

HM, Jr: Have you any more chores for me to do? Maybe I could fix you up with Mexico.

Mr. Purvis: I am really truly grateful. I feel very much better.

HM, Jr: This is absolutely in the room. We even had to let the Canadian Minister know the form in which you had been formalized by the British.

Mr. Purvis: I am terribly legitimate now.

HM, Jr: Yes. I thought it was very amusing.

Mr. Purvis: Of course, it is very amusing.

HM, Jr: I really should not say that, but you (Cochran) did give him the form?

Mr. Cochran: Yes.

Mr. Purvis: Mr. Secretary, Mr. Rist and Mr. Ashton-Gwatkin arrived yesterday morning.

-2-

HM,Jr: Secretly! (Laughter)

Mr. Purvis: Secretly, yes! They have not been legitimized yet.

HM,Jr: Nobody knows of their arrival! (Laughter)

Mr. Purvis: And we were talking over the procedure, hence my call to you as to what -- they being attached to the Embassies for blockade control work only, which they emphasize, will of course report to their Embassies and presumably be taken to pay an official call to the State Department.

HM,Jr: First.

Mr. Purvis: Insofar as any questions in regard to control of essential materials is concerned, they are very clear that they hope and expect to deal only in talking anything that they could talk technically, or whatever approach might be the proper approach, and they have quite a lot of things they would like to discuss technically through you under whatever conditions you think are wise and proper. They feel that they don't wish to confuse those two issues in any way if they can possibly help it. They have quite definite work to do in connection with handling the difficulties that go with contraband control with the State Department, but they don't feel -- I mean, they feel that the other matter is an Anglo-French Coordinating Committee matter coming specifically as it does under Monnet and not under the separate Governments.

HM,Jr: Let me be frank, the way I have been with you right along.

Mr. Purvis: Right!

HM,Jr: The thing that bothers me -- your Ambassador has to straighten this thing out. I am familiar with the talks between Lord Lothian and Mr. Hull on what Mr. Hull thinks you people should buy.

Mr. Purvis: Yes. Yes. I am now being

-3-

made familiar with many things I wasn't.

HM,Jr: You and I have never talked about that.

Mr. Purvis: No. No.

HM,Jr: Because the President -- well, I have no instructions to talk to you about it. My instructions are to make things easier for you.

Mr. Purvis: Quite!

HM,Jr: Now, think this thing over carefully. If I begin talking with these people, then the State Department begins talking -- I don't want to get this thing all crossed up.

Mr. Purvis: I can see there is a real possibility.

HM,Jr: I don't know what the answer is if they come in to me and talk about something and Mr. Hull meets them or Dr. Feis meets them: "You have got to buy applies, more pork products, more coffee, more tobacco," -- and then they come over here and say, "Now, Mr. Morgenthau, can you help us on tungsten?" I am awfully afraid of it.

Mr. Purvis: Yes. It has a very definite danger.

HM,Jr: You see? And it brings you in.

Mr. Purvis: Yes.

HM,Jr: I mean, I am not afraid about my work. I mean, I know what I am supposed to do.....

Mr. Purvis: Quite!

HM,Jr: as far as these various purchasing missions are concerned.

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Mr. Purvis: Yes.

HM, Jr: But, you see, you come in here and say, "Now, Mr. Morgenthau, we have to get these planes and that. Can you help me out? Can you help me get powder?"

Mr. Purvis: Yes, for which I am very grateful.

HM, Jr: And I have been able to do the impossible.

Mr. Purvis: Exactly! Yes, including even taxation, for which I am very grateful.

HM, Jr: And, therefore, the thing -- may sound immodest -- the thing I am doing for you is so important

Mr. Purvis: that we should not get into any danger.

HM, Jr: These people are going to ask me and on 95% of the things it's going to be no. I can't help Mr. Rist with copper, with oil, with soy beans. It's stupid. Now, I am talking very frankly.

Mr. Purvis: Yes. Yes.

HM, Jr: Now, why get me bogged down where you and I know the chances are 95% I am going to say no and then get me in this cross-fire between Lord Lothian, yourself, Mr. Ashton-Gwatkin, Mr. Rist and Mr. Hull and Herbert Feis.

Mr. Purvis: Quite! It's a dangerous situation.

HM, Jr: I have a saying around here there are enough fights around here in Washington, I pick my own fights.

Mr. Purvis: I can fully understand.

HM, Jr: And I would like to pick as my fights, first, the ones I believe in and, second, the ones we

-5-

have a chance of winning. Now, as I say, I am being helpful; I am getting you things which nobody other than the President can get for you.

Mr. Purvis: Quite!

HM, Jr: And I am in this beautiful position that the State Department are perfectly satisfied and they don't in any way try to interfere with what I am doing. Is that right?

Mr. Cochran: Absolutely!

HM, Jr: There isn't a murmur of interference, but if they think they can use me and my influence on this business, they are going to do it. Is it worth it?

Mr. Purvis: I see exactly what you mean.

HM, Jr: Mrs. Morgenthau asked about having Professor Rist for tea. For tea, I would love to have Mr. Rist if he will talk about his home in Switzerland.

Mr. Purvis: Which, by the way, was all he wanted to do yesterday. He asked if there was any difficulty re-establishing the purely social contact.

HM, Jr: If he promised not to talk about these other things. But am I right? Like copper, soy beans? Now, as a matter of fact, the things I can help you on, I think you and I have pretty well covered. Now, if on the other hand, he says to you -- I have not rehearsed this -- if he says to you, "Mr. Purvis, now have you taken up this or that," and you say this: "Well, I have not taken up "b", but the next time I see Mr. Morgenthau I will see if there is anything he thinks can be done."

Mr. Purvis: Yes.

HM, Jr: But if you get me all mixed up in this business

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Mr. Purvis: it may be a very poor thing.

HM, Jr: And you ought to talk this over, but if you don't mind my suggesting

Mr. Purvis: I will.

HM, Jr: And my hunch is officially I would keep those fellows away from me. They can tell you if there is something on some subject that you and I have not touched and then you can ask me, but I am scared to death. What do you think, Merle?

Mr. Cochran: The State Department is expecting to see these men.

Mr. Purvis: You mean, there might be real value in seeing how far they go.

HM, Jr: Don't you think I am right?

Mr. Cochran: Yes, I do, Sir.

HM, Jr: I am in the unique position, there are so many things where the State and Treasury in every country get crossed up.

Mr. Purvis: Always.

HM, Jr: Now it took us the longest time to get our lines straight and you don't know the State Department exists.

Mr. Purvis: No. That's correct. I have kept entirely out of that side.

HM, Jr: And you have taken some very, almost impossible things, like powder, away from the Army and the State Department -- we don't have to ask the State Department or Mr. Green, of the Munitions Control Board, or anybody. Mr. Hull is perfectly satisfied to have me handle this, and that is a very unusual situation.

Mr. Purvis: And one that is devastatingly

-7-

important and what might, during some particular period, cover the whole success of the War.

HM, Jr: Well, as I say, getting you powder won't win the War, but getting half a dozen things as important as the powder -- the accumulation of them

Mr. Purvis: Is very, very important. Yes.

HM, Jr: See? So I just might -- I have not talked it over with Cochran, but I really think it's stupid to get me mixed up with Ashton-Gwatkin and Mr. Rist officially. What do you think?

Mr. Cochran: I think you are right, Mr. Secretary, because Mr. Purvis can bring anything to you and if you wanted something brought to you a little more prepared, I can get together with Mr. Purvis.

Mr. Purvis: If I can get some unofficial advice occasionally, which would not be quoted, but which would give us a sense --- may I ask a question? And that is, is there any definite -- for instance, molybdenum. Any talks I have with Climax, I might want to come back to talk with you about, and possibly nickel, or something of that kind, as compared with copper, oil, soy beans which are in another and more political category, or is it all perhaps better to be in the same. Take the Climax situation. I am expecting to get a cable -- after our last talk you suggested would I carry on. I have asked our people to give me a few more cards so I will know what foot room I have before I talk with that group. I may get that any day now. Supposing, on the other hand, I find myself in some difficulty. You know the *dramatis personae* and you were good enough to do a wonderful piece of work in the beginning. Take molybdenum. How shall we proceed there, as distinct from copper and so on?

HM, Jr: I would say that if you have trouble with molybdenum, you come back and see me.

Mr. Purvis: It would not prevent that. That's really what I am asking.

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HM, Jr: No. Now again, on strategic materials, if they have copper in mind, you come in. Supposing you get a list. You say, "Mr. Morgenthau, what are the chances about copper?"

"Not one chance in a hundred."

"What are the chances about oil?"

"Not one chance in a hundred."

"What about soy beans?"

"Not one chance in a hundred."

Now, if they are not satisfied with what I say, they are perfectly free to take it up with Mr. Hull -- and have him hit the ceiling!

Mr. Purvis: I absolutely agree with you.

Mr. Cochran: One thing you have not mentioned. Rist is known over here more as a financial, monetary man. If he is seen around the Treasury very much, I think the press people might get suspicious.

HM, Jr: That is not as important as here is the Allied Purchasing Mission, if they are accredited to anybody they are accredited to the Treasury. They don't have to bother going through all the formalities of the State Department and Lord Lothian can tell you his troubles. Now if Ashton-Gwatkin and Rist begin to bring me in and mix me up into this fight whether the mail should be stopped in Bermuda in exchange for copper or this, or should we continue to give them airplane engines unless they let the mails go through....

Mr. Purvis: Might be a disadvantage.

HM, Jr: And I can tell you beforehand -- and if I have any doubts, the way I always do I will say, "Mr. Purvis, I am not sure. I will ask the President and then you will know."

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Mr. Purvis: I must admit my judgment is I can see that is a concrete situation which we ought to face and handle perhaps with great care. I would just like to feel on molybdenum

HM, Jr: Anything.

Mr. Purvis: ... or nickel or some special situation, I can get your advice.

HM, Jr: You can feel free to walk in here and ask me anything and I will simply say I can't handle it or I can, but you will get an answer in any case.

Mr. Purvis: What it really means, it does not close the doors to such things as you feel in your own judgment, from time to time, you could properly come in and help on if you can possibly help, but it does mean you will not be dragged into things which will criss-cross with the State Department.

HM, Jr: What I am trying to say is I don't want this relationship that we have

Mr. Purvis: disturbed.....

HM, Jr: to have them use our relationship. They know that we get along well. They are having lots of trouble over there and for them to try to have me help them by bringing pressure on you to buy more copper or tobacco, or vice versa ...

Mr. Purvis: It's a disadvantage to my main job, to put it in a selfish way.

HM, Jr: And I am interested in doing what I am doing and I am not interested in the other thing.

Mr. Purvis: I must admit your judgment is right.

HM, Jr: But apparently -- from your standpoint, what have you got to get from it? You are diluting your cream.

-10-

Mr. Purvis: That's right.

HM, Jr: But that does not keep these gentlemen from asking Morgenthau how he feels about this?

Mr. Purvis: No. And in your own judgment, from time to time, doing such things as you feel you could properly do and successfully do. I am still seized with the vision what this control of certain essential materials might mean among the Democracies in giving us a better background for a more common-sense and designed kind of peace. That's almost an individual response to what I think is a very fine and practical outlook on a thing that is going to face us reasonably soon, but there is nothing you are saying that prevents us from keeping that in mind without endangering immediate objectives.

HM, Jr: If you talk it over with Lord Lothian, I feel sure he will agree with what I am saying.

Mr. Purvis: Yes. I agree, Sir.

HM, Jr: Now there is one thing I would like to clear up with you and I would like to have your help. As you know, we try to keep track of the purchases and money you spend, etc.

Mr. Purvis: Quite.

HM, Jr: There is a discrepancy of \$200,000,000 which we can't explain.

Mr. Purvis: Quite a sizeable sum.

HM, Jr: And this will interest you, we are suspicious it might be flight of unregistered capital.

Mr. Purvis: Oh, yes!

HM, Jr: Which you would be interested in.

Mr. Purvis: Naturally.

HM, Jr: Therefore, if you could get hold of

-11-

Pinsent and Mr. Cochran and Harry White and have a meeting and we will show you our figures and then if you would make a check.

Mr. Purvis: Yes.

HM,Jr: But there is a definite discrepancy of \$200,000,000 in money from England here. In other words, we have \$200,000,000 more than you account for. We think it is flight of capital, which is quite a leakage.

Mr. Purvis: You bet it is.

HM,Jr: So if you would, and Cochran will arrange it.

Mr. Purvis: Certainly. I will be delighted to.

HM,Jr: You get Mr. Cochran, Harry White and Mr. Pinsent, sit down and we will put our cards on the table.

Mr. Purvis: We will put what we have and get such other ones as we need.

HM,Jr: The only explanation is possible flight of unregistered capital.

Mr. Purvis: Yes. That would be, of course, of great interest to us and I would be delighted to follow it through to a point where we get somewhere. If day after tomorrow will suit you (Cochran), I think I will have to be down tomorrow. I would like to go back tonight.

Mr. Cochran: You tell us the hour.

Mr. Purvis: Thank you very much. I would like very much to do that. Incidentally, they have been sending a good deal more information on that line and perhaps we have figures that don't match.

HM,Jr: I think Gifford would be interested in this too.

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Mr. Purvis: Very much so. Very much so.

HM, Jr: You might want to bring him down too.

Mr. Purvis: Very good! I think he would enjoy the opportunity.

HM, Jr: Because he might have an angle on it.

Mr. Purvis: Yes. Very valuable.

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

Mr. Cochran: I don't think it is necessary, because Mr. Gifford has a pretty good schedule there now.

Mr. Purvis: Anyway, we will leave him until after the first meeting is over.

HM, Jr: All right.

Mr. Purvis: Fine. He's in Hampshire House too.

HM, Jr: Now, aircraft.

Mr. Purvis: Pleven and Jacquin arrived yesterday and Self arrived the weekend from Ottawa, wanting very much to call on you, but not liking to come in ahead of the others. Pleven arrived last night for a short time in Washington and equally feels that he can't call before Self gets down here. I think they crossed their wires because we expected Pleven to come off the boat and up to New York and come to my house with Self and Jacquin and Bloch-Laine at 10:30. When we got there, Pleven was missing. Self is very anxious to pay his respects. He is one of the senior members in the Air Ministry. A civil servant and I think, if I may speak perhaps just a second off the record....

(Miss Chauncey stopped taking notes here.)

-13-

HM, Jr: Is he the number one civil servant in the Air Ministry?

Mr. Purvis: He was in charge of that part in Harington, the production end.

HM, Jr: Is he an engineer?

Mr. Purvis: I don't think he's a technical engineer. He brings with him Commodore Baker, who is the technical head and his intention is to take charge of production and we work in there, Bloom and his crowd, on the industrial side to see that the American industrial mission is properly represented.

HM, Jr: When are these gentlemen going to be in the same place at the same time?

Mr. Purvis: Now, that is the whole point. I think what Plevin would like to do, and Self puts himself entirely at your disposition, what Plevin would like to do is run up this afternoon to New York. He's waiting to hear. He would like to run up to New York. Either on Friday, or Monday or Tuesday he would come

HM, Jr: I would like to do it -- I would like to have them down here Thursday afternoon.

Mr. Purvis: All right. They will be here Thursday afternoon. What time will suit you?

HM, Jr: Three o'clock.

Mr. Purvis: I will arrange it. It's up to them to come.

HM, Jr: You come too.

Mr. Purvis: That will be Plevin, Jacquin, Self. Baker does not arrive until day after tomorrow.

HM, Jr: Don't make it entirely social. Let's get down to business.

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Mr. Purvis: Let's get down to cases. That, I think, is why Self, who has been waiting very patiently for people who insist on getting on clippers instead of boats -- from the time he left his office until he arrived in Ottawa, less than seven days whereas the fellows who came by boat have taken a longer time to get here -- I think what Self would like to do is sit down with Plevin and get to cases before they see you. You see, what they talk to you will be really

HM, Jr: If they have a week, they will take a week. If they have 36 hours, they will take 36 hours.

Mr. Purvis: They can do it in 36 hours. I shall go back tonight.

HM, Jr: You know how those things are.

Mr. Purvis: If I can get away tonight, we will sit all day tomorrow and come down perfectly well.

HM, Jr: Have you any inkling?

Mr. Purvis: Slightly reduced. There has been no joint meeting and I have not heard the French end at all. Slightly reduced program which might perhaps ease the situation in regard to the burden on the machine tool end. Tendency to try and seek for the types of engines that will least disturb the machine tool market. That approach, really the approach that will recognize production difficulties and endeavor to overcome it.

HM, Jr: That sounds intelligent.

Mr. Purvis: Self is intelligent. He's a curious looking bird, but I think Self is really an intelligent fellow.

HM, Jr: Do you know what proportion bombers or pursuit planes?

-15-

Mr. Purvis: More pursuit planes. It is swaying towards fighters and away from bombers, because it looks as if it is going to be the thing.

HM, Jr: More pursuits?

Mr. Purvis: More pursuits and less bombers. That seems to be the recent experience. Now, I say that with the reservation that the French have not had a hack at this since Self left and Pleven was in Paris and London four days after Self -- this is Self's reflection, because I have just seen Pleven for exactly ten seconds, just shaking hands with him when I got in here.

HM, Jr: Well, we will see what they have.

Mr. Purvis: I think one of the things that impresses me the most, I think it goes back to your first talk on the subject when Pleven came in here when you rather reminded him of the difficulties that arose last time, having to go back continually on particulars, types and so on, I think what you have achieved there is we have Self and Banker, and Pleven and Jacquin, with a high degree of effective authority -- I think that's the phrase they use.

HM, Jr: Bring them all in. Baker and so forth.

Mr. Purvis: Baker, I fear, will not be there.

HM, Jr: How about Jacquin?

Mr. Purvis: Jacquin, I think yes. Verl well.

