

DIARY

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 117

DATE: March 19, 1940.

Reference is made to the Department's telegram no. 76 of March 18, 1940, 2 p.m.

I am informed by Aranha that he is willing for the Government of Brazil to promise that it will "advise bondholders in advance of purchases" et cetera, et cetera, as set forth in the inquiry of the Foreign Bondholders Council, and he is reasonably sure that this will be agreed to by the Minister of Finance. Aranha will go to see Souza Costa in Pocos de Caldas Saturday. They will discuss the matter and Aranha will then send me a written reply to the question.

CAFFERY

EA:EB

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington.

From: American Embassy, Madrid.

Dated: March 19, 10 p.m.

Rec'd: March 19, 1940, 10:33 p.m.

No. 51

The significance of an Anglo-Spanish commercial agreement was announced in the Spanish press today. Although no details have been made public I am advised confidentially by the British Embassy that the agreement, which will become effective April 1, makes no provision for quotas or tariff concessions but rather is a financial arrangement for the purpose of liquidating sterling credits arising from trade in the past and a clearing agreement to promote trade in the future.

The British agreement includes a loan agreement whereby a sum of 2,000,000 pounds will be advanced to the Spanish Government for the purchase of commodities and new materials originating in the "sterling area", and a further sum will be made available together with the nearly 2,000,000 pounds held by the Bank of England to the credit of Spain under the clearing agreement concluded in 1936 to make possible an immediate payment of fifty per cent on outstanding blocked commercial credits.

There

There will be no further payment until 1942 after the initial payment of fifty per cent. Beginning in January 1942 50,000 pounds will be made available monthly from current clearing receipts. This amount is estimated to be sufficient to make possible a further payment of ten percent in 1942 and each year thereafter through 1946 when liquidation of these accounts should be concluded.

The agreement covers the following debts:

1. All debts which under the 1936 payments agreement are already awaiting transfer;

2. All other debts resulting from British exports and reexports to Spain as well as royalties, insurance, and other financial payments from Spain to the United Kingdom which fell due before April 1 of last year;

3. Amounts due acceptance houses in London on acceptances covered by terms of the Spanish exchange control office outside the clearing agreement of 1936.

Payment of interest on the loan will be made from the beginning but no repayment of capital will be made by Spain until 1942; repayments in ten equal annual installments will thereafter be made from funds for this purpose obtained from sterling receipts paid into a sterling account established under the clearing agreement. It is provided in the clearing agreement that all sums due for Spanish goods exported to the United Kingdom shall be paid into a sterling

sterling current account at the Bank of England set up in the name of the Controller of the Anglo-Spanish Clearing Office. After making provision for service on the loan the sums paid into this account will then be allocated as follows: 45 per cent for Spanish purchases of goods from the United Kingdom and payments of freight charges on British vessels between the two countries; 45 per cent to cover Spanish purchases through firms in the United Kingdom of merchandise originating in certain parts of the British Empire and other countries within the "sterling Area" (by "sterling area" is meant the British Empire, including Egypt, the Sudan and Iraq, but excluding Canada, Newfoundland and Hong Kong) and freight charges on British vessels between any of these countries and Spain; the remaining 10 per cent is for payment of insurance and reinsurance premiums, patent fees, royalties, interest and other financial payments due from Spain to the United Kingdom of a revenue nature, except that by agreement the amount reserved for these financial payments for the year 1940 shall not exceed 400,000 pounds sterling. The payments agreement will become effective on April 1 and will continue in force until September 30, 1940 and thereafter unless denounced on one month's notice by either country. Although the exchange of specific commodities is not provided for under the clearing agreement, I am informed that an additional

confidential

confidential protocol has also been concluded under which various Spanish commodities needed by Britain in connection with war purposes and including specifically pyrites will be purchased by private British firms.

Statement of Secretary Morgenthau Before the
Senate Committee on Banking and Currency,
March 19, 1940.

As I understand it, this Committee is considering a bill proposed by Senator Townsend, the effect of which would be to terminate all power and authority of the President, the Secretary of the Treasury, and any other agency in the Executive branch of the Government with respect to the acquisition of silver (except newly-mined domestic silver acquired pursuant to section 4 of the Act of July 6, 1939), and also to terminate any orders, regulations, and other action taken with respect to silver. The bill would also terminate the existing 50 percent profits tax imposed on transfers of silver.

I assume that the Committee, in determining what should be the future policy of the United States with respect to silver, would want to be fully informed as to what we have been doing during the last six years to carry out the duties and responsibilities that have been placed upon us by the Silver Purchase Act. Accordingly, I have brought with me today records of our acquisitions of silver since 1933. I have also brought with me members of the Treasury staff who will be able to supply the Committee with any available information concerning the administration of the Silver Purchase Act and the acquisition of silver.

I have had prepared for the convenience of the Committee summary tables showing the silver contracted for by the Treasury, the acquisitions of silver by the Treasury, and the

imports of silver into the United States since 1933. I should like to mention that the difference between the figures of silver contracted for and the figures of silver acquisitions shown in the tables lies in the fact that the first set of figures records the silver purchased regardless of when delivery is to be made; and the acquisition figures record the actual silver received by the mints and assay offices pursuant to such purchases. Incidentally it is the latter figures which have been made public from time to time and appear in the monthly Bulletin of the Treasury Department. I might also mention that none of these figures includes acquisitions of newly-mined domestic silver or silver which was nationalized pursuant to the Executive Order of August 9, 1934.

I would also like to leave with your Committee several statements which are a consolidation of all silver purchases up to February 15, 1940. These consolidated statements were prepared for the use of this Committee by our fiscal agent, the Federal Reserve Bank of New York, at the direction of the Treasury Department. These statements show the country which is the source of silver purchased by the Treasury wherever such information was known to the Treasury.