That is about the picture from the British end with the reservation, as I say, that we have not sat together, but they have got over from the Air Ministry, in addition to Baker, three other technical fellows. Not only has it value for this program, but your reminder has enabled me to bring about something which was really becoming absolutely essential, namely: a greater decentralization of authority on the existing contracts, though information that was given you

-16-

by the airplane people in regard to, for instance, Curtiss' complaint about his contract and in regard to our not ordering engines direct, was about 85% inaccurate. There was a complaint which they did not voice to you, which I think they could have, and that is, in my opinion, that London was trying to run their armament of the planes they were buying from London without knowing enough to decide it from London and without being willing to trust the men they had over here. The effect of the new program is we have over here a section of technical men who can literally settle it without cabling. The younger technical men were coming to me almost at their wit's ends and terribly depressed at the lack of decision and I finally used this as a means of getting these people over here.

HM, Jr: You have to have people here on a billion dollars program and a half a million program.

Mr. Purvis: Even one hundred million, you have to have it, but on technical questions of armament you have to have the fellows who have that particular knowledge, specialized knowledge.

HM, Jr: How are you coming along with the Hercules contract?

Mr. Purvis: I almost hesitate to tell you that we are hopeful. I have my fingers crossed. I don't see how we can go wrong with the background you have now given us, but I will believe that Hercules thing when it is signed and sealed, because they have been terribly full of fears, genuine fears, but if I have ever had fear on a commercial basis it was that. I have not had such a frightened group of people

HM, Jr: What are they frightened about?

Mr. Purvis: They are frightened -- I tried to describe it -- they were frightened because that in 1929 the system they lived on proved wrong. They are frightened we may lose the war, and, if we don't

-17-

we may not pay our debts, and they are afraid of the New Deal. I found myself dictating to Monnet and those four fears stuck up as the main ones, but when it comes to negotiating a contract -- I came to America originally as a Britisher and I have learned more in my knowledge have to produce things efficiently than I ever did in my country. I came here as a rugged individualist, but a rugged individualist is more extinct today than a dodo.

HM, Jr: Have you met any machine tool people?

(Laughter.)

We will see each other again

Mr. Purvis: ... Thursday.

HM, Jr: And you bear this other question

Mr. Purvis: very definitely in mind. I will proceed to talk with Lord Lothian and may I have a quiet word with you on Thursday as to the results of that?

HM, Jr: Surely!

Mr. Purvis: But I see your point thoroughly.

HM, Jr: Surely. And you might tell me when Rist comes to town. We will have him up to the house for tea.

Mr. Purvis: He came last night and I think he would like very much to have an opportunity of seeing you personally and would accept an invitation to go there.

Again, many, many thanks.

oOo-oOo

March 5, 1940

REMINDER FOR THE SECRETARY.

In re United States Air Missions to England and France.

General Arnold said the Army's original plan was to send 3 men to France and 4 to England, but they could not get the mission idea approved, so switched to the Assistant Attache idea, which reduced it to 1 man to France and 2 men to England. The 1 to France is on his way, but the 2 to England have never been cleared by the British.

Admiral Towers was uncertain how large a mission the Navy would want to send, because of the various Bureaus of the Navy involved. He thought the last figures he heard were 7 men to the two countries.

MAR 5 1946

My dear Mr. Secretary:

I have considered carefully the suggestion in your letter to me of February 24, that the possibilities relative to the development of a local steel industry in Brazil should be explored by the so-called Committee of Three.

In my view, the Committee of Three was dissolved upon the conclusion of the temporary settlement of the Colombian debt last month. Accordingly, I do not feel able to participate in the Brazilian steel matter. Further, in so far as purely technical cooperation might be desired, I feel that, due to the press of business, the Treasury should not assume a new additional burden of this nature. If the Department of State desires the help of other departments or agencies of this Government in the consideration of this matter, I venture to suggest that the Export-Import Bank and the Department of Commerce are the more appropriate agencies.

I am sending copies of this letter to Mr. Jones and Mr. Noble.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of State.

JPC, JR1BJ 3/5/40

By Messenger *4¹⁵ pm* 3/5/40

File to Mr. Thompson

Excerpt from report to the Secretary by the Treasury Attache at Shanghai, dated March 5, 1940 (Received March 19).

Japs Tired of War

All indications point to the fact that Japanese troops in south China are very sick of the war because of long service not only on south China but on north China fronts. When the Jap S.S. Canton Maru passed through Hong Kong from Canton to Japan recently, she had on board over 200 officers and men going to Formosa to be imprisoned for insubordination.

These soldiers are so recalcitrant that they are on the verge of an open mutiny, hence Prince Chichibu, younger brother of the Japanese emperor, came south to investigate the matter and restore harmony if possible. Such feelings are high in Canton, Swatow and Hainan Island. Such elements are found in the Fukuyama unit in Canton and several men have been executed because they were found to have anti-war literature.

In Japan 55 persons were arrested for anti-war sentiment, including Deguchi, 70 and Takaki, 67. Many people still do not understand the meaning of "New Order in East Asia" despite Premier Yonai's threat to punish such "stupid" persons.

STATEMENT BY SENATOR HARRY F. BYRD, (DEMOCRAT, VIRGINIA) FOR MORNING PAPERS OF WEDNESDAY, MARCH 6, 1940.

With respect to the suggestion of certain Senators that the balance in the general fund of the Treasury, known as the working cash balance, be used as an offset for new appropriations, it should be understood that under the Budget submitted by the President, this working balance will be reduced by \$1,241,000,000 on July 1 next. In other words, the present working balance will be reduced by this amount in order to pay current appropriations.

In addition, it is proposed to recover in the next fiscal year from the so-called government corporations the sum of \$700,000,000 to be placed into the general Treasury.

These two devices are for the purpose of avoiding action by Congress at this session to increase the present debt limit of \$45,000,000,000. Even with such transfers unless appropriations as submitted in the Budget are reduced by about \$400,000,000, then additional taxes to this amount will still be necessary, so that the expenditures will not exceed the present debt limit within the next appropriation year.

This reduction as proposed in the general fund balance will leave the smallest balance in many years and could not be further reduced. Any effort to pay new appropriations by any further reduction in the working balance would not be possible. Let us not fool ourselves. The only alternative, if Congress desires to increase appropriations, is either to increase taxes or increase the legal debt limit. This should be understood in any discussion of this subject.

MAR 6 1940

New Tax Held Sure Without Debt Limit Rise

Takes Exception on Taxes

Byrd Points to Impossible Use of Treasury Balance to Avoid One or Other



Underwood & Underwood
Senator Harry F. Byrd

From the Herald Tribune Bureau
WASHINGTON, March 5.—Senator Harry F. Byrd, Democrat, of Virginia, a leader of the Senate economy bloc, tonight issued a statement in which he took to task certain Senators who have advocated in recent days expenditure of the Treasury's \$1,000,000,000 working balance in order to avoid new taxes and a rise in the debt limit.

Senator Byrd pointed out that under the President's budget message the Treasury's working balance will be reduced by \$1,241,000,000 on July 1, next, the beginning of the 1941 fiscal year. "In other words, the present working balance will be reduced by this amount in order to pay current appropriations," he said.

Meanwhile, the mystery deepened about yesterday's conference at the White House with President Roosevelt, and Secretary of the Treasury Henry Morgenthau Jr., Marriner S. Eccles, chairman of the Federal Reserve Board; Daniel Bell, Undersecretary of the Treasury, and Laughlin Currie, one of the special assistants to the President.

Routine, Says President

At his mid-week press conference today the President was asked, after he had disclosed that the meeting took place to discuss financing, why the refunding of the June 15 maturity of \$728,000,000 of notes, was made the subject of a special conference.

Every time we have a bond issue we have a session, the President replied, pointing out that there was nothing unusual about it.

Then he was asked why the June 15 maturity was refunded into a five-year note issue. Mr. Roosevelt said that every body recommended such an exchange.

There are reports here that Undersecretary of State Sumner Welles, who is now making a round of the capitals of the belligerents, had made a bearish report on coming events abroad. Perhaps, it is said, the President wanted to review the Treasury's position for any financing which might be hurriedly undertaken, and review the economic and fiscal situation here.

Reports that financial steps of some character might be undertaken in the near future, however, continue to circulate here. There is a strong bloc developing in Congress for expenditure of the Treasury's free funds.

Debt Limit Shown

The Treasury today released a memorandum to the press in which it was disclosed that a total of \$2,671,334,975 of government obligations could be issued before the \$45,000,000,000 statutory debt limit is reached, under Section 21 of the Second Liberty bond act, if total new public debt outstanding as of Feb. 29, 1940, was \$42,365,353,180.

The following table shows that as of Feb. 29, 1940, there were the following government securities outstanding:

Interest-Bearing Bonds	
Treasury	\$25,987,110,000
Savings (approximate market value)	8,379,525,550
Adjusted service	769,492,320
Total	\$31,045,987,870
Treasury notes	\$2,403,474,000
Certificates of indebtedness	1,932,800,000
Treasury bills (maturity value)	1,509,271,096
Total	\$11,595,445,996
Grand total	\$42,641,384,875
Amount of obligations on which interest has ceased:	
Bonds	\$19,045,400
Notes	21,113,950
Certificates of indebtedness	4,059,700
Treasury bills	73,110,000
Total	116,289,150
Obligations which may be issued	\$2,471,334,975

Senator Byrd's statement, commenting on the proposals to use the Treasury's free funds, said:

"With respect to the suggestion of certain Senators that the balance in the general fund of the Treasury, known as the working cash balance, be used as an offset for new appropriations, it should be understood that under the budget submitted by the President, this working balance will be reduced by \$1,241,000,000 on July 1 next. In other words, the present working balance will be reduced by this amount in order to pay current appropriations.

"In addition, it is proposed to re-

5,009,775.

New Tax Held Sure Without Debt Limit Rise

(Continued from page thirty-one)

cover in the next fiscal year from the so-called government corporations the sum of \$700,000,000 to be placed into the general Treasury.

"These two devices are for the purpose of avoiding action by Congress at this session to increase the present debt limit of \$45,000,000,000. Even with such transfers unless appropriations as submitted in the budget are reduced by about \$400,000,000 then additional taxes to this amount will still be necessary, so that the expenditures will not exceed the present debt limit within the next appropriation year.

"This reduction as proposed in the general fund balance will leave the smallest balance in many years and could not be further reduced. Any effort to pay new appropriations by any further reduction in the working balance would not be possible. Let us not fool ourselves. The only alternative, if Congress desires to increase appropriations, is either to increase taxes or increase the legal debt limit. This should be understood in any discussion of this subject."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

March 6, 1940.

My dear Henry:

As I told you in our telephone conversation on Monday, I felt that I should not let our discussion of the Lasser correspondence end without a further effort to correct your impression of the matter as reflected in your letter of February 29th. The best way to do this, it seems to me, is to repeat, first, exactly what Mr. Lasser asked me and, second, what I said in reply, because I believe that your impression as to this correspondence must have been based on what someone else told you about it.

In Mr. Lasser's letter to me he stated (a) that he had been informed that there are considerable resources available to the Administration today without further legislative authority which could be used for meeting current expenditures without increasing the debt limit or without further taxation; (b) that among these funds are a \$2,000,000,000 stabilization fund, \$1,000,000,000 power to issue silver certificates, and \$1,500,000,000 excess in the Treasury's working balance over normal requirements, totaling \$4,500,000,000; (c) that this \$4,500,000,000 is based on the Treasury's working balance of about \$1,800,000,000, the usual practice being to maintain a working balance of about \$250,000,000; and (d) that this \$4,500,000,000 is in addition to the power to issue \$3,000,000,000 of additional currency not specially backed by gold or silver. He then asked me, first, whether these figures were correct; second, whether to my knowledge there were additional funds that could be used for meeting current expenditures of the Government without further legislative authority or without increasing the debt limit and, last, my viewpoint as to the economic effects of using such funds for increasing work and consuming power in the hands of the low-income groups.

These are the questions which were before me when I answered his letter and I replied in four brief paragraphs. First, I quoted the language of the Gold Reserve Act which states the purposes for which the stabilization fund is available for expenditure, and stated that I was advised that it would require legislation to apply the fund to meet current expenditures. Second, I stated that as to silver I was informed that approximately \$1,500,000,000 would be available by monetizing the difference between what had been paid by

- 2 -

the Treasury for the silver and the official price of \$1.29 and that this would not require legislation. Third, I told him that the Treasury's working balance was approximately \$1,600,000,000, that tentative estimates of our statistical division indicated that without new financing the balance would not fall to less than \$1,000,000,000 at the end of the present fiscal year, and might be somewhat more than that if sales of baby bonds continued in the current volume, and that I understood that prior to the advent of the present administration it was not customary to keep working balances in excess of \$250,000,000 or \$300,000,000. I confirmed his statement that there is unused authority under the Thomas Amendment which provides that up to \$3,000,000,000 of currency may be issued, but stated that it might be issued only for the purpose of meeting maturing Federal obligations. Finally, in the last paragraph of my letter, in response to his question regarding the economic effects of using such funds for increasing work and consumer buying power, I stated that the Government could expend only what Congress authorizes and appropriates and to the extent that these funds were used to meet such expenditures it would avoid an increase in the public debt but consumer buying power in the hands of the low-income groups would not be increased thereby unless increased expenditures were voted by Congress.

The foregoing is all that there was to the correspondence. You say that Mr. Lasser's letter did not give you the "impression that he was in search of facts". But, as I said to you before, I am not acquainted with Mr. Lasser and it did not occur to me to suspect or question his motives. His letter came in in the usual course, was referred to the staff and a draft of a reply prepared on a factual basis, as is customary in the case of such correspondence. It so happens that I took special care to see that my reply was purely factual and contained no expression of opinion whatsoever on my part regarding "matters of budget and fiscal policy" or regarding "ways in which the President's fiscal policy could be improved". However, I would have been doing just that if, as your letter suggests, I had "attempted to explain the present justification for a larger working balance".

It is perfectly true, as you say, that the matters to which Mr. Lasser's letter related did not "fall within the sole jurisdiction of the Board of Governors". On the other hand, they do not fall wholly outside the field of my responsibilities as Chairman of the Board of Governors and, incidentally, as a member of the Fiscal and Monetary Committee. Consequently, I felt that

- 3 -

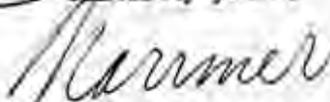
when Mr. Lasser addressed his inquiry to me in my capacity as Chairman of the Board of Governors he was justified in expecting from me, as a public official, direct answers to his questions. That is a courtesy that we endeavor to accord to many inquiries from individuals whose interest in these matters is frequently less substantial than that of the National President of the Workers Alliance of America.

In the circumstances, I would not have felt justified in asking Mr. Lasser to read the President's budget message to obtain the information which he requested instead of giving him direct answers. In fact, it would have been quite difficult for him to find the answers that way. As for your statement to the press that I should read the budget, I am sure that you did not think that I needed to be informed as to its contents nor that you expected the press to think so. You say that I had an opportunity from about February 6 to February 26 to give you the facts. It never occurred to me that you could possibly have the least interest in a factual reply to a routine letter. I had no way of knowing that you were in any way concerned about the matter until I saw your comment in the press. As for the comment itself, it would have been possible for you to have said simply that you had not seen the correspondence. I think you assumed, as your comment indicated, that the facts were quite different from what they actually are.

Possibly you will recall that when I was requested to appear before the Senate Special Committee to investigate unemployment and relief in January 1938 I did my best to avoid it but was told by the Chairman of the Committee not only that if I did not appear voluntarily he would issue a subpoena but that if I was not prepared to testify I should not be occupying my present office. I am convinced that it would have been exceedingly difficult, if not impossible, for me to justify the avoidance of a direct and simple answer to each of Mr. Lasser's questions.

As I have said before, I intend always to cooperate with you as fully as possible, and I have undertaken to go into this matter fully and frankly with that end in view.

Sincerely yours,



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

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 89

DATE: March 6, 1940, 1 p.m.

Reference is made to the Department's no. 54 of March 5.

I have made arrangements for the matter to be held open all of today.

CAFFERY

EA:EB

RECEIVED
TELETYPE UNIT
MAR 11 1940
22 11 AM T RUC ONE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 90

DATE: March 6, 1940

Reference is made to my conversation with Feis.

When I explained to Aranha what had occurred in the Department regarding Grade IV, he said that although he much prefers not to do so, he is willing, as a further demonstration of his "extreme good will", to again reduce the British and French held Grade IV, first year, from 45 percent to 40 percent if this is the Department's desire, no matter what is said or done by the French.

CAFFERY

EA:EB

COPY OF TELEGRAM RECEIVED

From New York, New York, March 6, 1940

Honorable

A. A. Berle, Jr.,
Washington.

In order to avoid any misunderstanding please telegraph Text of Brazilian offer to which your telegram of last night refers.

FRANCIS WHITE

TO THE SECRETARY
SECURITY ASSISTANT
OFFICE OF THE
DIRECTOR
MAR 11 1940
RECEIVED

COPY:EA:EB

JT

NEW YORK

Rec'd March 6, 1940

5:46 p.m.

THE HONORABLE

A.A. BERLE, JR.,

ASSISTANT SECRETARY OF STATE,
WASHINGTON, D.C.

Council has reconsidered Brazilian offer in the light of your telegram of March fifth and particularly in view of Department's belief that it has obtained the best offer possible and is constrained in bondholders' interest to reaffirm action previously taken.

Council's statement to be published when offer is made, assuming that offer, text of which we have not yet received, is as we understand it from Department's verbal statements, is as follows:

"Without passing in any way on the merits of the Brazilian proposal, which was not negotiated by it, the Council limits its comment on the proposal of the Brazilian Government received through the Department of State to the remark that pursuant to consultation with the Department of State negotiations at present would seem to hold no favorable prospect of obtaining any better offer. The Council must leave to bondholders to determine whether or not they will

accept

-2- #- to Mr. BERLE

accept what is now offered."