I presume the Committee is also interested in figures showing the relative proportions of gold and silver in the monetary stocks of the United States at various dates. I have here a statement of such figures for the use of the Committee. You will note that notwithstanding continued acquisitions of

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silver, both domestic and foreign, by the Treasury during the six year period, the ratio of silver to our total monetary stocks has not reached the ratio stipulated in the Silver Purchase Act. The obvious reason for this has been the increase in our gold acquisitions.

In order that the Committee may have before it a complete picture of the silver acquired by the United States since 1933 the Department has also prepared a statement showing the amounts of newly-mined domestic silver and nationalized silver acquired since 1933.

I have also prepared a statement showing the amounts collected each year by virtue of the 50 percent silver profits tax. You will note that the amount of taxes collected in each of the first three years of the silver profits tax is substantially greater than the amount of tax collected in each year thereafter. One reason for this is that the yield of the tax is higher during a period of rising silver prices than during a period of stable or declining silver prices.

The Committee may have a number of questions which it would like to ask in connection with these tables. The members of my staff, who are here with me today, are available to answer such inquiries.

I should also like to explain how we have been purchasing silver. Firstly, we acquire silver for spot delivery. That means that the silver is delivered to us no later than the working day following the purchase of the silver. Generally

speaking, silver which we purchase for spot delivery comes from the stocks or inventories of refining companies, or other dealers in silver such as banking institutions, etc. Secondly, silver which is newly-mined silver production of foreign countries is purchased by us for future delivery. Under our present practice we permit up to 5 months' time for delivery of silver thus purchased. Thirdly, the Treasury acquires silver pursuant to special arrangements with certain foreign countries. The Treasury normally requires that the silver which it purchases bear the stamp of a refinery located in the United States; and in carrying out the silver purchase program, the Treasury has sought to divert to American refining companies a considerable amount of business which otherwise would have gone to foreign refiners.

In all the instances in which the Treasury purchased silver directly from a foreign government the price which the Treasury paid for the silver did not exceed the market price for silver prevailing at the time of the purchase. This was, of course, also true of all other purchases of silver under the Silver Purchase Act.

As you know, the Treasury has made special arrangements with various foreign countries relating to the purchase of silver. The first, and perhaps the most important of such arrangements, was made with China. In June, 1936, and from time to time thereafter the Treasury entered into arrangements with China pursuant to which it acquired approximately 565,855,000 ounces of Chinese silver.

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Beginning with January, 1936, and up to March 31, 1938, the Treasury had a special arrangement with Mexico pursuant to which Mexico had the privilege of offering to the Treasury up to 5-million ounces a month of newly-mined Mexican silver production. We permitted this special arrangement to expire on March 31, 1938, and it has not been renewed. Since then Mexican newly-mined silver has been imported into the United States and has been offered for sale on the New York market. Such silver when acquired by the Treasury is acquired as any other silver in this country and bears the stamp of an American refinery located in this country.

The third special arrangement is the one which the Treasury has with Canada. Pursuant to this arrangement Canada is given the privilege of offering to us up to 1,200,000 ounces of newly-mined Canadian silver monthly. This arrangement is on a monthly basis and continues in full operation and effect.

Pursuant to mandate of Congress the Government has acquired a large stock of silver. In more recent years there has been greater stability in the price of silver than in prior years. Many countries with whom we have friendly relations have, or produce, substantial quantities of silver and it is very helpful to such countries that they be able to use such silver in order to acquire needed dollar exchange. If there were to be a substantial decline in the price of silver such countries would suffer, and would of necessity curtail their purchases of commodities in this country at the very time we are eager to improve our foreign trade and our foreign relations. This

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Committee is fully cognizant of the troubled condition of world commerce. I hope you will agree that this is not the appropriate time to inject another disturbing element into this already chaotic situation.

This Committee has been authorized by the Senate to study and recommend a national monetary and banking policy and to consider and recommend the character of governmental machinery best calculated to carry out such a policy. Such a study, I assume, would be comprehensive in its nature and would necessarily include a study of the entire silver problem and the relation of silver to the other problems in the monetary field. It seems to me that the wise course is to re-examine our silver purchase program in the light of the entire monetary structure rather than attempt to treat it independently and prior to the completion of such a study.

Table I

Net Imports, Mint Acquisitions and Treasury
Purchases of Foreign Silver, 1933 to date

(In millions of ounces)

Year and month	Net Imports 1/	Treasury purchases of foreign silver	Mint acquisitions of foreign silver
1933	117.7	-	-
1934	170.8	216.1	172.5
1935	525.7	597.9	494.4
1936	393.7	185.4	271.9
1937	194.9	255.0	241.5
1938	516.8	449.5	355.4
1939	177.4	159.6	282.8
1939-Jan	20.3	30.2	41.3
Feb	18.4	14.5	21.2
Mar	12.4	17.6	24.6
Apr	11.9	16.6	26.1
May	13.0	25.8	24.7
June	34.5	25.6	32.2
July	14.0	10.1	28.6
Aug	9.5	1.5	22.8
Sept	9.1	.2	17.8
Oct	15.4	3.1	11.4
Nov	10.6	6.4	15.3
Dec	8.3	8.0	16.8
1940-Jan	15.4	12.8	14.0
Feb	10.9	13.0	20.9
Mar (2 weeks)		7.4	
Total	2,123.3 1/	1,896.7	1,853.4

Treasury Department, Division of Monetary Research March 18, 1940

1/ Based upon the Commerce statistics of monthly imports and exports of silver converted to ounces by dividing by the average monthly price of silver in New York as given by the Bureau of the Mint. Included in net imports are about 2.8 million ounces of silver from the Philippine Islands received by the U. S. mints under the classification of newly-mined domestic silver.