It is further understood that the offer will disclose to the bondholders the whole picture including any repatriation of bonds and that should there be modifications of the present offer the Council reserves the right to review the situation anew with full liberty of action with respect thereto. The Council has learned of the change made by the Brazilian Government in Grade IV since my talks in Washington on Monday and in spirit of cooperation will not alter its position on account of this modification, but I repeat reserves the right to do so should there be further changes.

FRANCIS WHITE
President

NPL

RECEIVED
JAN 11 1951
U.S. DEPARTMENT OF COMMERCE

GRAY

March 6, 1940

7 p.m.

AMEMBASSY

RIO DE JANEIRO

56

The Council has telegraphed to the Department the following comment on the possible Brazilian debt offer:

QUOTE Council's statement to be published when offer is made, assuming that offer, text of which we have not yet received, is as we understand it from Department's verbal statements, as follows:

INNER QUOTE Without passing in any way on the merits of the Brazilian proposal, which was not negotiated by it, the Council limits its comment on the proposal of the Brazilian Government received through the Department of State to the remark that pursuant to consultation with the Department of State negotiations at present would seem to hold no favorable prospect of obtaining any better offer. The Council must leave to bondholders to determine whether or not they will accept what is now offered. END INNER QUOTE.

QUOTE It is further understood that the offer will disclose to the bondholders the whole picture including any repatriation of bonds and that should there be modifications of the present offer the Council reserves the right to review the situation anew with full liberty of action with respect thereto.

END QUOTE

You are authorized to communicate this to the Brazilian authorities.

HULL
(HF)

EA:HF:EB

March 6, 1940.

The Honorable

Francis White,

Foreign Bondholders Protective Council, Inc.,

90 Broad Street,

New York, New York.

The terms of debt service contemplated to be proposed by the Brazilian Government to cover a period of four years which have been transmitted through the Embassy at Rio and which have been under discussion with the Council are as follows:

(Percentages of service provided for the last year of the so-called Aranha plan of 1934)

Grade I Interest - 50 percent; amortization - 40 percent in each of the next four years.

Grade II Interest - 50 percent; amortization - 40 percent in each of the next four years.

Grade III 50 percent in each of the next four years.

Grade IV 45 percent first year, 50 percent fourth year.

It is not entirely clear whether in the second and third years the percentage is to remain at 45 percent or to increase.

- 2 -

Grades V, 40 percent, 41 percent, 43 percent, and
 VI, VII,
 and VIII 50 percent during the first, second, third
 and fourth years, respectively.

The Brazilian Government would reserve the right, under numbered paragraph six of Article I of the so-called Aranha plan of 1934, to put additional amounts of funds into purchases of bonds on the market. It has been stated separately that the Government of Brazil would be prepared to devote in this manner \$10,000,000 over the four years to the purchase of dollar bonds.

All these terms are of course strictly confidential.

HULL (AAB)

EA:FL:EB

TO THE DIRECTOR
 FEDERAL BUREAU OF INVESTIGATION
 U. S. DEPARTMENT OF JUSTICE

NOV 15 1934

RECEIVED
 FEDERAL BUREAU OF INVESTIGATION



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 6, 1940

MEMORANDUM FOR THE SECRETARY

The present capacity of the Army plant at Picatinny Arsenal of the manufacture of smokeless powder is 10,000 pounds a day with the existing recovery equipment. This capacity is being employed to the maximum on current orders. The Picatinny Arsenal can produce no more until additional solvent equipment is installed. It is anticipated that the installation of such equipment will be completed in the fall of 1940 and that the capacity then will be 18,000 pounds per day. Therefore, it appears that the Picatinny Arsenal is already operating at full capacity.

Concerning the procurement of powder from commercial sources, 1,800,000 pounds are set aside for war reserve. Of this quantity 600,000 pounds of the capacity of war reserve bulk powder was recently conceded to the Government of Finland, leaving a net available capacity of powder in this category of 1,200,000 pounds.

In a memorandum to the Chairman of the President's Liaison Committee from the Acting Secretary of War under date of February 29, 1940, it is stated that the War Department does not desire to release any of this remaining 1,200,000 pounds, but that if it is desired by the President that the British Government should be accommodated it is believed that the release should be limited to the 1,200,000 pounds being manufactured for war reserve by the Hercules Powder Company.



H. E. Collins
Chairman, Liaison Committee

hsm

PLAIN

London

Dated March 6, 1940

Rec'd 2:40 p. m.

Secretary of State,
Washington.

564, March 6.

FOR TREASURY FROM BUTTERWORTH.

The weakness of sterling in the unofficial market in New York is being publicly attributed here to the prospective measures reported in my 432, February 21, 5 p. m., hints of which have recently appeared in the press as a result of the consultations which the British Treasury has found it necessary to have with the affected producer interests. It is an open secret that the Bank of England plans to bring these regulations into force at the end of this week. The effect of these measures in transferring a substantial amount of the demand for sterling from the free to the official market is reinforced by the arrangements between the Reserve Bank of India and the Bank of England whereby banks in London have been instructed to insist that the sterling be acquired through official channels in payment for many of the important Indian exports previously financed in sterling.

hsm -2- No. 564, March 6, from London

sterling. Likewise purchasers of rupees outside the sterling block (and in countries whose currencies are not officially quoted by the Bank of England) must make payment in dollars, belgas, guilders, Dutch East Indies guilders or Swiss francs.

Although the British Treasury was at the time annoyed that knowledge of its plans should have found its way into the press, the fact that the news was broken to the market in this way may tend to lessen the reaction. Nevertheless if the supply of unofficial sterling continues available in undiminished amount the rate must depreciate with lessened demand. While the amount of foreign balances still remaining in London is doubtless not much greater than operation needs require there are considerable holdings by foreigners of British securities and it remains to be seen whether a wobbly pound perhaps weakened by some particular war development would not produce some further flight of foreign capital.

These exchange control measures also have significance in terms of the export trade in that while unofficial sterling will not be available for the more important Empire area raw materials it will still be available for the numerous British manufactured products which could be purchased at the going but no doubt preferential rate.

hsm -3- No. 564, March 6, from London

2. With reference to the final sentence of my No. 482 of February 28th, a White Paper issued today by the Export Council, (the appointment of which was reported in my No. 304 of February 2nd) indicates that the initiative for the expansion of exports is for the time being to remain with manufacturers and traders, who are urged to organize themselves into industry groups "so as to make it possible for them to work with the Export Council in securing the necessary adjustments in the war-time machinery of trade and so as to profit effectively from the direction, guidance and support which the Government are ready to give." The Council express confidence that in present internal and external circumstances a substantial increase in exports can thus be achieved. Nevertheless the report adds "should exceptional circumstances arise in particular trades or over the whole field the Council place no limit to the expedients they would be prepared to consider."

The Council has already opened discussions with a large number of industries, and will lose no time in extending this action. Meanwhile it invites exporters to prepare themselves for consultation. Some of the industries which appear to have formulated plans and allocated reduced amounts of their output to the home market are linen, wool textiles, and the rayon industry.

The

hsm -4- No. 564, March 6, from London

The Council point out that when consumers find that they cannot buy all they need of pre-war quantities and qualities of less necessary goods, they can contribute to the war effort by putting up with reduced consumption. There are actual shortages of skilled labor in a number of industries including not only engineering, shipbuilding, et cetera, but such industries as cotton textiles, wool, et cetera. Where these shortages exist labor is often bid for at increasing wages, and exporters with contracts are in some cases faced with losses. It is of interest that the Chairman of the Bradford Dyers Association a few days ago strongly advocated export subsidies. The cost problem is therefore beginning to show itself and call for expedients beyond the mere "direction, guidance and support" which the Export Council believe will substantially increase British exports.

JOHNSON

HPD

Net Capital and Gold Movements

(In millions of dollars)

		Week ending February 28, 1940	Week ending March 6, 1940	From December 28, 1939 to March 6, 1940
I. Net flow of capital consisting of	Inflow	29.3	Outflow 28.8	Inflow 1.4
A. Banking funds	Inflow	24.1	Outflow 34.0	Outflow 43.8
(1) Change in balance of foreign central banks and governments with the Federal Reserve Bank of New York	Inflow	19.4	Outflow 27.4	Outflow 51.3
(2) Change in all other short-term balances (most private funds)	Inflow	4.7	Outflow 6.6	Inflow 7.5
B. Net security transactions	Inflow	6.0	Inflow 3.9	Inflow 35.6
(1) Domestic securities	Inflow	2.8	Inflow .1	Inflow 3.4
(2) Foreign securities	Inflow	3.2	Inflow 3.8	Inflow 32.2
C. Brokerage balances	Outflow	.8	Inflow 1.3	Inflow 9.5
II. Net gold imports	Imports	70.1	Imports 45.5	Imports 568.2

Net security transactions reported by
the SEC

March 7 through March 15
Outflow 1.8

Addition to monetary gold stock 1/1/40
to 3/6/40

+ 576.9

Net gold imports 1/1/40 through 3/6/40

+ 470.1

Net release of gold held under earmark for
foreign account 1/1/40 to 3/6/40

+ 83.3

Treasury Department, Division of Monetary Research.

HSM

PLAIN

London

Dated March 6, 1940

Rec'd 3:10 p. m.

Secretary of State,
Washington.

565, March 6.

FOR TREASURY FROM BUTTERWORTH.

1. Keynes scheme on "how to pay for the war" was effectively put on ice by the Chancellor of the Exchequer's answer in the House of Commons to the following question: "Whether the increased volume in national income and wages is prompted only because of an increase in the general cost of living and whether he will give an undertaking that no scheme will be introduced which would deprive the individual, after the orthodox claims of direct and indirect taxation have been met, of the full use of earnings?" Simon replied: "The relation between variations in national income and variations in the cost of living is too complex a matter to be dealt with adequately in reply to a question. As regards the second part of the question, the Government are confident that their appeal that everyone should save and lend to the state

hsm -2- No. 565, March 6, from London

state as much as possible of their net income will continue to meet with a response commensurate with our great and unprecedented needs. So long as this is the case the question of introducing schemes such as those referred to in the second part of the question is less urgent. But clearly I cannot at this stage give any final undertakings as to how the war will be financed throughout its duration."

2. Although the gilt-edged market closed about 3/4 of a point below the unofficial high of last night the city expects the £300 million loan to be a success and finds its terms acceptable. Naturally the Chancellor of the Exchequer's statement has had a very good press, the only criticism coming from the Labor DAILY HERALD which states that "Mr. Montagu Norman and Sir John Simon have stepped much too near the slippery slope of dear money with this loan". The most pertinent comment comes from the FINANCIAL NEWS which emphasizes that the real importance of this operation is in helping to reduce the danger of inflation, that the question for the investor is "not merely one of reinvesting resources at present lying idle in individual banking accounts (however important it may be that these potential sources of spending should be definitely transferred to the Government) but on deciding how much can be spared from current family budgets to increase the flow of genuine savings".

JOHNSON

March 6, 1940

Present:

Mr. Chen
Mr. Sheahan
Mr. Cochran
Mrs. Klotz

Mr. Chen: If it is agreeable with you, Mr. Secretary, I will leave Mr. Sheahan with you.

HM, Jr: Why don't you stay?

Mr. Chen: All right. Just as you wish.

HM, Jr: Are you making a report which I am going to be able to see?

Mr. Sheahan: That I was discussing with Mr. Chen. I am ready to make the final report of the first six months of our work, summarizing our recommendations.

HM, Jr: How much could you give me in 15 minutes of the situation as it is. I don't want details of the organization -- about the stuff, the problems yet to be done as you see it. Let's start at that end. What I am interested in is here's all this stuff which is already over there at Haiphong. How are they going to move it up and how are they going to take care of their traffic from now on? I would rather start on that end.

Mr. Sheahan: I think I could summarize it for you very well briefly. We have about 39,000 tons of U.T.C. freight in Haiphong.

HM, Jr: That's Universal Trading?

Mr. Sheahan: Yes. Of which 8900 tons is petroleum products. That's of January 12, this year. We are moving about 100 tons maximum per day over new

-2-

roadways that have been opened up and we anticipate that February 15th, at the latest, the French Railway should have resumed operations and on their increased capacity that has been brought about by transferring certain equipment, rolling stock and motive power from the Chinese railroads that are under construction in occupied areas we could increase tonnage on the French Railway to approximately 24,000 tons per month.

HM, Jr: They never move more than 9,000.

Mr. Sheahan: 18,000.

HM, Jr: 18,000? Did they?

Mr. Sheahan: Of which amount, roughly, two-thirds or 18,000 tons can be Government freight.

HM, Jr: I see.

Mr. Sheahan: Balance for the commercial interests in the interior. We are also arranging to transship approximately 9 to 10,000 tons, the bulk of which will be petroleum products and crated trucks to Rangoon for assembly with more experienced workmen, utilizing those trucks to haul the gasoline over the Burma route to Kunming. The Burma route has been set up on a 24-hour work operating basis that will permit movement of 9,000 tons per month by that route by one company. We believe that can be doubled with safety. We are moving, and have moved, approximately 10,000 tons per months through the seaports that are allegedly under Japanese control.

HM, Jr: In or out?

Mr. Sheahan: Out and in both. That's Ningpo, Kwangchow, Sintai, Macao and a point near the French concession, Fengshien. The old opium smugglers route, we have utilized that with human carriers, river junks, rail and truck combination. So the entire possibilities there, I believe, will be in the neighborhood of 35,000 tons per month if fully utilized.

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HM, Jr: To move up?

Mr. Sheahan: To move in or out.

HM, Jr: What were they doing when you left?

Mr. Sheahan: When I left, they were moving the new trucks with light loads over the highway that has just been completed into the interior through Caobong in French-Indo China. We had just completed recovering 9,000 tons of freight that had been in the interior near Kwangsi and in the neighborhood of Nanning. We brought that all back to French Indo-China. We lost about 390 tons, the majority of which was buried in rivers and properly marked for later recovery when they burned the town of Lanchow. That recovered freight

HM, Jr: What do you mean "recovered"?

Mr. Sheahan: It was freight of partially Universal Trading origin that had been transshipped into China, but was caught between the two lines.

HM, Jr: I see.

Mr. Sheahan: And according to press reports in this country was captured by the Japanese, and, as a matter of fact, we recovered it all.

HM, Jr: I see. But that does not answer -- it's very interesting, but it does not answer my question that these 9,000 tons represents the only freight which is moving in up to Kunming.

Mr. Sheahan: No. That was our first consideration, imports and also exports. We must remember what was moving into Kunming was negligible when I left due to the breach in the railroad in two points. What we had done was to quickly arrange with the French Railway authorities and their engineers to serve the route and we went over every inch about bombings. The total damage in our money was \$7,000 to \$10,000. We figure it would be open by the 15th of February and, barring further interruptions, would increase their

-4-

traffic to around 24,000 tons per month.

HM, Jr: Let me switch a minute, because after you finish I am going to have you talk to Captain Puleston. How many trucks are there being operated on behalf of the Universal Trading Corporation?

Mr. Sheahan: We have about 5,000 trucks in all available for U.T.C. cargo.

HM, Jr: But how much are they actually using?

Mr. Sheahan: Of that amount, we will say, I will say, around 3,000.

HM, Jr: Running every day?

Mr. Sheahan: Not every day, but capable of operations as fuel supplies arrive.

HM, Jr: When you left there, how many trucks were running every day?

Mr. Sheahan: That's something I can't answer.

HM, Jr: Were there 100 trucks?

Mr. Sheahan: What we had on the road was 3,000.

HM, Jr: How many are running?

Mr. Sheahan: That's the group we had running between the Southwest Transportation Corporation and our Corporation. We had a shortage of gasoline at that time. Out of 5,000 we had 3,000 in operation. Now, on U.T.C. freight alone, we had -- most of the freight consists of trucks -- we had 50 a day going out over the new road. We loaned

HM, Jr: How much time have you got?

Mr. Sheahan: I have, at your convenience, today and tomorrow.

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HM, Jr: You have?

Mr. Sheahan: Yes, sir.

HM, Jr: This is too much. (Asked the operator to have Captain Puleston come to his office.) I will tell him in front of you what I want. I will let him put you through the winger. I am not getting what I want. The best thing Mr. Chen and his Government can do is give me the bare facts even though they are not very good. See?

Mr. Sheahan: I would certainly, have not attempted to color this in any way. I want you to know that. But understand, U.T.C. cargo is about the least amount of the problem. We still had freight to cover from Rangoon and other points.

HM, Jr: Because the figures we have of freight out of Haiphong is far in excess of what you say.

Mr. Sheahan: That's true, but there is other freight there.

HM, Jr: From my standpoint, whether it's U.T.C. or A.B.C., the question is how it is moving, and I don't think it is moving. The question is, is it all going into China? You see, we get weekly reports, both cable and mail, from various consuls, so I have a little inkling of what's going on. What I am trying to do is help these people.

Did you look at all into the question of movement by river, the Irrawaddy River?

Mr. Sheahan: Yes.

HM, Jr: Are they using those facilities?

Mr. Sheahan: In a limited way.

HM, Jr: Is there a possibility of expansion?

Mr. Sheahan: A possibility if the Burma Railway would cooperate.

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HM, Jr: Do they control the river?

Mr. Sheahan: The Burma Railway is governmentally controlled and the company which operates on the river is a private corporation and there is bitter competition between the two routes.

HM, Jr: Why can't the Chinese Government give it to the river?

Mr. Sheahan: They can and do, but only in minor part. The reason is the Defense Consul in Burma also is in control of the railroad and they prefer to use that part of Burma and they have built facilities for storage of supplies along the railway.

HM, Jr: You are looking into that too, aren't you?

Mr. Chen: Yes. Yes.

(At this point, Captain Puleston came in.)

HM, Jr: Captain, sit down a minute. What I would like you to do for me is have Mr. Sheahan go down to your room, and what I would like him to tell you is what the situation was when he left as to traffic; what's going up; where it is, and the tonnage which is going into China. I take it everything is Government now, isn't it? No private tonnage going in?

Mr. Sheahan: Yes, there's private tonnage.

HM, Jr: Well, anything that goes into China and how it gets in. Also, what part is moved by truck, which are controlled by the Government and what part is still done by trucks which are privately controlled. I believe there are still trucks which trucking companies still own.

Mr. Sheahan: Very limited.

HM, Jr: I would like to go into the whole

-7-

thing and see if you can get the picture as it was when he left there. And he has his own ideas as to the solution of what might be done, and the point which I brought out and we cabled for, is they are not using the river from Rangoon up, and I have talked with Mr. Chen about that, and I think we could look into that too. I understand Mr. Sheahan has notes. I think if you could spend as much time -- he will stay here -- until you pump him dry.

Mr. Sheahan; Give you all the information I have.

Captain Puleston: All right. That will be fine.

HM, Jr: All right.

(At this point, Mr. Chen and Mr. Sheahan left the Secretary's office.)

HM, Jr: This fellow, Sheahan, just tried to give me a lot of bunk and filled me up with a lot of stuff and he wasn't talking two minutes when I saw it and I told him that I am trying to help China and he gave me a lot of stuff about 3500 tons. "How much are you moving a day?" "We have got 3,000 trucks." Made a very bad impression on me and I found myself losing my temper, so I sent for you, and I told him I want unvarnished facts; don't want a lot of bunk. Just a waste of time. But he must have stuff and you have read everything that has come through from the Consuls and all that, and I just want you to put that fellow through the wringer and I don't care how tough you are. He looks yellow to me.

oOo-oOo

COPY

No. 61

AMERICAN CONSULATE GENERAL

American Foreign Service, Hanoi, Indochina, March 6, 1940.

SUBJECT: Pack Train Transportation in China.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to report, as of possible interest to the Department, that, for lack of adequate facilities for transportation to China via Indochina, the organization of coolie and pony caravans at points along the frontier is apparently being stressed by the authorities in unoccupied China. Despatch no. 30 of February 12, 1940, from the Vice Consul at Kunming, reported the organization of pack trains for the transportation of tung oil to Hokow and of gasoline on the return trip to Kunming and Ring-I.

In connection with the above report, the following excerpt from a letter to a firm engaged in marketing gasoline in China may be of interest:

"For your information, 1000 mules carrying wood oil are leaving here (Kunming) today (February 15) for Hokow. They are being sent out by the Foreign Trade Commission who think it will take just 12 days for mules to get to Hokow from Kunming, while according to the mule men it will take not less than 21 days. We rather believe the mule men. We are advised that on their return trip these 1000 mules will carry gasoline."

Mr. C. H. Liu of the Foo Shing Trading Corporation informs me that at least a number of the mules will arrive at Hokow on March 8. If the pack train left Kunming on February 15, as reported, the estimate of the mule drivers, that the trip would take about 21 days, is apparently correct. Accordingly, a pack train cannot make a round trip each month.

Mr. Liu states that he has sufficient stocks of gasoline in tins at Hokow to provide for the return load. But he adds that he has no assurance that he can maintain sufficient stocks to provide for future caravans - particularly as the "tupan" of Hokow is creating certain difficulties as to the storage of gasoline at Hokow. Mr. Liu also stated that the Ministry of Communications has instructed him to load tin plate, if gasoline in tins be not available, but laying down stocks of tin plate at Hokow is just as difficult as laying down stocks of gasoline, in view of the shortage of rolling stock on the railway and the uncertainty of obtaining cars. If cars can be obtained for carriage to Hokow, there is no present reason why the cars should not continue to Kunming.

Assuming that each pack train of 1,000 animals is able to make one round trip per month, which is apparently impossible, each train will carry into China approximately 70 tons of gasoline - 2 cases of 2 tins per animal and 30 cases per ton. A large number of pack trains will be required to make the transportation of gasoline by this method of significant importance.

- 2 -

The Standard-Vacuum Oil Company has sold a certain amount of gasoline for delivery at Tralin (near the Chinese frontier about 34 kilometers from Caobang), from which place there is a trail to Tsingtsi, passable only for coolies and ponies. The carriage between Tralin and Tsingtsi is about 1 day and the company expects to develop this route, and from other points in the vicinity, depending of course upon the availability of coolies and ponies. The Asiatic Petroleum Company is understood to be interested in this means of marketing in Kwangsi.

An unconfirmed report has been received that the Chinese National Government has agreed to turn over the N.C.C.L.F. duties to the Kwangsi Tax Bureau. In this same connection, a member of the Kwangsi Import and Export Syndicate is reported to have stated that the Kwangsi authorities will allow the importation of all petroleum products, including kerosene (now prohibited), but that all importations will be made by the syndicate or by the military. In any event, the oil companies are said to be preparing for a resumption of kerosene business.

Respectfully yours,

For the Consul at Saigon,

CHARLES S. REED II,
American Consul.

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

815.4/869

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

329

INTER-OFFICE COMMUNICATION

DATE March 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Purcell of the Securities and Exchange Commission telephoned me this noon. He asked if I was receiving any reports on the British liquidation of vested securities. I replied in the affirmative. He then reminded me of the original arrangement that was agreed upon last autumn, providing that I send on copies to him of the daily reports received from the British.

I told Mr. Purcell that I had not begun providing him with any reports since it was my understanding that an arrangement subsequent to that above mentioned had been reached by the Secretary of the Treasury and the Chairman of the Securities and Exchange Commission, which relieved the former of the automatic provision of copies of the daily reports. It was my understanding that Mr. Frank did not desire to be kept daily informed, but reserved the right to approach the Secretary of the Treasury and request pertinent data, which would be made available only upon the promise of the Chairman of the Securities and Exchange Commission to guard their secrecy. Mr. Purcell told me that he would check with the Chairman. I said that if my understanding was not in accordance with Mr. Frank's idea, then he should communicate with me further. While I have not the notes of the meeting in which I believe this subject was discussed by the Secretary and Chairman Frank, I quote the following excerpt from a letter written to me on December 1 by Pinsent which clearly sets forth the understanding at that time:

"In our discussion at the S.E.C. Mr. Whigham put the position once more to Mr. Jerome Frank as regards the use of the figures regarding the sale of securities which we are to communicate to the Secretary. Mr. Frank said that he would prefer that the figures should not be passed on to him by the United States Treasury, with an understanding however that he could if he wished ask for them at any time and that the Secretary could then make the condition that they should not be used in any way for purposes of publicity. If this position is satisfactory to the Secretary, it is quite satisfactory to us."

From a recent talk with Pinsent, I am positive that the above indicates the procedure which he hopes will be followed.

B. M. F.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

330

DATE March 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The rate for sterling was firmer today, recovering two cents of its recent loss. In New York the opening quotation was 3.89-3/4, and throughout the day it was strong reaching a high of 3.91-3/4 in the late afternoon. It subsequently eased to close at 3.91-1/2.

While the reported turnover given below showed an appreciable excess of sales over purchases of sterling, it must be kept in mind that these figures cover only six reporting banks and do not take into consideration transactions consummated by these banks for their own account or operations conducted by non-reporting banks.

Sales of spot sterling by the six reporting banks totaled £669,000, from the following sources:

By commercial concerns.....	£ 182,000
By foreign banks (Europe, Far East, So. Amer. & Near East)...	£ 487,000
Total....	£ 669,000

Purchases of spot sterling amounted to £358,000, as indicated below:

By commercial concerns.....	£ 314,000
By foreign banks (Far East and South America).....	£ 44,000
Total....	£ 358,000

The following reporting banks sold cotton bills totaling £40,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 21,000 by the Guaranty Trust Co.
9,000 by the National City Bank
9,000 by the Chase National Bank
1,000 by the Irving Trust Co.
<u>£ 40,000 Total</u>

The other important currencies closed as follows:

French francs	.0221-7/8
Guilders	.5314
Swiss francs	.2242-1/2
Belgas	.1691
Canadian dollars	14-3/8% discount

We sold \$2,000,000 in gold to the Central Bank of the Argentine Republic to be added to its earmarked account.

We purchased \$350,000 in gold from the earmarked account of the Central Bank of Chile.

The Federal Reserve Bank of New York reported that the Swiss Bank Corporation, Zurich, shipped \$3,113,000 in gold from Switzerland for its own account to the Swiss Bank Corporation, New York, for sale to the U. S. Assay Office.

The State Department forwarded to us a cable stating that the Banque Federale, Bern, shipped \$170,000 in gold from Switzerland for its own account to the National City Bank of New York, for sale to the U. S. Assay Office.

Including the two shipments noted above, the total value of gold en route to the United States from foreign countries as of the close of business tonight is \$114,088,000, the disposition of which is to be as follows:

\$ 43,197,000	consigned to the Federal Reserve Bank of New York-- disposition unknown at the present time.
28,552,000	consigned to the Federal Reserve Bank of New York-- to be earmarked for account of various foreign central banks.
21,374,000	for sale to the U. S. Mint at San Francisco.
<u>20,965,000</u>	for sale to the U. S. Assay Office at New York.
<u>\$114,088,000</u>	Total

It is interesting to note that \$39,629,000 of the gold en route is consigned to the Federal Reserve Bank of New York for account of the Bank of Sweden; of this amount, \$33,393,000 was shipped from Sweden, and the remaining \$6,236,000 is coming from South Africa.

The U. S. equivalent of the Bombay silver quotation advanced $1/8\phi$ to 41.57 ϕ .

In London, the spot and forward fixing prices for silver were both up $1/8d$. at 21-1/16d and 20-15/16d respectively. The U. S. equivalents were 36.95 ϕ and 36.47 ϕ .

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

We made five purchases of silver totaling 500,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.

CONFIDENTIAL

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

332

DATE March 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

I talked with Mr. Pinsent at 11:25 today. He stated that British sales of vested securities for yesterday, March 6, were:

9,600
405,284
Nil
Nil

I asked Mr. Pinsent if he had any direct word as to new regulations, as intimated by the Press, in regard to the clearing up of any indebtedness on registered securities before they are turned over to the Government. He said that he had nothing new. It was his understanding that the Government desired to receive perfectly clean title to vested securities and required, therefore, that any liens thereon be paid off before surrendered to the Government. To clear the title to vested securities, the practise evidently is to sell, if possible, non-vested securities with the dollar proceeds whereof the indebtedness on the vested securities could be paid off. In some instances, the holder may not have any assets other than the securities, so the Government might be obliged to give permission for the sale thereof by the holder, and the Government simply take the margin between the sale price and the mortgage on the security.



TREASURY DEPARTMENT

333

INTER-OFFICE COMMUNICATION

DATE March 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

I have talked this noon with Mr. Reber, formerly Secretary of our Embassy in Rome, who is now in the Department of State in charge of the Italian desk, and with whom I talked yesterday, along with Messrs. Dunn and Hickerson. Reber told me that nothing new had been received on the Anglo-Italian coal controversy since I talked with them yesterday. Consequently their opinion of the situation remains unchanged. Reber promised to call me back if anything further reached the Department of State before 2 o'clock this afternoon.

To summarize, my friends in the Department of State feel that the difficulties will be compromised. Of Italy's 13,000,000 tons of coal per year, Germany has heretofore been supplying 9,000,000 tons and England 4,000,000. About 6,000,000 tons of the German coal have been transported by rail, but Germany has not now rolling stock facilities to transport coal in such volume to Italy.

The British feel that the Italian position is quite weak. That is, she must either obtain an insufficient quantity of coal by rail from Germany or look to England therefor. While the British state that they have no objection to the Italians obtaining coal in the United States or Belgium, they are aware that freight rates from the United States are prohibitive, and that Belgium probably could not provide the necessary coal, even if some basis for payment or barter could be arranged. The British are willing to accept payment for their coal to Italy in sterling, knowing that the Italians have not the necessary sterling, or in goods. If, however, they are to accept payment in goods, they reserve the right to specify what these shall be, namely, airplane engines, armaments, etc., with perhaps some materials for uniforms. Controlling the Suez and Gibraltar, Great Britain controls Italy's important routes for the importation of the raw materials required for Italian manufacturers. It is presumed that the British, through their Intelligence service in Italy, are satisfied that the Italian economic position is so weak, particularly with respect to fuel and raw materials, that they will be forced to abide by the British decision. Even though my State Department friends are convinced that Italy is waiting to see who will be the winner of the war before taking sides definitely, they do not feel that this incident will be enough to provoke her immediate entry on the side of Germany.

My friends pointed out that the concentration of British and French troops near the Suez, with South African troops moving into Kenya, provides a formidable threat to Italy. Libya could be taken over with comparative ease, according to at least one observer in the State Department, and Italy's communications with her African possessions seriously hampered.

In addition to talking this noon with Mr. Reber, I also spoke with Livesey. The latter looks for no immediate break between England and Italy over the coal problem. It is his impression that the Italian press has not played up this issue as dramatically and dangerously as it has sometimes been permitted to do when real action was planned on Italy's part. Livesey is of the opinion that Mussolini wants to maintain peace and will not take any hasty step now. He will, however, through his public statements and exchange of notes with the British, build up the position of Italy as a neutral, showing the manner in which she is being throttled by Great Britain, particularly as a result of this country's violation of international laws set up to protect neutrals, and as a consequence of British domination of key positions such as Gibraltar and the Suez. These are the points on which German protests have been loudest. Italy should, therefore, if she remains a neutral, claim a seat at a peace conference where other neutrals might gather with the belligerents, and there seek some alleviation from the dominance of Great Britain against which she now complains.

A handwritten signature in dark ink, appearing to be 'H. M. S.', is centered on the page below the typed text.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 6, 1940, 5 p.m.

NO.: 560

FOR SECRETARY MORGENTHAU.

FROM BUTTERWORTH.

Reference is made to your telegram of March 5, No. 416.

In the Air Ministry, Sir Henry Self is the First Deputy Under Secretary of State. As such, he is civil servant No. 2 in the Ministry.

Sir Henry was sent to the United States recently to act in an advisory capacity to the office of Mr. Purvis for a temporary period. He is to act mainly in resuming negotiations with the American aircraft industry, in cooperation with the French.

JOHNSON.

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

March 6, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of confidential telegram No. 560 of March 6 from London.

TO THE SECRETARY
LEGATION WASHINGTON
DEPT. OF STATE

MAR 8 2 44 PM '40

RECEIVED
GENERAL



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

337

March 5, 1940

MEMORANDUM FOR THE SECRETARY

At a luncheon meeting today at which were present, in addition to the Secretary, General Arnold, Chief of the Army Air Corps; Admiral Towers, Chief of the Bureau of Aeronautics, Navy Department; and Captain Collins, General Arnold stated that the cost of airplanes to the Army had increased during the past year. Admiral Towers stated that the Navy had not had a similar experience and that, considering the improvements in the art in the manufacture of planes, as well as the additional horsepower that had been developed in engines, he felt that the prices being paid by the Navy did not indicate an increase when compared with those paid for planes last year.

General Arnold stated that in going over the cost statements of some of the companies with which the Army had contracts an increase from 4% to 48% had been indicated in their profits. The Secretary pointed out that the operation of the Vinson-Trammell Act restricted profits to 12%, and General Arnold then explained that the Vinson-Trammell Act, insofar as the Army was concerned, did not become effective until the beginning of the fiscal year 1940 and that the reference was to the fiscal year 1939.

The Secretary then asked if, since the meeting of yesterday afternoon, there were any suggestions to be offered as to where 150 pursuits and 36 bombers might be had for the Government of Finland. Admiral Towers stated that the Navy had already released 44 planes to the Government of Finland from their contract with the Brewster Company, and the Secretary stated that it was doubtful if there could be logically sustained a further release of pursuits to the Government of Finland from the same company. In this Admiral Towers concurred. Admiral Towers further stated that they had no contracts for 2-engine bombers.

General Arnold stated that the Army had no existent contracts for any P-36 pursuits and that deliveries under an existing contract with the Curtiss Airplane Company for the P-40 pursuits, if delivered in their entirety to the Government of Finland, would not provide 150 ships in time to be of any use to that Government. As it did not appear possible to divert any deliveries presently being made to the Army, it was concluded that the only source from which Finland might obtain 150 pursuits, as well as 36 twin-engine attack bombers, was from existing French contracts. The Secretary is to take this up with representatives of the French Air Mission.

The Secretary asked Admiral Towers if there was any company which Navy would particularly like to see have business awarded to it for the purpose of developing a defense reserve, and Admiral Towers replied that they would appreciate anything that might be done to build up the Grumman Company. General Arnold made the same recommendation concerning the Boeing Aircraft Company at Seattle.


H. E. Collins
Chairman, Liaison Committee

March 6, 1940

MEMORANDUM FOR THE SECRETARY

At a luncheon meeting today at which were present, in addition to the Secretary, General Arnold, Chief of the Army Air Corps; Admiral Towers, Chief of the Bureau of Aeronautics, Navy Department; and Captain Collins, General Arnold stated that the cost of airplanes to the Army had increased during the past year. Admiral Towers stated that the Navy had not had a similar experience and that, considering the improvements in the art in the manufacture of planes, as well as the additional horsepower that had been developed in engines, he felt that the prices being paid by the Navy did not indicate an increase when compared with those paid for planes last year.

General Arnold stated that in going over the cost statements of some of the companies with which the Army had contracts an increase from 4% to 48% had been indicated in their profits. The Secretary pointed out that the operation of the Vinson-Trammell Act restricted profits to 12%, and General Arnold then explained that the Vinson-Trammell Act, insofar as the Army was concerned, did not become effective until the beginning of the fiscal year 1940 and that the reference was to the fiscal year 1939.