Table II

CONSOLIDATION OF ALL SILVER PURCHASES FROM
THE ENACTMENT OF THE SILVER PURCHASE ACT ON
JUNE 19, 1934 TO DEC. 11, 1935 - WITH - PURCHASES
FROM DEC. 12, 1935 TO FEB. 15, 1940

Figures are shown in thousands only. When 500 or under, the amount has been dropped, when over, it has been added. This applies to both the ounces and the dollars on this summary.

Source	PERIOD OF				T O T A L	
	June 19, 1934 to Dec. 11, 1935		Dec. 12, 1935 to Feb. 15, 1940		ozs. .999 Fine	Cost
	ozs. .999 Fine	Cost	ozs. .999 Fine	Cost	ozs. .999 Fine	Cost
<u>NEW PRODUCTION SILVER</u>						
Countries south of the U. S.						
Various countries	-	\$ -	56,834	\$ 24,366	56,834	\$ 24,366
Mexico	72,493	45,924	60,833	26,500	133,326	72,424
Mexico under agreement	-	-	123,010	55,129	123,010	55,129
<u>Sub-Total</u>	<u>72,493</u>	<u>45,924</u>	<u>240,677</u>	<u>105,995</u>	<u>313,170</u>	<u>151,919</u>
Various Countries (not identified)	-	-	84,754	35,987	84,754	35,987
All Canada	-	-	62,507	26,876	62,507	26,876
<u>Total New Pro- duction Silver</u>	<u>72,493</u>	<u>\$45,924</u>	<u>387,938</u>	<u>\$168,858</u>	<u>460,431</u>	<u>\$214,782</u>

* * * * *

Table II, (continued)

Source	PERIOD OF				T O T A L	
	June 19, 1934 to Dec. 11, 1935		Dec. 12, 1935 to Feb. 15, 1940		ozs. .999 Fine	Cost
<u>TRADING AND INVENTORY SILVER</u>						
New York	174,491	\$97,832	112,026	\$ 49,638	286,517	\$147,470
* * * * *						
<u>OTHER PURCHASES OF SILVER</u>						
<u>Various Countries</u>						
Canada	81	\$ 60	6,687	\$ 2,875	6,768	\$ 2,935
London	460,716	287,095	32,082	14,822	492,798	301,917
All others	75,422	46,584	539,422	260,911	668,844	307,495
<u>Total other purchases of silver</u>	<u>536,219</u>	<u>\$333,739</u>	<u>632,191</u>	<u>\$278,608</u>	<u>1,168,410</u>	<u>\$612,347</u>
<u>Grand Total</u>	<u>783,203</u>	<u>\$477,495</u>	<u>1,132,155</u>	<u>\$497,104</u>	<u>1,915,358</u>	<u>\$974,599</u>

TABLE III
 RECAPITULATION OF U. S. SILVER PRODUCTION
 BY SOURCE FROM
 DECEMBER 12, 1918 TO FEBRUARY 15, 1940
 (DOLLARS, '000 FINE)

Values are shown in thousands only. When 500 or under, the amount has been rounded, when over, it has been added. This applies to the ounces and the dollars on this summary.

Type of Source	1918 - December 12 to 31		1919		1920		1921		1922		1923		1924 - Jan. 1 to Feb. 15		Total
	Ozs.	Cost	Ozs.	Cost	Ozs.	Cost	Ozs.	Cost	Ozs.	Cost	Ozs.	Cost	Ozs.	Cost	
NET PRODUCTION SILVER															
United States of the United States															
Argentina	-	-	-	-	2	185	3	71	1,050	-	533	-	-	1,415	504
Argentina and Chile	-	-	-	-	-	210	-	20	-	-	-	-	-	210	30
Argentina and Others	-	-	-	-	-	115	-	51	-	-	-	-	-	115	51
Chile	-	-	770	951	1,443	630	400	176	100	-	43	-	-	2,671	1,800
Cuba	-	-	-	-	-	12	-	5	-	-	-	-	-	12	5
Cuba and Others	-	-	-	-	-	15	-	6	16	-	6	-	-	31	12
Guatemala	-	-	-	-	-	26	-	11	-	-	-	-	-	26	11
Guatemala and Others	-	-	-	-	-	-	-	-	32	-	5	-	-	10	5
El Salvador	-	-	345	66	-	-	-	-	-	-	-	-	-	145	65
Honduras	-	-	-	-	-	-	-	-	85	-	22	-	-	65	22
Honduras and Others	-	-	1,425	685	1,715	758	7,329	1,033	4,253	1,730	596	222	-	10,154	4,381
Nicaragua	-	-	-	-	130	54	-	-	-	-	-	-	-	130	54
Panama	108	60	8,423	3,793	8,216	1,697	12,655	5,492	9,192	3,739	1,850	542	-	40,415	17,404
Venezuela	-	-	-	-	-	-	-	11	-	5	1,301	-	-	1,312	857
Yucatan	5,019	2,760	107	48	517	773	28,532	12,441	25,125	10,707	773	771	-	60,811	26,526
Mexico by agreement	-	-	56,854	24,915	52,545	21,851	15,001	5,201	-	-	-	-	-	125,101	55,129
Sub-Total	9,115	2,820	66,335	29,433	68,595	28,913	59,871	26,763	41,484	17,217	5,713	1,349	-	242,577	105,999
Other Countries (not identified)	9,553	3,048	78,105	15,751	80,266	15,938	82,984	36,094	66,621	27,643	11,908	4,167	-	176,411	141,967
Total	18,668	5,868	144,440	45,184	148,861	44,851	142,855	62,857	108,105	44,834	17,621	5,516	-	418,988	247,966
Under Agreement	2,071	1,158	1,500	567	3,722	1,277	3,122	11,523	4,222	1,001	751	757	-	16,684	7,372
Others	2,071	1,158	8,937	9,017	13,486	5,017	18,167	2,678	17,399	6,892	255	252	-	10,507	25,672
Total Net Production Silver	7,624	4,202	27,162	14,278	52,542	41,976	101,151	43,969	83,652	34,792	14,657	5,114	-	187,938	158,858
TRADING SILVER															
Total Trading Silver	2,965	1,632	18,093	2,337	10,426	4,592	13,428	5,728	14,736	6,229	1,427	500	-	51,035	27,112
INVENTORY SILVER															
Total Inventory Silver	7,890	4,400	4,846	6,056	7,094	3,597	10,908	4,728	12,709	5,314	6,664	2,326	-	50,993	22,460
OTHER PURCHASES OF SILVER															
Canada	-	-	-	-	-	5,687	-	5,875	-	-	-	-	-	6,687	2,875
London	9,277	4,962	9,050	3,956	14,856	5,055	1,949	200	-	-	-	-	-	32,082	14,882
Spain	-	-	-	-	-	-	35,000	15,086	-	-	-	-	-	35,000	15,086
Sancti Spiritus Republic	-	-	-	-	-	197	-	63	-	-	-	-	-	197	82
Mexico - Special Purchase	-	-	-	-	35,000	15,750	-	-	-	-	-	-	-	35,000	15,750
Import from Mexico to New York	172	107	-	-	-	-	-	-	-	-	-	-	-	172	107
Others	-	-	73	33	-	-	-	-	-	-	-	-	-	73	33
Sub-Total	9,449	5,069	9,123	3,989	46,856	20,912	41,826	12,251	-	-	-	-	-	104,224	48,719
Other	115	174	66,975	11,157	130,026	54,512	266,890	115,510	35,341	13,747	-	-	-	486,349	212,760
India	3,687	1,951	-	-	-	-	-	-	-	-	-	-	-	3,687	1,951
Japan	-	-	100	45	-	-	-	-	-	-	-	-	-	100	45
Java	-	-	-	-	-	-	-	-	-	-	-	-	-	12	12
Colonies of the U.S.A.	-	-	-	-	-	-	2,426	1,255	14,717	5,156	35	12	-	35	12
Sub-Total	3,802	2,055	67,075	11,212	130,026	54,512	279,316	119,185	47,258	19,943	36	12	-	422,377	222,899
Total of Other-Purchases of Silver	13,251	7,124	76,198	34,199	176,882	79,424	117,217	12,016	47,624	19,943	36	12	-	352,151	278,608
GRAND TOTAL	31,720	12,992	220,638	89,383	325,743	124,275	359,972	156,644	268,945	109,866	22,714	7,391	-	841,101	426,476

Table IV

MONETARY STOCKS OF GOLD AND SILVER

(In millions of dollars - on basis, daily Treasury statements, revised)

End of fiscal year or month	Gold (\$35 per fine ounce)	Silver (\$1.29* per fine ounce)	Ratio of Silver to Gold and Silver in Monetary Stocks
1934	7,856.2	808.2	10.3
1935	9,115.6	1,463.1	13.8
1936	10,608.4	2,249.5	17.5
1937	12,318.3	2,542.1	17.2
1938	12,963.0	3,066.4	19.1
1939	16,110.0	3,595.3	18.2
1939 Jan	14,681.7	3,404.8	18.8
Feb	14,874.4	3,439.4	18.8
Mar	15,258.2	3,477.9	18.6
Apr	15,790.6	3,518.0	18.2
May	15,956.7	3,555.8	18.2
June	16,110.1	3,605.2	18.3
July	16,238.0	3,649.1	18.3
Aug	16,645.7	3,682.4	18.1
Sept	16,931.5	3,709.8	18.0
Oct	17,091.4	3,733.7	17.9
Nov	17,358.5	3,762.0	17.8
Dec	17,643.6	3,790.2	17.7
1940 Jan	17,931.0	3,817.6	17.6
Feb*	18,177.5	3,838.7	17.4

* Preliminary

Division of Monetary Research

March 18, 1940

Table V

Silver of Specified Classifications
Acquired by Mints and Assay Offices
(In millions)

Calendar year or month	Newly mined domestic 1/		Nationalized 2/		Foreign 3/		Total	
	Ounces	Dollars	Ounces	Dollars	Ounces	Dollars	Ounces	Dollars
1934	21.8	14.1	110.6	55.3	172.5	86.5	304.9	155.9
1935	38.0	27.3	2.0	1.0	494.4	318.2	534.3	346.5
1936	61.1	47.3	.4	.2	271.9	150.3	333.4	197.9
1937	70.6	54.6	-	-	241.5	108.7	312.2	163.4
1938	61.6	42.2	-	-	355.4	156.9	417.1	190.1
1939	60.7	39.9	-	-	282.8	120.5	343.3	160.4
1939-Jan	4.5	2.9	-	-	41.3	17.8	45.8	20.7
Feb	5.1	3.3	-	-	21.2	9.1	26.3	12.4
Mar	5.4	3.5	-	-	24.6	10.6	30.0	14.1
Apr	4.9	3.2	-	-	26.1	11.2	31.0	14.4
May	4.7	3.0	-	-	24.7	10.6	29.3	13.6
June	5.8	3.7	-	-	32.2	13.8	38.0	17.5
July	5.4	3.4	-	-	28.6	12.0	33.9	15.4
Aug	3.1	2.0	-	-	22.8	9.7	25.9	11.7
Sept	3.0	2.0	-	-	17.8	7.7	20.8	9.7
Oct	7.2	4.8	-	-	11.4	4.9	18.6	9.7
Nov	6.5	4.5	-	-	15.3	6.3	21.8	10.8
Dec	5.1	3.6	-	-	16.8	6.8	21.9	10.4
1940-Jan	7.3	5.2	-	-	14.0	5.7	21.3	10.9
Feb	4.5	3.2	-	-	20.9	7.8	25.4	11.0

Treasury Department, Division of Monetary Research

March 18, 1940.