The Secretary then asked if, since the meeting of yesterday afternoon, there were any suggestions to be offered as to where 150 pursuits and 36 bombers might be had for the Government of Finland. Admiral Towers stated that the Navy had already released 44 planes to the Government of Finland from their contract with the Brewster Company, and the Secretary stated that it was doubtful if there could be logically sustained a further release of pursuits to the Government of Finland from the same company. In this Admiral Towers concurred. Admiral Towers further stated that they had no contracts for 2-engine bombers.

General Arnold stated that the Army had no existent contracts for any P-36 pursuits and that deliveries under an existing contract with the Curtiss Airplane Company for the P-40 pursuits, if delivered in their entirety to the Government of Finland, would not provide 150 ships in time to be of any use to that Government. As it did not appear possible to divert any deliveries presently being made to the Army, it was concluded that the only source from which Finland might obtain 150 pursuits, as well as 36 twin-engine attack bombers, was from existing French contracts. The Secretary is to take this up with representatives of the French Air Mission.

The Secretary asked Admiral Towers if there was any company which Navy would particularly like to see have business awarded to it for the purpose of developing a defense reserve, and Admiral Towers replied that they would appreciate anything that might be done to build up the Grumman Company. General Arnold made the same recommendation concerning the Boeing Aircraft Company at Seattle.

HHC:ga

H. E. Collins
Chairman, Liaison Committee

With best regards

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Yours sincerely,

HJ.-J. PROCOPE

*Envoy Extraordinary and Minister Plenipotentiary
of the Republic of Finland*

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Approved 3-6-40
(Requested at meeting
in Secy's office
Confidential 3-5-40)

Commitments of The Finnish American
Trading Corporation as per March 6, 1940.

Purchases closed total	\$8,094,386.33
In negotiations	<u>\$1,436,000.00</u>
	<u>\$9,524,386.33</u>

Shipments made (this is included in purchases closed)	\$3,148,855.00
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Confidential

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Value of Main items purchased by
The Finnish American Trading Corporation until end of February

<u>Items</u>	<u>Value</u>
Steel, Copper, Iron and Aluminium	\$1,143,850.00
Lard	\$ 915,122.00
Cotton	\$ 351,660.00
Oats	\$ 187,500.00
Peas	\$ 225,240.00
Soap	\$ 90,000.00
Wool	\$ 14,095.00
Corn	\$ 210,000.00
Oil	\$ 47,750.00
Gasolin e	\$1,023,000.00
Soyabean Oil	\$ 185,000.00
Chemicals	\$ 147,483.00
Trucks, Tracktors and Parts	\$1,822,000.00
Duck ^s	\$ 145,527.00
Tires	\$ 56,224.00
Lathes	\$ 25,000.00
Machinery	\$ 225,736.00

Confidential

Some civilian commodities which Finland
might buy during the next 6 months.

-----▲-----

Rye
Wheat
Oats
Pure Lard
Peas
Fruits, spices, tea, cocoa
Cotton
Tractors
Copper Rods
Gasolene
Oils
Soyabean Oil
Wool
Trucks
Telephone Wire
Soap
Different kinds of machinery
Different kinds of clothes and shoes
Fertilizers

The above mentioned list is neither accurate nor complete and to indicate quantities and values is for the time being impossible. A calculation made in October last year concerning civilian commodities to be bought from this country during six months gave an estimated value of 15 to 20 million dollars.

MEMORANDUM - concerning the most urgently-needed military commodities for the Finnish Government -- approximate calculation.

Group I. Commodities for which contracts have already been signed:

	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Later</u>
Different implements of war ammunition	\$818,100				
3.5 m Stokes mortar shells	435,000	\$60,807	176,412	244,034	
15 lb ammunition from Winchester	1,822,000	678,000			
Chain links	4,800	5,120	6,400	5,120	3,880
Shells for torpedo boats	440,000	180,000	100,000		
Shutter forms for concrete		12,000			
	3,519,800	935,927	282,812	249,154	3,880

Group I Total 4,991,573

Group II. Commodities for which contracts are expected to be signed:

	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Later</u>
3.5 m field gun shells	\$1,150,000	250,000	700,000	200,000	
Shells	400,000	400,000	400,000	400,000	monthly
Shells	300,000	300,000	300,000	300,000	300,000
Machine gun barrels	148,750		148,750		
Machine gun ammunition		52,500	94,400	80,800	
Shells for torpedo boats	206,000	137,000	137,000	137,000	
Parachute flares	20,000				
Accessories for airplanes	32,000				
Cartridges for airplanes	115,000				
Parachute seats for airplanes	8,000				
Seats for airplanes	5,000				
Propellers for airplanes	24,000				
	\$2,408,750	1,139,500	1,780,150	1,117,800	300,000 monthly

Group I and II 5,928,550 2,075,427 2,062,962 1,366,954

Group II Total 6,446,200

GRAND TOTAL \$11,437,773

Regarding airplanes, the Legation is negotiating for 150 Pursuit planes and 36 light Bombers to a value of approximately \$13,000,000 (equipment and spare parts included) which must immediately be available for the opening of Irrevocable Letter of Credit, if the deal can be made.

March 6, 1940
10:31 a.m.

HMJr: Hello.

Edward R.
Stettinius: Hello, Mr. Secretary.

HMJr: How are you?

S: I'm fine, sir. Glad to hear your voice.

HMJr: Mr. Stettinius, if you have time I'd like to gossip a little bit with you.

S: Sure.

HMJr: I wondered if you'd care to tell me, just for myself and the President, nobody else, how things -- how -- how the orders are coming in right now and how far ahead you can see as far as your own business goes and then as far as the industry goes.

S: Right. Well, the incoming orders this week were disappointing.

HMJr: I see.

S: Down under -- under forty percent.

HMJr: I see.

S: They hopped up about two weeks ago, they came -- they were pretty good, started to come back a little bit and then they dropped down again.

HMJr: Yeah.

S: Now, -- that's number one. The orders are disappointing. We still have a backlog, speaking of our own company only, of something approaching 2 million tons.

HMJr: Yeah.

S: In reviewing -- in checking up with the fellows in the field on the firing line, the general sentiment is that we're scraping bottom now.

HMJr: By that you mean it can get no worse.

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- S: It -- they don't think -- they don't feel it's going to get any worse and then the general morale of the sales organization is that in the course of the next three or four weeks things in the steel industry will turn up.
- HMJr: I see.
- S: Now, that -- that's a very, very fresh, quick reaction that I have obtained in the last few days from the field.
- HMJr: I see.
- S: I think -- I think our fellows are a little bit -- feel a little bit more confident of an early turn than the general business world does.
- HMJr: I see. But they -- they think things might pick up in three or four weeks.
- S: Yes, that the -- that there is some railroad buying and the auto -- the spring automobile business is going to be good, the canning business is holding up, and of course we are beginning to get some very substantial increase from abroad.
- HMJr: Are you really?
- S: Yeah. Nothing in very large tonnage but the indication is that they might begin to make some substantial purchases.
- HMJr: I see. What kind, because I -- I haven't realized -- I mean, that there's.....
- S: Well, there's a great deal of interest in -- in ingot, -- that is, the raw steel; not pig iron but the raw steel in ingot form for re-rolling.....
- HMJr: I see.
- S:on the other side.
- HMJr: I see.

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S: And there's interest that's -- the stock for shell steel.

HMJr: I see.

S: And miscellaneous items.

HMJr: I see.

S: But that isn't -- that isn't on the books, but the -- the general impression of our export fellows is that the buying in the second quarter of this year is going to be more substantial than the first quarter.

HMJr: Well, as you know, or may or may not know this -- what I call professional economists connected here with the various departments are all very pessimistic. Hello? Hello?

S: Yes, sir, I'm listening.

HMJr: And I'm not as pessimistic as they are.

S: Yeah.

HMJr: And I figured that your business, which touches so many different industries, that I could get a pretty good cross-section of the country.

S: Well, I think that -- I think that's true.

HMJr: And what I'd like to do - I'd like to call you up again in about a week.

S: Fine.

HMJr: And then maybe you could see a little bit further ahead.

S: Sure.

HMJr: And....

S: Well now, I tell you, a good -- a good time would be Tuesday.

HMJr: Tuesday?

S: Tuesday afternoon, for us to have a chat because that's when the figures are fresh.

HMJr: All right.

S: And I think they would mean a little bit more than than they do -- than they would later in the week.

HMJr: I'll call you Tuesday afternoon.

S: Yeah, we have a finance committee, but you could call me, say, around about three-thirty on Tuesday afternoon, then I could give you an up-to-the-moment flash.

HMJr: Well, I'll call you when, you say?

S: About three-thirty on Tuesday.

HMJr: Well, I'll try that.

S: If that's -- if that's convenient, and of course if it isn't, any other time.

HMJr: Well, is that before or after your meeting?

S: That's after the meeting.

HMJr: After your meeting.

S: Yeah, because you see I get -- I get sometimes the feel in the meeting that I'd like to give you the benefit of.

HMJr: And that's that. They've tried -- you'd be interested, they've tried to get me to get into this thing, the steel mill for Brazil.

S: Yeah.

HMJr: But I mean, interest myself.

S: Yeah.

HMJr: But you people have turned that down, haven't you?

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- S: Well, Mr. Secretary, we -- we didn't slam the door on it. We -- we told them that -- very politely -- that we'd do everything that we could to bring it about, but that we couldn't risk our own capital or we couldn't take the sole responsibility of management.
- HMJr: Well, I.....
- S: Those -- those are the only -- those are the two important points.....
- HMJr: Well, I.....
- S:confidentially, that we made to them.
- HMJr: Well, I wrote Mr. Hull last night that I've got too many things and he had better ask somebody else to take it on.
- S: Yeah.
- HMJr: But I'm not going to take it on.
- S: Well, I think -- I think you're wise because that's pretty -- pretty indefinite situation.
- HMJr: Well, it is, and particularly with the debt thing so much up in the air.
- S: That's right.
- HMJr: And -- but I just -- well, I'm going to call you again Tuesday afternoon.
- S: Yeah. How -- how's the President?
- HMJr: He's fine.
- S: He really got -- he got rested?
- HMJr: Oh, yes, he's -- he's in fine shape.
- S: Oh, that's fine.
- HMJr: Yeah.

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- S: Well, anything I can do at any time, you let me know.
- HMJr: Well, while the thing seems to be so much up in the air -- business so uncertain, I would like to keep in touch because I -- I have -- my own feeling is along the line that the next two or three weeks will tell the story - whether it's going to get better or worse.
- S: I think that's true. I think in another three weeks we'll know definitely as to whether it's going to be long-extended or short.
- HMJr: Righto. Thank you so much.
- S: Goodbye.
- HMJr: Goodbye.

March 6, 1940
10:40 a.m.

HMJr: Hello.

Arthur
Purvis: Hello.

HMJr: Hello, Mr. Purvis.

P: Good morning, Mr. Secretary.

HMJr: How are you?

P: Very well, thank you.

HMJr: I was given a difficult assignment yesterday by the President.

P: Oh, yes?

HMJr: .And I'm coming to you for help.

P: Yes, sir.

HMJr: Mr. Procope, the Finnish Minister, saw the President on Sunday.

P: Yes.

HMJr: And Finland wants, right away, 150 modern pursuit planes like the Curtis P-36.

P: I see.

HMJr: And they want 36 two-engine light bombers, either like the Martin or like the Douglas.

P: Martin or Douglas, yes.

HMJr: Now, I went over the situation yesterday with Admiral Towers and General Arnold.

P: Yes.

HMJr: And we just haven't got anything, so the only -- I mean, we've given them -- we've released 43 Brewster planes to them once.

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P: Yes.

HMJr: But there's just nothing that the Army and Navy have got.....

P: Oh, I see.

HMJr:which we could release, so the thing gets down to the question of whether the French Government wants to release those or not.

P: Yes.

HMJr: Now, all I'm doing is -- is putting it up to you.

P: Exactly.

HMJr: And I'm going to ask you whether you would phone this to Mr. Monnet.

P: Yes.

HMJr: Or get it to him in any way that you have of getting it to him very fast.

P: Yes.

HMJr: I take it he would be the person, wouldn't he?

P: He'd -- well, what I'd like to do.....

HMJr: Yes.

P:if you feel it's all right, is this: I have lunching with me today Pleven, Self and Jacquin.

HMJr: Yes.

P: And I think if we could -- if I could leave it until that time -- they're up town at the moment.

HMJr: Oh, yes; oh, surely.

P: And then we could work on a plan of action and as Pleven is just over from the other side, the possibilities of the situation would be more apparent to him, I dare say.

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HMJr: Yes.

P: He will also know how Monnet is thinking, and how they are thinking opposite the Finns.

HMJr: Well, in any event, if you could sort of give it a little precedence.

P: I will.

HMJr: And then when I see you tomorrow.....

P: Yes.

HMJr:maybe you'd have some word for me.

P: I'll endeavor to get it by then and I'll try and get it before. If you really wanted it, I'd really go right at it now, but I think it might be better if I can leave it until lunch.

HMJr: No.

P: We'll get along better, I think.

HMJr: No -- and -- I mean, if you have a -- a definite answer before tomorrow, give me a ring.

P: Exactly.

HMJr: But if you're going to turn me down I can wait until tomorrow.

P: (Laughs) Well, you know where my sympathies will lie. I saw the Finnish Minister just as I left there yesterday and I must say my -- I know where my instincts are.

HMJr: Well, I want to make it very clear. This is a suggestion and not a request, if you know the -- if you get the difference, you see?

P: Yes, I know.

HMJr: I mean, I don't want you to feel that.....

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P:it has to be done.

HMJr: It isn't what we call a "must".

P: No.

HMJr: M-u-s-t.

P: Well, I mean, I am glad to know that because it -- I know that the -- the trouble of course with this whole situation is that the next two months or three months for everybody.....

HMJr: That's right.

P:is the acute time.

HMJr: Well, I made a survey and there isn't any other place to go.....

P: No.

HMJr:for them.

P: Exactly.

HMJr: And you might be interested in this: I asked our Army people and I said, "Well, why don't they go to Italy?"

P: Yes.

HMJr: And they said, "Well, the question -- they understand," -- I mean this is -- our people say that if they go to Italy, Italy in turn wants raw materials and they can't give it to them, that is the Finns.

P: Oh, I see.

HMJr: You see?

P: Yes.

HMJr: They can't -- they have no way of getting it to them.

P: No, exactly.

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- WJr: So I guess it really gets down that either you people decide that you will release them and can, and that the Finnish frontier is important enough to do it, or else we'll just have to tell them they can't get them in the United States.
- P: Yes, exactly.
- WJr: You see?
- P: Well now, let me go right into it, Mr. Secretary.
- WJr: Now, while I have you I want -- two other things. One thing, if you could tell me tomorrow what your mission has in mind in regard to the purchase of steel or steel -- or any form of steel for the next month or two.
- P: Yes.
- WJr: I -- I'd like to know. I don't know whether you're considering anything or not.
- P: Well, as a matter of fact, we haven't been because there was a very big purchase of steel earlier on but I think there's something in the I'll -- I'll get that up anyway.
- WJr: And a third and last thing. Think this one over - look, when you get down your preliminary talks with the aircraft industry.....
- P: Yes.
- WJr:I'm making the suggestion that I don't see why you don't do it in your New York office. You see?
- P: New York office?
- WJr: Rather than here in Washington.
- P: I think -- yes, I think you're right.
- WJr: There's less -- New York is a much bigger place.
- P: Exactly.

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HMJr: There are less gossips.

P: Exactly.

HMJr: And when you get something it will be time enough for Collins to sit in after you've had your preliminary talks.

P: Yes.

HMJr: I don't see why Collins should sit in in the early stages.

P: No, I -- I think that's right. I think that's quite right, Mr. Secretary. I can bring that about.

HMJr: I mean, I don't see why it's necessary -- I mean, his services are available after you have more or less formulated a plan.

P: Exactly.

HMJr: But there's so much gossip down in -- it's like any other capitol.

P: Exactly. As a matter of fact, it could -- it could result in something that would be undesirable.

HMJr: Yes, and -- and you can have the aircraft people come to your office in New York.....

P: Exactly.

HMJr:on the preliminary talks and I think make progress faster.

P: Well, that -- that frankly, I was even going to suggest -- ask you whether that was acceptable, because I believe it's the proper way to do it and then come to you -- to Captain Collins and/or if necessary to you only when there's something that we really want to get your thought or help in.

HMJr: I think so.

P: Yes.

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HMJr: We seem to agree on most things.

P: (Laughs) All right. Thank you, Mr. Secretary.

HMJr: Goodbye.

P: Goodbye.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Purvis spoke with me by telephone at 5 o'clock this afternoon. He had talked with Mr. Plevin in regard to the question of possible release of planes to meet Finland's request. Plevin, who has just returned from France and is entirely familiar with the subject, said that this matter of supplying planes to Finland has been debated extensively by the Supreme War Council. Plevin was convinced that Monnet could do nothing in the premises. He would be injecting himself into a much bigger issue than that of coordinating purchases. Plevin feels that the French Government opinion is that they have already done everything that they can in the way of providing planes for Finland, and that the help already granted along this line has been very important. The needs of the Allies themselves, particularly during the next few dangerous months, must be the controlling factor in any decision as to distribution of planes.

Plevin thought it was hopeless, therefore, to ask Monnet to get into this matter of higher international politics and military strategy. Purvis discussed this matter at great length with Plevin, but in view of the latter's confirmed opinion, has not communicated with Monnet himself. It was the opinion of Purvis and Plevin that the only intervention which might be effective now would be for some powerful individual, such as Welles, to make the appropriate representations in Paris. I told Mr. Purvis that I would communicate this information to the Secretary this evening. I added that I had discouraged Minister Procope from going to New York to see Purvis, but that the Minister might seek to talk with Purvis tomorrow in Washington.