1/Acquired at 64.644 cents per fine ounce until April 9, 1935; at 71.114 cents per fine ounce from that date until April 23, 1935; at 77.574 cents from April 23, 1935 to December 31, 1937; at 64.644 cents per fine ounce from December 31, 1937 to July 1, 1939; and at 71.114 cents since July 1, 1939.

2/Acquired at 50.01 cents per fine ounce. Exec. Proc. of August 9, 1934, repealed April 28, 1938.

3/Acquired at various prices averaging approximately 52 cents per ounce.

Table VIAMOUNTS COLLECTED PURSUANT TO 50% SILVER PROFITS TAX
(Sec. 1805 Int. Rev. Code)

<u>Fiscal Year</u>	<u>Amount</u>
1935	\$1,149,390
1936	685,188
1937	633,712
1938	142,107
1939	261,772
1940 (first 7 months)	<u>131,028</u>
Total	\$3,003,197

During this period approximately 25,000 returns were filed with respect to this tax.

o o o

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 119

DATE: March 19, 1940

Reference is made to Department's telegram no. 72 of March 15 and to my no. 114 of March 16.

The states and municipalities have already been notified by the Ministry of Finance that they should prepare to make the necessary payments in milreis. These payments are to be deposited with the Bank of Brazil, which will be charged with distributing foreign exchange to the paying agents abroad. For your confidential information, it is hoped by the Ministry of Finance that it will be possible to distribute the total amount of foreign exchange which is payable in April at one time rather than to distribute it piecemeal as the milreis are deposited by the several states. Instructions to the paying agents for the individual loans are now being prepared by the Government. These instructions may be received by the paying agents by the last part of next week.

With reference to details regarding Article III, I am still awaiting the delayed return of the official mentioned from Pocos de Caldas.

CAFFERY

EA:EB

Statement of Secretary Morgenthau Before the
Senate Committee on Banking and Currency,
March 19, 1940.

As I understand it, this Committee is considering a bill proposed by Senator Townsend, the effect of which would be to terminate all power and authority of the President, the Secretary of the Treasury, and any other agency in the Executive branch of the Government with respect to the acquisition of silver (except newly-mined domestic silver acquired pursuant to section 4 of the Act of July 6, 1939), and also to terminate any orders, regulations, and other action taken with respect to silver. The bill would also terminate the existing fifty percent profits tax imposed on transfers of silver.

- 2 -

I assume that the Committee, in determining what should be the future policy of the United States with respect to silver, would want to be fully informed as to what we have been doing during the last six years to carry out the duties and responsibilities that have been placed upon us by the Congress.

Accordingly, I have brought with me today records of our acquisitions of silver since 1933. I have also brought with me members of the Treasury staff who will be able to supply the Committee with any available information concerning the administration of the Silver Purchase Act and the acquisition of silver.

- 3 -

I have had prepared for the convenience of the Committee summary tables showing the silver contracted for by the Treasury, the acquisitions of silver by the Treasury, and the imports of silver into the United States since 1933. I should like to mention that the difference between the figures of silver contracted for and the figures of silver acquisitions shown in the tables lies in the fact that the first set of figures records the silver purchased regardless of when delivery is to be made; and the acquisition figures record the actual silver received by the mints and assay offices pursuant to such purchases.

Incidentally it is the latter figures which have been made public from time to time and appear in the monthly Bulletin of the Treasury Department. I might also mention that none of these figures include acquisitions of newly-mined domestic silver or silver which was nationalized pursuant to the Executive Order of August 9, 1934.

I would also like to leave with your Committee several statements which are a consolidation of all foreign silver purchases up to February 15, 1940. These consolidated statements were prepared for the use of this Committee by our fiscal agent, the Federal Reserve Bank of New York, at the direction of the Treasury Department. These statements show the country which is the source of silver purchased by the Treasury wherever such information was known to the Treasury.

I presume the Committee is also interested in figures showing the relative proportions of gold and silver in the monetary stocks of the United States at various dates. I have here a statement of such figures for the use of the Committee. You will note that notwithstanding continued acquisitions of silver, both domestic and foreign, by the Treasury during the six year period, the ratio of silver to our total monetary stocks has not reached the ratio stipulated in the Silver Purchase Act. The obvious reason for this has been the increase in our gold acquisitions.

In order that the Committee may have before it a complete picture of the silver acquired by the United States since 1933 the Department has also prepared a statement showing the amounts of newly-mined domestic silver and nationalized silver acquired since 1933.

I have also prepared a statement showing the amounts collected each year by virtue of the fifty percent silver profits tax. You will note that the amount of taxes collected in each of the first three years of the silver profits tax is substantially greater than the amount of tax collected in each year thereafter. One reason for this is that the yield of the tax is higher during a period of rising silver prices than during a period of stable or declining silver prices.

The Committee may have a number of questions which it would like to ask in connection with these tables. The members of my staff, who are here with me today, are available to answer such inquiries.

- 7 -

I should also like to explain how we have been purchasing silver. Firstly, we acquire silver for spot delivery. That means that the silver is delivered to us no later than the working day following the purchase of the silver. Generally speaking, silver which we purchase for spot delivery comes from the stocks or inventories of refining companies, or other dealers in silver such as banking institutions, etc. Secondly, silver which is newly-mined silver production of foreign countries is purchased by us for future delivery. Under our present practice we permit up to five months' time for delivery of silver thus purchased.