At the end of our conversation Purvis regretted that he had to report another disappointment with the Hercules people. At a meeting of the Directors today, according to a message just telephoned from Wilmington, the decision had been taken to refuse to accept a closing agreement. Mr. Purvis will speak to the Secretary on this point Thursday.



STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE March 6, 1940

TO Secretary Morgenthau
FROM Mr. Gochran



In response to my telephone message of yesterday afternoon, Mr. E. P. Chen came to the Treasury this morning to see Commander Thompson, and the two of them then visited me.

Mr. Chen minimized the importance of this one luma shipment of wood oil. He was sure this was oil which had been smuggled out of China from small ports enjoying no railway connections and into which it had been carried by coolies. He has cabled his people to make an effort to stop the smuggling, principally through offering to buy up the wood oil at these small ports.

Mr. Chen did not think there was any chance of competition arising through the sale in this country of other oil smuggled out from China, so his price could not be broken. On the contrary, he does not mind one bootleg shipment like this which relieves the American trade from the feeling that it is in the hands entirely of the Universal Trading Corporation's monopoly of the Chinese wood oil trade.

At 12 o'clock I telephoned Mr. Fenfield in the Far Eastern Division of the Department of State, to let him know that Mr. Jacques Maguire, upon whom the State Department has an espionage dossier, is now in Hong Kong as Vice President of the United American Asiatic Corporation of New York, and has made one commercial shipment from Hong Kong to New York.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 6, 1940.

TO Secretary Mergenthau
FROM Mr. Haas *HA*
Subject: United States Savings Bonds

Sales of Savings bonds have recently been attaining record high levels. The cash proceeds of such sales amounted to \$418 millions in January and February of this year, as compared with \$214 millions in the corresponding months of last year. This money costs approximately 2.90 percent and comes in a flow which cannot be directly regulated to fit in with the cash demands of the Treasury.

I. Distribution of Savings Bonds

Savings bonds, as I recall, were originally designed primarily in order to secure a wider distribution of the public debt, and so stimulate a more widespread interest in the fiscal affairs of the Federal Government. In actual practice, however, the great bulk of sales (in terms of value) have proved to be rather concentrated. Over the entire period from the commencement of sale of the bonds on March 1, 1935, through November 30, 1939, 68 percent of all sales (based on face amount) were in the \$1,000 denomination -- the largest available. There are no data available prior to the year 1939 on the proportion of bonds sold to persons purchasing the legal limit of \$10,000. During the first eight months of 1939, however -- the only period for which such data are available -- 42 percent of all Savings bonds sold (in terms of face amount) were purchased by persons who bought the full legal limit.

It appears, therefore, that the original objective sought in offering Savings bonds for sale might be as well accomplished and the Treasury spared the necessity of borrowing a substantial amount of high-cost money, often at inconvenient times, if the amount of Savings bonds permitted to be purchased by any one person were drastically reduced. The new limit might apply either to the amount of bonds purchased in a single calendar year (as at present), or to the total amount held by one person, irrespective of the year in which purchased.

II. Interest Rate on Savings Bonds

When they were first offered, Savings bonds were priced approximately in line with other Treasury securities (although, it should be noted, that their complete liquidity really made them

Secretary Morgenthau - 2

much more attractive than Treasury bonds, even at that time). Since then, the yield on ten-year Treasury bonds has fallen by about $3/4$ of 1 percent, making Savings bonds tremendously more attractive than other Treasury securities of comparable maturity. (See the accompanying chart.)

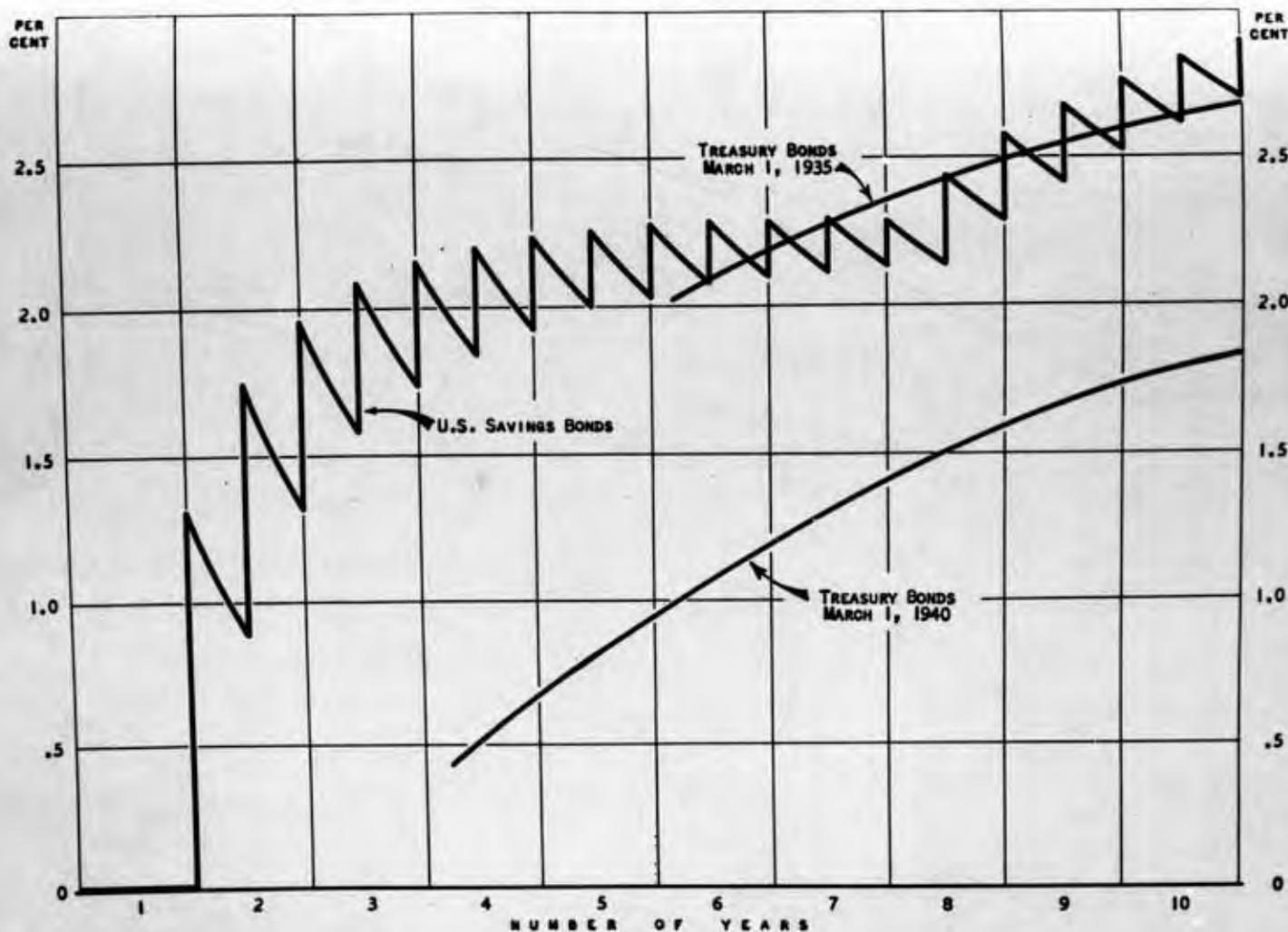
The present wide differential between the rate obtainable upon Savings bonds and on other market securities is probably necessary to assure their widespread distribution to small savers. Small savers can secure a return of from 2 to 2-1/2 percent from the Postal Savings System, from mutual savings banks, or from many commercial banks, and may secure an even larger return from insured building and loan associations. These rates are available even on funds left for only short periods — six months generally suffices to receive the full rate. If Savings bonds are to continue to receive a widespread distribution among small savers, they must bear a rate high enough to compete with these alternative opportunities. It is not recommended, therefore, that their present rate of return be cut drastically.

It is suggested, however, that the schedule of "step-ups" in the values of hereafter issued bonds should be revised so as to give the Treasury greater assurance that it is really borrowing ten-year money and not selling bonds which will be turned in for redemption earlier if interest rates rise.* This might be accomplished if a portion of the return were put in the form of a special "maturity bonus" rather than spread out over the life of the bonds. A precedent for this may be found in the case of War Savings Stamps where 29 cents out of the total enhancement in value of 85 cents (over a period of five years and on a \$5 stamp) occurred in the final month.

Attachment

* This danger, it should be noted, applies principally to bonds purchased by the larger investors. There would be little loss, however, in terms of the original objectives of Savings bond sales, if small savers also, who only intended to hold the bonds for short periods, were discouraged by the proposed revision.

INTEREST YIELD ON U.S. SAVINGS BONDS COMPARED WITH THAT ON TREASURY BONDS



Chaunoy

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March 6, 1940

My dear Mr. President:

In acknowledging the receipt of the report of purchases under the Silver Purchase Act of 1934, from June 19, 1934 to February 15, 1940, may I express to you, and ask that you communicate to your assistants, my genuine appreciation of the promptness and thoroughness with which your institution has compiled this comprehensive and valuable record.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

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

HMC:ano

H. M. S.

March 6, 1940

5:10 pm

Present:

Mr. Foley
Mr. Sullivan
Mr. Ireys

HM, Jr: Ed, here's the last chapter in the Indiana case.

I just had a long conversation with Eddie Greenbaum. Jerome Frank calls him up and says, "I am sending a man up to see you tomorrow morning. Will you see him?" Eddie said, "Yes. What's his name?" He says, "Fowler Harper." He does not tell him what it is about. He had no idea what it's about.

So Fowler Harper came in this morning to see him and said he had been trying to see me but couldn't. Said he saw Sullivan, but he did not know whether Sullivan had passed the story along to me.

Mr. Foley: Has he ever asked to see the Secretary?

Mr. Sullivan: Oh, yes!

HM, Jr: So Eddie said, "Knowing Sullivan as he does, he knew he had passed it on."

So I said we have an organization here in the Treasury known as Internal Revenue, which makes investigation when we think there is criminal tax evasion and this organization is working now, and the man for Mr. Elder to see, if Mr. Elder wants to talk, is our representative in Indianapolis. That's just what he did not want to do, because of

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certain political implications and that they had given money, which was nothing illegal, but they had given \$10,000 to Thomas Corcoran to be used in New York for the election of Congressman Fay.

Mr. Foley: Who said this?

HM, Jr: Harper Fowler said this to Eddie. I said, Well, I had heard the story, but the last time I heard it, it was \$25,000 and I said that Corcoran had so reported the story to Sullivan, but I had discussed it with you, Foley, and you did not seem to be bothered about it.

Mr. Foley: He has never mentioned it to me, but John told me.

HM, Jr: So I said, I can't help it. I don't know whether it is true or not, but supposing I did see him and he told me this -- then what?

Mr. Foley: What of it?

HM, Jr: What would I do then? So Eddie pressed me a little bit to see this man. I said, "Wait a minute, Eddie. Let's get this straight. I am very much upset to think Jerome Frank would send this man to you in the first place and, in the second place, Sullivan did tell me about it and Sullivan told Mr. Fowler, at my request, that I would not see him.

Mr. Sullivan: I gave him a verbatim report.

HM, Jr: The whole business? That you tell Fowler Harper he should keep his nose out of this?

Mr. Sullivan: I told him, in your words, "as a friendly tip, consider the door closed and let it drop".

HM, Jr: After I convinced Greenbaum that, first, I did not like this business and, second, I would not see Fowler Harper, I would not see

-3-

Elder, that the person to talk to was Sullivan in Indianapolis, and that Eddie would tell Mr. Harper, make it very clear to him that he, Mr. Greenbaum, did not want to have anything more to do with Fowler Harper. The thing I don't like about this whole business is that Jerome Frank sends this fellow to Greenbaum and I, to put it very mildly, it's about the worst taste I have ever heard of. So there she is! I don't like it at all. Do you?

Mr. Foley: No.

HM,Jr: And I am very much upset about it. Can you see any possible excuse why I should change my position?

Mr. Foley: About seeing Elder?

HM,Jr: About seeing Elder or anybody. I never have before. The matter is in the hands of Robert Jackson now anyway. All the evidence, all the stuff is over there and it's up to Jackson to decide whether he is going to have the man in Court or not.

Mr. Irey: Did the last report go over to the Justice Department?

Mr. Foley: No. I have not sent anything to Justice. I got a reply to that letter from Clark.

Mr. Irey: I sent a copy of the memorandum to Ed that I sent to you.

HM,Jr: I read it all last night.

Mr. Foley: I have seen it. I have been over it. I spent three hours on it.

HM,Jr: What did you do with it?

Mr. Foley: I wanted to talk to you. I

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have not replied to the letter Sam Clark sent to me yet and I think that's the next thing to do.

Now, so far as that stuff that came in this morning, I must say I am a bit disappointed. I think if that's all there is to support it, it isn't going to convince the Department of Justice.

HM, Jr: Well, you (Irey) might as well tell him what I told you three-quarters of an hour ago.

Mr. Irey: The Secretary told me the very same thing that you just said.

HM, Jr: I sent for Irey.

Mr. Irey: Almost the same words.

HM, Jr: That's why the whole thing has upset me so. I had Irey in three-quarters of an hour ago.

Mr. Sullivan: I was with Mr. Foley, Mr. Kades and Mr. Leming about an hour of the three hours they went over it and my reaction was the same.

HM, Jr: But I told Irey I would not say anything until I let Ed Foley make up his own mind.

Mr. Foley: I checked it against the testimony, you see, before Sullivan on the 14th and the thing that struck me, Elmer, is that his conclusions in that letter to you are not borne out by the testimony before him on the 14th. Now, I will show you

Mr. Irey: I would like you to show me,
Ed.

Mr. Foley: They just don't stand up.

Mr. Sullivan: Specifically, I can give you

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one, Elmer. You remember there was some testimony

HM, Jr: Gentlemen, I am very, very tired and this thing has hit me kind of low, because I don't like all this back-door stuff. My God! For Jerome Frank and people like that, don't know, don't have the judgment to know when to put the pressure on -- but that's my job. But I think, in view of what's happened and everything and you fellows have spent the time, I think you had better have a conference first and let Mr. Helvering read that thing.

Mr. Ireys: He has read it.

HM, Jr: And then have meetings. But I told Elmer my own reaction, but I did not want to prejudice

Mr. Foley: You and I have not talked all day and I did not get it until this morning.

HM, Jr: I thought it was a wash-out.

Mr. Ireys: We can have a session with Mr. Helvering, the four of us, without bothering you.

HM, Jr: I think you should. If that's all we have got, well, it just looks like a fishing expedition to me. But that still is no reason why I should see Mr. Elder.

Mr. Foley: No.

Mr. Ireys: No.

Mr. Sullivan: No.

HM, Jr: And what I don't like -- I have to get it off my chest, and I always think it takes less courage to be brave than it does not to be, the bringing in of Tommie Corcoran and Eddie Greenbaum. I don't like it. And Jerome Frank never should have sent Harper up there.

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Mr. Foley: I think that's right.

HM, Jr: The only result is it is going to make me tougher and I have to be careful to be fair.

Mr. Foley: Well, insofar as Tom is concerned, he has not spoken to me about it.

HM, Jr: I would not talk to him. "Tom, have you taken \$10,000." And the story you, Sullivan, heard was \$25,000.

Mr. Sullivan: No, he never got anything of it. No. Not as I got the story.

HM, Jr: Well, but the amount was \$25,000 that they were supposed to have given

Mr. Sullivan: to somebody else.

HM, Jr: O. K. Nice lot of people! I still believe that a Liberal is not a liberal spender. I am convinced I am a Conservative, and the Franks are Liberal and I am just Conservative.

I am upset over this.

oOo-oOo

March 6, 1940
10:53 a.m.

HMJr: Hello.

Operator: Captain Collins. Go ahead.

HMJr: Hello.

Captain
Collins: Good morning, sir.

HMJr: Hello, Collins. Collins, this memorandum that you gave me on powder.....

C: Yes, sir.

HMJr:, Indianhead.....

C: Yes, sir.

HMJr:please find out between now and one o'clock, does Indianhead make the same ^{kind of} powder as Dupont. It isn't clear, you see.

C: Yes, sir.

HMJr: up to 25,000 pounds a day won't leave much for Dupont.

C: No. Well, of course.....

HMJr: But we're taking four month's production away from Dupont.

C: Yes, sir.

HMJr: And -- and only giving the English part what they want. Now, if Indianhead could go up, then the Navy could release still more to the English.

C: That's right. Yes.

HMJr: If it's the same kind of powder.

C: I'll check on that right away, sir.

HMJr: You get the significance?

- 2 -

C: Yes, sir, I do.

HMJr: What?

C: I do, sir. I -- I don't know but -- in the back of my mind, I may be wrong -- I do not believe it is the same powder.

HMJr: Well, if it isn't the same powder..

C: Of course, they have -- they are very anxious -- I do know also they are very anxious, of course, to keep Dupont working.

HMJr: Well, hell, at 600 thousand pounds it takes Dupont four months.

C: That's right.

HMJr: Now what the English wanted was four million pounds.

C: That's right.

HMJr: And they're only getting 600 thousand out of Dupont. Now, if Indianhead -- that's just what the President had in mind -- if Indianhead can produce more they could release still more.

C: That's right.

HMJr: But -- if it's the same kind of powder.

C: All right. I'll check on that and have it for you.

HMJr: Now, the other thing, in regard to this matter you mentioned to me about having these English -- I mean, airplane people over and hold these preliminary meetings at your place.

C: Yes, sir.

HMJr: And -- I thought a lot about that and I told Purvis this morning, in talking with him on this Finnish thing, that I think there'd be much less gossip in New York than there would be here.

C: Um-hm.

- 3 -

- HMJr: And that I suggested to him that he hold these preliminary meetings until he knows what he wants with the aircraft industry in New York and then after they -- they see their way clear -- or when they need more advice, come down and see you or me.
- C: That'll be -- that's all right with me, sir.
- HMJr: Because -- well, it -- I have a hunch on it and I -- and I'm quite right that my hunch is right that we are only asking for trouble by sitting in.
- C: Um-hm. Well of course it is going to -- it is going to be one of those jobs though that eventually somebody has just simply got to bear down on them because.....
- HMJr: Well.....
- C:these English, particularly, they -- they've got to be pushed and not led in this thing.
- HMJr: Well, let's -- let's let -- Purvis said that he had been thinking it over and he was going to ask me whether it would be agreeable to hold the preliminary meetings in New York, and I'd much rather have them. And then when they -- when they can't get what they want let them come and see you.
- C: Aye, aye, sir. That's -- that's perfectly agreeable to me, sir.
- HMJr: But there has been criticism around the town -- gossip and all that -- and I'd like to keep the Treasury out of it as much as possible.
- C: Yes, sir.
- HMJr: And I'm going to see you at one.
- C: Aye, aye, sir.
- HMJr: Thank you.
- C: Thank you, sir.

March 6, 1940
11:22 a.m.

Merle
Cochran: Yes, Mr. Secretary.

HMJr: Will you call up Mr. Procope.....

C: Yes.

HMJr:and tell him that the only place that we could get him the 150 pursuit planes and the 36 light bombers.....

C: Yes.

HMJr:would be if the Allied Purchasing Mission would be willing to release orders which they now have on hand. You see?

C: Yes.

HMJr: I have put that up to Mr. Purvis this morning.

C: Yes.

HMJr: Whether they'd be willing to release any of their P-36's -- Curtis P-36's which are coming through very fast now.

C: Yes, sir.

HMJr: Or any of their Martin or Douglas light bombers.

C: Yes, sir.

HMJr: He promised to take it up at once and will let me -- give me some kind of an answer in a day or two.

C: I see. So you have already taken it up with Purvis.

HMJr: Have already taken it up with Purvis, but outside of that there has been no place -- no way of getting it for them unless the Allies are willing to release them.

C: I see. There's no chance on our own?

- 2 -

HMJr: Absolutely none.

C: I see.

HMJr: And -- and the planes that have got to be released are French planes. They are all planes on order for France.

C: I see.

HMJr: See?

C: Yes, sir.

HMJr: So that's that. And the other thing, at 2:15 today I have to make up my mind about my financing and I'd like you to give me a fresh report on the English-Italian discussion and.....

C: All right, sir. I was just in this little office now going to call Raber over at the State Department.

HMJr: If I could have it right after two o'clock.

C: You'd rather have it then than before?

HMJr: Around then -- after -- or rather between two and two-fifteen.

C: All right, sir. I'll be here at that time.

HMJr: And -- I mean, if it's any -- well, if -- whatever the situation is I'd like to have it.

C: I see. I have two or three things I'd like to show you if you get any chance.

HMJr: No, nothing before lunch.

C: Good. All right, sir. Fine. I'll tend to this thing.

HMJr: One-way traffic this morning.

C: All right, fine. Nothing urgent. Goodbye.

March 6, 1940
2:22 p.m.

Operator: Go ahead.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: Hello, Marriner.

E: Hello, Henry.

HMJr: Marriner, we are about ready to make up our minds on this note.

E: Yeah.

HMJr: And it looks like three-quarters of a percent.

E: Yeah, well, are you interested in knowing what -- my discussion with the Board is on it? I called them together about one o'clock -- twelve-thirty to -- to explain the thing and.....

HMJr: I'd like very much to know.

E: And we came to exactly the same conclusion on that. I told them that I thought you might call and I'd like to be able to report to you what their feelings were.

HMJr: Yeah.

E: And if you wanted their recommendation it would be that the thing be priced at three-quarters of one percent without an interest adjustment.

HMJr: That -- that's absolutely in accord with what we have in mind.

E: That it looks like the way that -- yesterday it looked like there may have to be a little interest adjustment. It was pretty thin.

HMJr: Yeah.

JT

GRAY

PARIS

Dated March 6, 1940

Rec'd 5:15 p.m.

Secretary of State,
Washington.

297, March 6, 7 p.m.

FOR THE TREASURY FROM MATTHEWS.

The French financial press has of course published summaries of the revised Keynes' plan with explanatory comment. While the general tone of such comment is that the matter is an internal British question there is a noticeable undertone of "reservation" and skepticism as to its practicability: it is characterized as a "forced loan" in a country which has always cherished its liberties including the "liberty to own, to invest and to save" which would be turned over directly to the British Government" under the Keynes' plan. (END SECTION ONE)

MURPHY

NPL

JT

GRAY

PARIS

Dated March 6, 1940

Rec'd 5:18 p.m.

Secretary of State,
Washington.

297, March 6, 7 p.m. (SECTION TWO)

This criticism, however, regards new solution of financing the war which her ally might seek - and no French commentator ventures to offer an alternative method - is motivated by a veiled anxiety lest the French Government might be tempted to consider a similar system - which needless to say would be repugnant to Frenchmen of all classes. AGENCE ECONOMIQUE ET FINANCIERE says frankly in this connection "one final reservation: even if the Keynes' plan is workable in the United Kingdom it is doubtful if it ever would be in France: for the sole reason that this plan is not simple. In the country of Descartes (forgive the cliché, but France is really the country of Descartes) clarity is the first virtue of any system.

MURPHY

NPL

JT

GRAY

PARIS

Dated March 6, 1940

Rec'd 3:20 p.m.

Secretary of State,
Washington.

297, March 6, 7 p.m. (SECTION THREE)

The small savings class among us would not understand this compulsory levy, these blocked accounts, this deferred consumption, these repayments by installments. What would be acceptable to the English if need be would not be acceptable to the French."

Today's JOURNAL OFFICIEL carries a decree suspending until six months after the war customs duties on certain specified iron and steel items, including ingots, blooms, billets, sheets, bars, and rails. Restoration of the duties may be effected by decree prior to the six months post-war period.

MURPHY

NPL

JT

GRAY

PARIS

Dated March 6, 1940

Rec'd 3:20 p.m.

Secretary of State,
Washington.

297, March 6, 7 p.m. (SECTION FOUR)

Dautry, the Minister of Armament replying to criticism in the Chamber yesterday that agricultural labor needed in the fields is being kept in the munitions factories stated that while the private armament factories before the war employed 1,230,000 workmen this figure fell to 620,000 on mobilization and has since risen again to approximately 1,200,000. There are today, he said, in all armament factories but 11,390 farm laborers and rural artisans. He said that he had released for varying periods a total of some 23,000 agricultural laborers and that he proposed to give additional ten day leave periods for crop sowing.

(END OF MESSAGE)

MURPHY

WWC

GROUP MEETING

March 6, 1940.
4:00 p.m.

Present: Mr. Gaston
Mr. Sullivan
Mr. Graves
Mr. Thompson
Mr. Schwarz
Mr. White
Mr. Cochran
Mr. Harris
Miss Chauncey

H.M.Jr: I guess you thought I had given you fellows a chance to get acquainted.

Gaston: It is nice to know you are here.

H.M.Jr: I have had a financing. It is five years, three-quarters of a percent. Have you got anything, Herbert?

Gaston: No. Perhaps others have told you that your name was mentioned on the "Information Please" program last night.

Sullivan: He was on the top of the team.

Gaston: Asking for the names of fathers and sons with identical names who are in the same line of effort. This was statesmen. And Frederick Lewis Allen, who was the guest, named Henry Morgenthau and Henry Morgenthau, Jr. as father and son statesmen of the same name.

Thompson: How much did he win, two dollars or something like that?

Gaston: No, they don't do that. The person who supplies the question wins ten dollars and a set of Encyclopedias if it isn't answered correctly.

H.M.Jr: What else, Herbert?

Gaston: Herbert Feis called up to consult us about the nature of a reply they should make to Senator Elmer Thomas, who sent him a copy of his bill for redistribution to the nations of the world about gold stock.

- 2 -

H.M.Jr: That same letter came here.

Gaston: Yes. I called Harry White and I found that our letter didn't ask for our opinion on the bill but merely warned us that Thomas was asking Chairman Wagner to ask us for an opinion and I called Feis back and found that that was the way his also read and we agreed that we would simply reply to Thomas, thanking him for a copy of the bill and saying we would do what we could when the Chairman asked us to reply to it. Feis also asked to be advised about the nature of our reply when we got ready to send it and I agreed to do that after consulting Harry White.

H.M.Jr: Did you tell Herbert Feis I am not going to do the Brazilian Steel Mill?

Gaston: No, I didn't mention it.

H.M.Jr: We turned that down.

Gaston: I haven't anything else.

H.M.Jr: You are still right. There are no submarines in the Caribbean.

Gaston: No German submarines.

H.M.Jr: Yes.

Gaston: That was interesting about that ship that is to arrive in New York tomorrow morning.

H.M.Jr: Yes.

Sullivan: Hercules called Mr. Reiling at 3:40 and advised him that --

H.M.Jr: It is now 4:05.

Sullivan: That is right. They called at 3:40.

H.M.Jr: And I say it is now five minutes past 4:00.

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- Sullivan: Yes, I was delayed in getting this report to you.
- H.M.Jr: I didn't know you were going on a time schedule. I don't know what the significance is, but if you are going to be so precise, I just want to equal it, that is all.
- Sullivan: And they told him they had decided not to enter into any closing agreement and that they would be unable to enter into a transaction with the British Purchasing Commission because we, in our closing agreement, were reserving the right to make the closing agreement subject to future changes in the law which would happen regardless of whether we put it in there or not. A few days ago they submitted a tentative closing agreement that has that provision in it themselves. Miller, the former Chief Counsel of the Internal Revenue Bureau, who is counsel for Hercules, knows very well that whether it is in there or not it happens. A future change in the law will change a closing agreement and the only way we could get around it is amend the constitution.
- H.M.Jr: It is entirely worth while.
- Sullivan: I should think that in view of the time element it would be quite difficult.
- H.M.Jr: All right, what else?
- Sullivan: There was sent to you a letter by Senator Harris asking for an opinion on a bill to permit contributions and gifts to the Republic of Finland to be deducted in computing income taxes to the same extent that charitable contributions are deducted. The opinion is that the bill should not pass. I am not so sure that the reasons for it are the best that we can think of. I am wondering whether you want to have that held up for a little while.
- H.M.Jr: You had better talk to Dan. Dan wrote something or had me sign something on a whole flock of bills.

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Sullivan: Very well.

H.M.Jr: Look, you and Dan get together and whatever the two of you agree on is okay with me.

Sullivan: All right. I told the Finnish Minister yesterday when he approached me out in the other room - he asked me about fighting funds for Finland and I told him that we had no discretion under the law at all and that could not be included.

H.M.Jr: Whatever you and Dan decide is okay with me.

Sullivan: Very well, sir.

H.M.Jr: Anything else?

Sullivan: No, sir.

Cochran: Nothing. Pinsent was just down talking to Harry White.

H.M.Jr: Oh, on this - well, did I break up that meeting?

Cochran: No, sir.

White: Well, it was practically over.

H.M.Jr: What else?

Cochran: I have a message from Butterworth on this man, Sir Henry Self. (March 6, 1940)

There was a cablegram from Brazil about Aranha. (Mar. 6)

H.M.Jr: It has got to be on or off by the sixth. Which is it?

Cochran: They are still telephoning between the State Department and Brazil. Do you want to see the message?

H.M.Jr: Oh, I don't think so.

Cochran: I wasn't sure that was in accordance with the press story. The press indicated this man

- 5 -

was going to be definitely in charge of aviation.

H.M.Jr: It is all right. Anything else?

Cochran: No, sir.

H.M.Jr: Chick?

Schwarz: Captain Collins supplied the complete information about that matter of airplanes and I have gone into it.

H.M.Jr: Give it to me so I can get it now.

Schwarz: Colonel Leonard S. Horner, of Hartford, Connecticut, at the moment is in Hollywood. He is Chairman of a committee that has been set up by the National Academy of Sciences at the request of the War Department on a \$50,000 allotment to study the cost factors that go into airplane engines and accessories as they are related to increased production and the unit cost resulting from increased production for the armed forces of the United States.

H.M.Jr: Did you give that to the boys?

Schwarz: Yes, sir.

H.M.Jr: You see, Arnold went up yesterday and testified and he was here for lunch. He claimed that his testimony was misunderstood. He didn't say they were profiteering. He denied they were profiteering. He said the cost is more. Fortunately, I had Admiral Towers there and I said, "Now, let me ask you a question. Take the Curtiss P-36. I want to buy it today with the same horsepower, same equipment. Will I have to pay one dollar more today for it than I did last year? They both agreed I wouldn't. He said, "Oh, but we have more horsepower and we have more firing --" et cetera. I said, "That is a different story." He said, "I told them they weren't profiteering."

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The boys have been calling up and saying the Morgenthau story of no profiteering in the airplane industry is wrong. Well, I don't want to get into this thing. There are two things. One is that the War Department has a committee now studying this very thing. Arnold shoots off his mouth, that is number one. Number two, Admiral Towers of the Navy said there is no profiteering and you can buy the plane for exactly the same price today you could a year ago, for the same type of plane with a better engine.

Gaston: Then you are buying a better type of plane.

H.M.Jr: What they are buying is more plane, more gadgets. I went all through this thing with Arnold. Did you send him over to see Towers?

Schwarz: Yes, sir.

H.M.Jr: I hope he gets a good reception. I have decided if they want any information from now on I will have one Navy man and one Army man and see that they get together. We didn't sit down before Towers jumped right down Arnold's throat and said that statement he made was crazy. Arnold said he didn't say that. They asked him why they should pay more for the same number of planes this year than last year and he said that would be profiteering. Have it on a little piece of paper. If they ask me tomorrow, I am going to say, "Gentlemen, here is a committee set up by the War Department to make this study and I will refer you to them."

Schwarz: I will have it all written.

H.M.Jr: I will do this personally,
What else, Chick?

Schwarz: That is all. Everything is peaceable.

H.M.Jr: Wonderful.
Basil?

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Harris: We are going to hold an open hearing next Tuesday morning on that Fishery matter that Congressman Brewster and those other New England Congressmen raised. They have asked for a hearing and we have set it for next Tuesday morning.

H.M.Jr: Anything else?

Harris: No.

H.M.Jr: Harry?

White: The letter from Senator Thomas which you sent to us doesn't call for an answer unless you want - beyond an acknowledgment and a statement that you will be glad to submit your report when the committee asks for it, unless you want to give him a report. It is the committee that will ask you. Do you want to give him your comments on his bill or do you want to wait until the committee sends you the bill for comment?

H.M.Jr: What I would like you to do is prepare a statement for me. If it is a good one and a strong one, I think I will use it, you see.

White: Well, I take it you imply that it would be condemnatory. Some of the things, you might not wish to condemn.

H.M.Jr: I don't know. For once I agree with two editorials in the Wall Street Journal today, the one on the free distribution of gold and the other one on our refunding, both of them complimentary.

White: I have it in my office. I will look at it. I didn't see it yesterday.

H.M.Jr: You can have this one.

White: I have it.

H.M.Jr: Try your hand at it, Harry, and see.

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- White: Well, the report which you will give the committee will have to be a judicious evaluation of it, which would - and I think it would be best to avoid sending Thomas one directly, because I don't think it will be as sympathetic as he thinks it will be or hopes it will be, so if we could just send him a note saying that you will be glad to submit your views to the committee, I think that is really all that is necessary.
- H.M.Jr: All right.
- White: Here is the memorandum which --
- H.M.Jr: But I would rather not go up to the committee if I could get out of it.
- White: I don't think this calls for your going up. It calls, as I understand it, for your written comments on the bill.
- H.M.Jr: I mean, just keep this in mind. By sending something in writing, if I could keep from testifying, I would like to do it.
- White: I had assumed that that was what you were going to do, was to try and not testify.
- H.M.Jr: What else, Harry?
- White: Here is a memorandum - this mess of stuff on China and the reason I am calling your attention to it now is that I think you ought to see Mr. Chen on the transportation, because freight is piling up there so that the question become whether or not - I think you had better ask Chen some questions.
- H.M.Jr: Let me tell you what happened. Mr. Chen brought in Mr. Sheahan.
- White: This is his report.
- H.M.Jr: And I practically lost my temper at him because he started to boss me and give me a

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lot of misinformation, tried to paint the picture entirely too rosy, and I just - well, Mr. Chen was here and I think - I want the unvarnished facts. If I am going to be helpful to China I have got to have the facts. So therefore, I sent for Puleston and told Puleston to take Sheahan downstairs and that is where he is now and Puleston is giving him the third degree.

White: I see. Well, that is what should be done.

H.M.Jr: What I am doing - because I am going on the assumption that the stuff is moving, but they are having great difficulty and I have cabled to the Consul at Rangoon for the facts on the river transportation. Now, they are not using it and the reason I think they are not using it is that some local political situation - but they could move a tremendous amount of traffic up the Irrawaddy River and - get it all within a hundred miles of the back door of China, and they are not using it at all.

White: Then there would be no use of your looking this over because the conclusion of this is merely that you ought to investigate. I mean, our conclusion is that you ought to investigate the situation.

H.M.Jr: Would you send that down to Puleston right away?

White: Yes, I will send it to him.

H.M.Jr: Will you, because he is right at that now.

White: I think he knows about it.

H.M.Jr: This fellow --

Cochran: Sheahan went to the hotel to get his notes before he talked with Puleston and then he is coming back.

White: I talked to him and told him about it. We

- 10 -

had some figures we were comparing. So Pules-ton, I think, is cognizant of the facts. But this is Sheahan's own report. I think he hasn't had this.