Thirdly, the Treasury acquires silver pursuant to special arrangements with certain foreign countries. The Treasury normally requires that the silver which it purchases bear the stamp of a refinery located in the United States; and in carrying out the silver purchase program, the Treasury has sought to divert to American refining companies a considerable amount of business which otherwise would have gone to foreign refiners.

In all the instances in which the Treasury purchased silver directly from a foreign government the price which the Treasury paid for the silver did not exceed the market price for silver prevailing at the time of the purchase. This was, of course, also true of all other purchases of silver under the Silver Purchase Act.

As you know, the Treasury has made special arrangements with various foreign countries relating to the purchase of silver. The first, and perhaps the most important of such arrangements was made with China. In June, 1936, and from time to time thereafter the Treasury entered into arrangements with China pursuant to which it acquired approximately 565,855,000 ounces of Chinese silver.

Beginning with January, 1936, and up to March 31, 1938, the Treasury had a special arrangement with Mexico pursuant to which Mexico had the privilege of offering to the Treasury up to 5-million ounces a month of newly-mined Mexican silver production. We permitted this special arrangement to expire on March 31, 1938, and it has not been renewed.

- 10 -

Since then Mexican newly-mined silver has been imported into the United States and has been offered for sale on the New York market. Such silver when acquired by the Treasury is acquired as any other silver in this country and bears the stamp of an American refinery located in this country.

The third special arrangement is the one which the Treasury has with Canada. Pursuant to this arrangement Canada is given the privilege of offering to us up to 1,200,000 ounces of newly-mined Canadian silver monthly. This arrangement is on a monthly basis and continues in full operation and effect.

- 11 -

Pursuant to mandate of Congress the Government has acquired a large stock of silver. In more recent years there has been greater stability in the price of silver than in prior years. Many countries with whom we have friendly relations have, or produce, substantial quantities of silver and it is very helpful to such countries that they be able to use such silver in order to acquire needed dollar exchange. If there were to be a substantial decline in the price of silver such countries would suffer, and would of necessity curtail their purchases of commodities in this country at the very time we are eager to improve our foreign trade and our foreign relations. This Committee is fully cognizant of the troubled condition of world commerce.

- 12 -

I hope you will agree that this is not the appropriate time to inject another disturbing element into this already chaotic situation.

This Committee has been authorized by the Senate to study and recommend a national monetary and banking policy and to consider and recommend the character of governmental machinery best calculated to carry out such a policy. Such a study, I assume, would be comprehensive in its nature and would necessarily include a study of the entire silver problem and the relation of silver to the other problems in the monetary field. It seems to me that the wise course is to re-examine our silver purchase program in the light of the entire monetary structure rather than attempt to treat it independently and prior to the completion of such a study.

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TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

March 19, 1940

MEMORANDUM FOR THE SECRETARY

Yesterday morning Mr. Joseph C. Green, Chief of the Division of Controls, State Department, accompanied by Mr. Lawrence Duggan, Chief of the Division of American Republics; Mr. Selden Chapin, Chief of the Liaison Division; brought to my office Senor Bianchi, the Chilean Ambassador to Spain who is now in this country on a special arms purchase; and Major Marin, his assistant, for the discussion of ordnance materiel which it is desired to procure in the United States.

This afternoon I received from Mr. Chapin a list of materiel which they desire to purchase which has been forwarded to both the Army and the Navy for action.

Although I understood from the Ambassador that he had been in this country three months, yesterday was the first time I had heard of their wishes with reference to the materiel they want to purchase.

Chairman, President's Liaison Committee

MAR 19 1940

Dear Mr. Chairman:

In answer to your letter dated March 13, 1940, I have pleasure in informing you that I shall be happy to have Mr. Purcell consult at any time with Mr. Cochran in regard to the details of an arrangement whereby there will be made promptly available to you the figures which are received here in strictest confidence in regard to official sales of dollar securities by the British Government. It is my suggestion that Mr. Cochran telephone the data directly to Mr. Purcell as and when received from the British officials.

I have definitely assumed the responsibility that the data which the British Government is giving in regard to security sales on this market shall be considered strictly confidential.

I have undertaken that these data shall not be published. By this I include prohibition against using the figures given in confidence by the British to correct or amplify or supplement any figures which are already being published by this Government. Furthermore, I have promised that the lag which has obtained in the past in the publishing of figures in regard to capital movements shall be maintained. The figures received each day by Mr. Cochran are given to me by him, but are not circulated to any other officer or member of my staff. Any arrangement whereby these figures are passed on to you is subject to the condition that the same rules be followed in the Securities and Exchange Commission that have been adopted in the Treasury with the view to safeguarding the confidential character of this material.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

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

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

By Messenger | MAR 19 1940 9:50 a.m.

File to Mr. Thompson

MAR 19 1940

Dear Mr. Chairman:

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Chairman,
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Washington, D. C.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

By Messenger MAR 19 1940 9:50 a.m.


HMC:rm:tkm

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Secretary of the Treasury.

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

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

By Messenger MAR 19 1940 9:50 a.m.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

March 13, 1940

Sir:

As you may know, this Commission obtains, on a voluntary basis from some forty member firms of the New York Stock Exchange, daily figures as to transactions effected by them pursuant to orders emanating from foreign sources. The information is, of course, obtained only from this limited number of firms having foreign connections and customarily doing a large volume of foreign business and is obtained only with respect to transactions known to the firms to have originated abroad. These figures cannot be regarded as inclusive or entirely accurate. They have, however, when properly applied proved somewhat useful to our staff from a statistical point of view in attempting to appraise the effect of foreign trading in our securities markets.

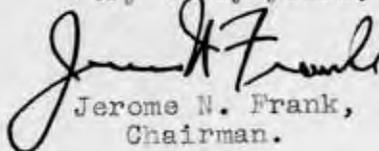
Recently it has been publicly announced that the British Government has, by order pursuant to previously adopted regulations, vested title in His Majesty's Treasury to securities previously held by British citizens of sixty different American issuers. It was concurrently announced that those securities would be liquidated in an orderly manner through representatives of the British Government in this country.

As I told you over the telephone, it is highly probable that sales of these securities will be made in such a manner as to result in many of the transactions not appearing on the reports which we presently obtain in the manner which I have described. I understand from you that under agreement with the British Government, you are currently obtaining daily figures on transactions in American securities entered into by the British representatives in New York. The Commission would very much appreciate it if a copy of these figures could be made available to us as they are received by your Department so that our foreign transactions statistics

may not become entirely useless to us. The Commission would, of course, subject itself to whatever conditions you might wish to attach with respect to the disclosure or public use of this information. I understood you over the telephone to say that you would be obliged to condition the Commission's receiving these figures upon an assurance from us that they would be treated as strictly confidential and for restricted statistical use only and would not in any way be made public property without prior approval by you.

If this request meets with your approval, I would appreciate it if you would fix some convenient time when Mr. Furcell, Director of our Trading and Exchange Division could meet with the appropriate officials of your Department to work out the details of whatever arrangement is satisfactory to you.

Very truly yours,


Jerome N. Frank,
Chairman.

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

File 38

March 19, 1940

To: The Secretary

From: Mr. Young

Re: Loans to Small Business

Mead Bill, S. 2998, Introduced October 31, 1939

This bill creates an Industrial Loan Corporation by amending section 13b of the Federal Reserve Act.

The Corporation would have officers and directors identical with the Board of Governors of the Federal Reserve System and operate upon a decentralized basis presumably through Federal Reserve banks as agents.

The Corporation would provide funds to commercial and industrial businesses on not more than a ten year basis with a maximum of \$1,000,000 to any one business at any one time.

The capital stock and surplus of the Corporation are to be obtained by sale to the Secretary of the Treasury of the F.D.I.C. stock heretofore subscribed to by the Federal Reserve banks and paid for out of devaluation profits.

Provision is made for a \$25,000,000 (maximum) insurance fund to be used for insuring F.D.I.C. insured banks against losses from commercial or industrial loans. Insured loans are limited to \$25,000 per obligor.

Pepper Bill, S. 3511, Introduced March 4, 1940.

This bill is very similar to the Mead Bill (S. 2998). It provides for an Industrial Loan Corporation under the control of the Board of Governors of the Federal Reserve System which would operate through the Reserve Banks on a decentralized basis.

The Corporation would provide funds to commercial or industrial businesses on not more than a ten year basis but with a maximum of \$25,000 to any one business at any one time.

- 2 -

The Corporation would have a capital stock and surplus of about \$129,000,000 to be obtained by sale to the Secretary of the Treasury of the F.D.I.C. stock heretofore subscribed to by the Federal Reserve banks and paid for out of devaluation profits.

Provision is made for an insurance fund (no maximum stated) to be used for insuring banks against losses from commercial or industrial loans. Insured loans are limited to \$25,000 per obligor.

Mead Bill, S. 3343, Introduced February 13, 1940

Section 13b of the Federal Reserve Act authorizes loans to, or purchases of obligations of, established industrial or commercial businesses for the purpose of providing working capital, the loans or obligations to mature in five years.

This bill would make possible loans to new business enterprises and broaden the scope of such loans by removing the requirements that the obligor be an established business enterprise, that the advances be for working capital and that the loans or obligations mature in five years.

Further, the amount of loss to be assumed by financial institutions from which Federal Reserve banks had purchased obligations under section 13b would be decreased from 20 per centum to 10 per centum.

Funds for loans under this bill would be made available through the purchase of F.D.I.C. stock from the Federal Reserve banks by the Treasury and paid for out of devaluation profits.

P.Y.



TREASURY DEPARTMENT
WASHINGTON

March 19, 1940.

MEMORANDUM FOR THE SECRETARY:

Just as a matter of interest, I am attaching statements of shipments from New York and from the West Coast etc.

Dasil Harris.

Encl.

Shipments from New York

- PIETRO ORSEOLO from New York, January 24, believed for Vladivostock via Los Angeles (bunkers) 12/2/40, -5,177 tons copper, 94 steel, 1,024 brass, 224 tin, 2,520 machinery, etc.
Suppliers included American Smelting and Refining Company, Copper Export Association, Whipple and Choate, E. F. Hutton Company, Bridgeport Brass, Co.
- * LIBERTY GLO from New York, January 31 for Vladivostock via Philadelphia. No details cargo.
- SYLVAPLANA from New York, February 4, Vladivostock via Claremont, -3,000 tons copper, 2,522 brass, 57 steel, 2,000 general, 389 rags.
- * HARPOON Reported loaded copper and lead at New York which was transhipped to S.S. MINSK February 6 at Manzanillo and balance in S.S. KIM later.
- ORGONTZ from New York February 8, believed for Vladivostock. No details cargo.
- WILDWOOD from New York, February 20, for Vladivostock—4,188 tons copper, 981 brass, 335 steel, 1,475 general machinery.
- NORBRYN To sail during the next few days from New York for Vladivostock. No details yet, except for 85 tons latex.
- TEXAS Reported to be sailing from New York about March 15, for Vladivostock.
N.B. One hundred tons of tin of British origin was purchased during the last few days by the Russians by means of a subterfuge.
- * LIBERTY GLO left Los Angeles for San Francisco on February 24th and will load lumber for U. S. ports and not Vladivostock.
- * HARPOON is proceeding to Puget Sound to load lumber for Atlantic seaboard ports.

Shipments from West Coast, etc.VLADIMIR MAYAKOWSKI

from Los Angeles, February 8, for Vladivostock—
5,000 tons copper loaded at Manzanillo ex
PIETRO ORSEOLO, GUYAQUIL and BUENAVENTURA,
216 tons molybdenum loaded San Pedro and
supplied by Climax Molybdenum Company.