H.M.Jr: I wish you would send it down, because I think Sheahan is just a so and so.

White: The Consul --

Harris: What is his first name?

White: Sheahan?

Harris: Yes.

Chauncey: Maurice, isn't it, M-a-u-r-i-c-e?

Harris: I know another Sheahan that corresponds with that. I wondered whether it would be the same fellow.

White: In line with what you say, Mr. Willis R. Peck, Counsel of the Embassy at Chung Kiang, says the report by Sheahan is over-optimistic.

H.M.Jr: I just gave him hell.

White: Here are these letters that you asked me to see you about on that --

H.M.Jr: You stay behind. That is all?

White: That is all.

Graves: Nothing, except I would like to thank you for signing that letter.

H.M.Jr: Thank McKay.

Thompson: I have nothing.

H.M.Jr: Have you anything?

Chauncey: No.

H.M.Jr: O. K.

March Financing
RE OPEN MARKET

March 6, 1940.
2:15 p.m.

Present: Mr. Bell
Mr. Haas
Mr. Hadley
Mrs Klotz

H.M.Jr: Good morning, gentlemen.

Klotz: That doesn't sound like you.

H.M.Jr: Did you know I was here today?

Bell: I heard you were taking a vacation this morning.

H.M.Jr: Right here at my desk and I got more work done.

Bell: Did you go horseback riding this morning?

H.M.Jr: Until 10:00.

Bell: It was a nice morning.

H.M.Jr: Well, Professor Bell, did you speak to Sir Eccles?

Bell: I haven't been able to get Eccles. They thought he would be back before 2:30.

Haas: "Sir Eccles."

Klotz: "Little Sir Eccles."

Bell: He didn't call me last night. They said he would be back by 2:30. I talked to Rouse at 12:00 o'clock. He said the situation hasn't changed materially. The people with whom he talked after 3:00 o'clock yesterday all recommended the three-quarters and they all thought it would sell somewhere around a point. The rights are off, I think, a little this morning, aren't they, Hadley?

Hadley: Yes, they are off about two. They dropped off about 4:00 early in the morning and then they came back. Some of the insurance companies

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have been selling their rights and buying long bonds and that has added to yesterday's movement and put the long bonds up another quarter of a point on top of yesterday's rise of about three-eighths.

H.M.Jr: You see, I thought this all out. I want to give you an explanation. We will first do it this way and then get the bonds up and when we get a nice bond market --

Hadley: If you can save an eighth of a point --

Bell: Do you want to announce that?

H.M.Jr: It is a carefully thought out plan, see.

Bell: That is pretty good.

H.M.Jr: Well - you are getting as good as the British.

H.M.Jr: Oh, I am better, I hope.

Bell: The fellows who have got the British securities don't have an option.

H.M.Jr: I win my wars.

Bell: Well, temporarily.

H.M.Jr: Well, I have won for six years.

Bell: That is right. You have to keep fighting, though. You never have peace. Isn't that right, Mrs. Klotz?

Klotz: Yes.

H.M.Jr: Dan, on this Gulf Oil, was everything peaceful?

Bell: In this connection, yes.

H.M.Jr: Was it?

Bell: Yes.

H.M.Jr: As between them and the Federal?

March 6, 1940.
2:22 p.m.

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H.M.Jr: Hello.

Marriner

Eccles: Hello.

H.M.Jr: Hello Marriner.

E: Hello Henry.

H.M.Jr: Marriner, we're about ready to make up our minds on this note.

E: Yes.

H.M.Jr: And it looks like three quarters of a cent.

E: Yes, well - are you interested in knowing what I - my discussion with the Board on it, I called them together about twelve-thirty to explain the thing and -

H.M.Jr: I'd like very much to know.

E: And we came to exactly the same conclusion on that. I told them that I thought you might call and I'd like to be able to report to you what their feelings were.

H.M.Jr: Yes.

E: And if you wanted their recommendation it would be that the thing be priced at three quarters of one per cent without an interest adjustment.

H.M.Jr: Well that's, that's absolutely in accord with what we have in mind.

E: Yes. It looks like the way, yesterday it looked like they may have to be a little interest adjustment it was pretty thin.

H.M.Jr: Yes.

E: Today it isn't too sweet but at the same time being a purely a refunding no new money that twenty-five thirty-seconds, it looks like it ought to run somewhere in there ought to be enough for premium to induce them to convert.

- H.M.Jr: Well yesterday the, what they call the rights, the so-called rights were higher on the June, and they've sold off now.
- E: Yes, well yesterday, they closed last night at a hundred and one.
- H.M.Jr: Yes but at one time there was, there's one fellow that paid a hundred and one eight yesterday.
- E: Paid that much yesterday?
- H.M.Jr: Yes.
- E: Well it closed last night at a hundred and one.
- H.M.Jr: That's what we have.
- E: And they went off, the last I heard, I don't know what they are now but the last day I heard of them they were down to twenty-eight thirty-seconds, that was a couple of hours ago.
- H.M.Jr: Well and now they're thirty thirty-seconds.
- E: Huhhuh.
- H.M.Jr: So that that doesn't make any difference.
- E: No, I mean you're within a few, you're within four thirty-seconds of the market on the rights on this basis, at this pricing.
- H.M.Jr: Well I -
- E: And this is in line with the offering you put out last June a year ago, see that was a three-quarter issue.
- H.M.Jr: That's right.
- E: And that that - at that time it was put out on a basis of about a little less premium than this is. Now, checking it and at the present time it's quoted at about a hundred and one.
- H.M.Jr: Yes.
- E: See? So it looks like the thing is in line at three-fourths of one per cent.

H.M.Jr: And it's damned cheap money for the Treasury.

E: Oh Lord, you can't expect it - it isn't quite as cheap as your bills yesterday, the other day, -

H.M.Jr: No, no.

E: Now, on - well that's the way we feel about it, so we're right together on that aspect of it.

H.M.Jr: That's right. Well then there's nothing, that's all I had in mind and we'll go ahead and get the forms together and we'll announce it for tomorrow morning's papers.

E: Now there's another thing that I think, if this - in this Bank of America case which I've spent, I'm about worn out with the damned thing, it's been - it's been almost endless times - here for six weeks now, it's been terrible.

H.M.Jr: Yes.

E: But it looks like that we're getting up to the end of the road.

H.M.Jr: Well I had a talk with Dan, he told me yesterday he thought that either today or yesterday he'd get together.

E: Yes. Well now -

H.M.Jr: Dan's here with me now.

E: Well I was to go over, been talking about going over there this afternoon.

H.M.Jr: Yes.

E: And this seems to be one of the questions and as Dan is there I mention - I was going to call Dan about it.

H.M.Jr: Well he's sitting here.

E: And it was this. That the number one in this program which calls for the preferred stock we couldn't write in number one all of the conditions, we got into an endless discussion about the thing and it was agreed at the time that you would make a request of the RFC, see?

H.M.Jr: That's right.

E: And we would leave the RFC up to write the ticket, that that doesn't mean of course that the Comptroller shouldn't go over and tell him what his ideas are, you see?

H.M.Jr: That's what Dan has reported to me.

E: Well then there isn't - that's the way it stands, but -

H.M.Jr: Just a minute, may I, just let me check with Dan a minute, will you please? Do you mind holding on?

E: No that's fine, that's O. K.

H.M.Jr: Marriner? Hello?

E: Yes.

H.M.Jr: All I can say to you is that Bell has kept me posted from day to day and whatever he's told you on this -

E: Huhhuh.

H.M.Jr: He's authorized to talk for me. I haven't followed it. How should I say, second to second. I have followed it day to day.

E: Yes.

H.M.Jr: And whatever he's told you.

E: Yes.

H.M.Jr: That I would do in connection with this letter I underwrite.

E: Yes.

H.M.Jr: You see?

E: Yes, well what -

H.M.Jr: I mean this isn't like the other negotiation in December '38 where I wasn't kept posted you see?

E: Yes.

H.M.Jr: Until it was too late.

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E: Yes.

H.M.Jr: And the statements were made there over which I didn't know about until after they were made and then I couldn't approve them because the President wouldn't approve them either.

E: Yes, well I -

H.M.Jr: I know I'm on safe ground and whatever Dan has told you about this letter.

E: Yes.

H.M.Jr: As a matter of fact Jones was here yesterday for lunch.

E: Yes.

H.M.Jr: And I told Jesse that I was so pleased that the three agencies have gotten together and that within a day or two there would be a letter coming over from me.

E: A request.

H.M.Jr: A request.

E: Yes.

H.M.Jr: He didn't ask me about anything, I didn't ask him.

E: Yes.

H.M.Jr: The only thing he asked me was had I talked to the SEC.

E: Yes.

H.M.Jr: And I said no I had not.

E: Yes.

H.M.Jr: But I said I understood from Bell that when the agreement was finally entered into between yourself and Comptroller and FDIC that he was going to invite the SEC over here and explain the thing to him at a meeting at which you would be present.

E: Well what we were going to do this afternoon was to check this very matter that I was discussing with you.

H.M.Jr: Yes.

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- E: And then also discuss the question of procedure with reference to this SEC matter. Now that's got to be -
- H.M.Jr: Well -
- E: That's - it's a delicate thing to handle.
- H.M.Jr: Murriner, Bell has handled the thing so beautifully and when he sits in there with you he's talking for me.
- E: Yes.
- H.M.Jr: So whenever you gentlemen come to an agreement you have no trouble with me.
- E: Now there's one thing that I've been worried about on this - some time or other, and that is publicity, see? We've avoided it up to date and I think it's extremely careful - extremely important that nobody, that nothing comes from the Treasury, from the FDIC or ourselves on this thing. Nothing up to date has and I think it should be avoided at this time and - and - that - but I've been a little worried about it, that Jesse go over there for the preferred stock, see? Jesse could put out a statement here, I don't know that he will, see, but I think it's important that the RFC don't, don't put out a statement on this issue either that now is no time for anybody to make a statement, you see what I mean.
- H.M.Jr: Yes, well if you're asking me to keep anybody quiet outside of the Treasury -
- E: Well of course as far as we're concerned here, you won't have any trouble from that score.
- H.M.Jr: Well -
- E: And I don't think there would be from the FDIC. Now the question is, I don't think today is the time but certainly when the application goes over you might well say to Jesse, it seems to me that you would prefer that there be no publicity whatever given to this matter at this time and at such time as it may appear to be advisable to say anything that we get together.
- H.M.Jr: I'd be glad to do that.

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- E: Now, because otherwise this thing is just too damned - we worked too hard to have something come out now to upset it.
- H.M.Jr: Well I was asked yesterday at my press conference, the boys knew pretty much all about this, so I said a national bank is just the same as income taxes as far as the Treasury is concerned, we never discuss it.
- E: That's right.
- H.M.Jr: We never discuss it. Well as a matter of fact just horseback opinion it seems to me that the publicity should come from the bank.
- E: Well that's possibly right. The bank should, if they get - they've got to, of course they've got to explain the getting of this preferred stock. There isn't any question, they've got to do it, and that's why I'm thinking that if somebody says something beforehand, see?
- H.M.Jr: Yes.
- E: That it might upset it, and I would think this, that if we say nothing, and the RFC says nothing, we could say to these people, "Now here, any publicity, any announcement of this thing we're going to expect it to come from you people, see?"
- H.M.Jr: Yes.
- E: And we hope that it will be the kind of a statement, say, that will not make it necessary for us to make a counter statement.
- H.M.Jr: That's right.
- E: And just put them right on their basis of explaining it as best they can in view of what they have said, they've got to make some kind of a statement but if we simply say that we're not going to be the first to make statements, you go ahead and make your statement now and try to do it in a way, see, that it won't be necessary for anybody to make any counter statement.
- H.M.Jr: Well I can't imagine that the RFC at this stage would care to take the responsibility of wrecking this thing.

E: Well they wouldn't necessarily think that that was what's going to be done possibly.

H.M.Jr: No, I -

E: But you know, you possibly know that, Jesse I know has been, he's been pretty sore about the whole thing.

H.M.Jr: Well I -

E: And I think he's been holding their hand to some extent.

H.M.Jr: I see.

E: And he, I think he'd like to see it fixed up all right, I don't question that, I think he might like to feel that he was doing the fixing, see?

H.M.Jr: Yes.

E: Which I don't care, I mean I don't give a damn who gets the credit for that, but I can't see at this stage where publicity from any of the governmental agencies made independently, see?

H.M.Jr: Yes.

E: Would be of any value in their affront with real danger.

H.M.Jr: Well you and I agree there's no argument.

E: So that if it, it does seem that if tomorrow, if this thing's in shape where by tomorrow you can send this over to the RFC with a request you could call Jesse up and tell him you're doing it and indicate to him that you hope it won't be necessary for anybody to say anything about this thing until it's all closed up and then let the bank make a statement.

H.M.Jr: Well I'll keep it in mind and do the best we can.

E: O. K. then.

H.M.Jr; Thank you.

E: Fine. Goodbye.

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Bell: Yes. We never had - of course, we never had these conferences with the Open Market Committee. We only had Burgess to deal with at that time, but maybe Mr. Mills would go around and Mr. Winston would go around to the Board and tell them what the Treasury was contemplating. There was never any question. There is only one time we ever had any question across the street and that was when Mr. Harding first came into office. Interest rates were very high and we were going to put out a five-year note and the best information we could get was we couldn't sell it for less than six percent and we sent a recommendation to the President and he sent word back that he didn't know anything about Government finance or any other kind of financing, but he knew six percent was too high for the Federal Government to pay, so we had to drop the rate to 5-7/8ths and call up our bankers. That is the only time.

Klotz: Why do we have Open Market Committee meetings? Who started it?

Bell: We did.

H.M.Jr: Well, you see, before I came in they had - they were in the open market, buying bills. That is what they were doing.

Bell: You see, back in those days, the Open Market Committee really didn't know.

H.M.Jr: Is everybody for three-quarters?

Bell: Yes.

(Telephone conversation with Eccles)

March 6, 1940.
4:26 p.m.

W.C.Jr: Hello.

Adolf
Begin: Hello, Mr. Secretary?

W.C.Jr: Talking.

B: First rate. This is Mr. Berle speaking.

W.C.Jr: Hello.

B: We have here a memorandum from Butler the Counselor of the Embassy, British Embassy, saying that you had asked the British Purchasing Mission that you preferred to have them have any further talks on the question of alloys, molybdenum and so forth continue through the Department of State with Ashton-Gwatkin and Rist. Butler, up at the Embassy added that he didn't quite understand what this meant, the matter had been discussed up to that time with the Treasury but the Embassy had hoped that we'd be prepared to continue the discussion.

W.C.Jr: Somebody -

B: This is news to us but I just wondered whether you -

W.C.Jr: This is news to me.

B: Well I -

W.C.Jr: Is that in a memo form?

B: Well this is a memorandum of telephone call and it merely relates to what Jimmy Dunn reported that Butler had telephoned to say that the Secretary of the Treasury, that's you, had informed the Purchasing Mission he preferred to have talks on alloys through the Department of State. Of course we're glad to do it but unless you wanted to discontinue -

W.C.Jr: No.

B: They seem to be going along very happily under the terms of the arrangement there.

W.C.Jr: I don't know who this fellow Butler is.

B: He's Counselor of the Embassy.

- H.M.Jr: Well let me take exactly, let me take a minute and tell you. Mr. Purvis was in yesterday.
- B: Yes.
- H.M.Jr: I - you know, he gave me a memorandum. The first time when Rist came over we told him no.
- B: Right.
- H.M.Jr: Then he brought me over a memorandum setting up, about two or three months had passed on this Rist, Ashton-Gwatkin coming over on it on a different basis. I showed it to the President and he said "All right let them come" and I had Merle Cochran show - leave a copy with Mr. Hull.
- B: Right.
- H.M.Jr: Now that's available over there, and yesterday Purvis was in and he wanted to know about these two men coming to see me, and I said "No, I'd be glad to see Professor Rist because I know him and met him several times and if the Ambassador will bring him in to introduce me to him I'll be glad to see him". But on anything that they had in mind that had to do with the blockade, inasmuch as they both were accredited to the Embassy, while Allied Purchasing Mission was more or less accredited to me.
- B: Yes, that's right.
- H.M.Jr: In order to keep the two things from getting crossed up, I said they ought to see the State Department.
- B: They'll be in here in a couple of minutes and what I thought was this that we'd straighten that out and any question they have on alloys and molybdenum and so forth which have been discussed with you they go on discussing with you.
- H.M.Jr: Absolutely.
- B: Right.
- H.M.Jr: And I told Purvis, asked them what they had in mind in regard to anything particular, he particularly said to me just before he left and I had a stenographer present because I can't remember all these things.
- B: Yes.

H.M.Jr: He said, "Can we continue", this is the last thing he said before he left the room, he said, "Can we continue to talk with you about molybdenum, tungsten and nickel". I said, "Absolutely".

B: Right.

H.M.Jr: That was the last thing he said.

B: Well they obviously got it wrong and I just wanted to straighten out with you

H.M.Jr: I don't - I haven't had anything to do with the things that Mr. Hull is talking about tobacco and products and I just didn't want to get crossed up.

B: Quite. Well I just gathered that they got it

H.M.Jr: They just got it twisted.

B: That's what I had hoped they had when I saw the memorandum, hence my call.

H.M.Jr: And don't you agree with me that we ought to keep the two things entirely separate.

B: Absolutely, absolutely, otherwise we'll get hopelessly jammed. I will advise them in that sense, sir.

H.M.Jr: It's the dumbest thing I ever heard.

B: Well you -

H.M.Jr: Is Butler sort of a dumb cluck?

B: A little, yes.

H.M.Jr: What?

B: Yes, he is.

H.M.Jr: All right. Well that's Treasury language. Of course you never use language like that.

B: Oh no, we say that they're laboring under a slight misapprehension. Thank you.

H.M.Jr: Goodbye.