FRIEDRICH ENGELS

from Seattle, February 24, with 4,500 tons wheat
loaded at Portland, and copper from Manzanillo
bound for Vladivostock. Supplier of wheat was
Continental Grain Company.

NORTH STAR and
NORTH KING

loaded copper at Tacoma for Vladivostock during
January, the latter reported to have sailed
from Tacoma January 31, with 5,000 tons copper.

* MINSK and KIM

loaded copper, etc. at Manzanillo and were
expected to leave for Vladivostock, February 20.

GERASSIMOS VERGOTTIS
or
PENELOPE

is reported to be about to load 5,000 tons
wheat at Portland, Oregon for Vladivostock,
supplied by Archer Daniels Midland Company.

AMERICAN ROBIN

may have sailed from Canal Zone direct to
Vladivostock. Details cargo unknown.

MEDICIO

reported to have loaded at Baltimore recently.
Destination uncertain.

SEGUNDO and
ANNA ODLAND

reported may load Continental Grain Company's
wheat at Portland soon.

* MINSK left San Diego March 1st for Columbia River, probably
Portland, via Los Angeles, to load full cargo of grain
for Vladivostock.

JR

PLAIN

London

Dated March 19, 1940

Rec'd 1:02 p.m.

Secretary of State,
Washington.

690, March 19, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

'The new three per cent war loan has remained today at a 1/2 to 3/8 discount and the city feels that the British monetary authorities are to blame for announcing the new minimum prices yesterday. This has added to the city's feeling of despondency which larger considerations had already induced.'

KENNEDY

HPD

HSM

GRAY

Paris

Dated March 19, 1940

Rec'd 2:42 p. m.

Secretary of State,
Washington.

362, March 19, 6 p. m.

Today's Journal Officiel publishes Government revenue returns for the month of January 1940. Normal and permanent budgetary revenue totaled 5353 million francs an increase of 550 million over the figure for the corresponding month in 1939 but lower by 173,000,000 than December 1939 (my telegram No. 288, March 4, 6 p.m.). The increase in revenue over January 1939 was occasioned both by yields from new levies introduced later in the year such as the armament tax (449 million) and the special national salaries tax (143 million) and by augmented returns from the income tax (202 million) the business turnover tax 72 million sugar and saccharine levies 58 million and customs 50 million. Reductions in relation to January 1939 collections occurred with respect to revenue from registration fees 121 million tax on income from stocks and bonds 86 million stamp taxes 54 million special indirect taxes 41 million and tax on stock exchange operations 8 millions.

CSB

MURPHY

STRICTLY CONFIDENTIAL

45

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 19, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent telephoned me this afternoon that official sales of British securities on Monday, March 18, were:

4,900
164,753
Nil
Nil

Pinsent said that he had been talking by telephone with Mr. Gifford, who is not at all enthusiastic about going ahead with a second vesting operation toward the end of March. Gifford thinks this would be too early for such a step. Further exchange of views with London on this point is now taking place.



STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

46

DATE March 19, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Summary of Incoming Reports - March 19, 1940.

From Berlin, #657, March 15, 1940.

An appeal was made by Goering to the civil population voluntarily to offer as a present to the Fuehrer on his birthday, April 20, all objects which they can dispense with which are made of copper, brass, bronze, lead, tin, nickel, and "German silver".

An order was issued March 13 prohibiting the employment in general of copper, nickel, chromium, cobalt, zinc, mercury, lead, tin, aluminum and magnesium in a long list of parts of industrial machinery, locomotives and vehicles.

From Butterworth, London, #681, dated March 18, 1940.

Chancellor of the Exchequer announced that \$300 million three percent war loan had been over-subscribed.

From Butterworth, London, #690, dated March 19, 1940.

The new three percent war loan has remained today at a 1/2 to 3/8 discount and the city feels that the British monetary authorities are to blame for announcing the new minimum prices yesterday. This has added to the city's feeling of despondency which larger considerations had already induced.

From Matthews, Paris, #357, dated March 18, 1940.

A private French banker estimates French private holdings of dollar exchange at \$150,000,000. He says a substantial amount of French owned dollar securities is in Switzerland, where the French authorities will find it difficult to get their hands on such securities.

From Embassy, Rio de Janeiro, Written Report 2653, March 1, 1940.

Brazilian Government plans to proceed with construction of steel plant, hoping for assistance from Mr. Thomas Watson and Mr. Gerard Swope, together with the Export-Import Bank, and perhaps European interests.



41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The reported volume of business in sterling today was about the same as that of yesterday. In Amsterdam, the rate for sterling declined from 3.77 to 3.75-5/8. In New York, the opening quotation was also 3.75-5/8. The rate moved in an erratic manner during the morning, fluctuating between a high of 3.76-3/8 and a low of 3.75-1/4. During most of the afternoon, it remained steady at 3.75-1/2. The final quotation was 3.75-1/4.

Sales of spot sterling by the six reporting banks totaled £ 673,000, from the following sources:

By commercial concerns.....	£ 200,000
By foreign banks (Far East, Europe and South America)	£ 473,000
Total.....	£ 673,000

Purchases of spot sterling amounted to £ 554,000, as indicated below:

By commercial concerns.....	£ 291,000
By foreign banks (Far East and Europe).....	£ 263,000
Total.....	£ 554,000

The following reporting banks sold cotton bills totaling £ 18,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 15,000 by the Irving Trust Company
2,000 by the National City Bank
1,000 by the Chase National Bank
£ 18,000 Total

The rate for the belga reached a new current high of .1704 and closed at .1702.

The other important currencies closed as follows:

French francs	.0212-5/8
Guilders	.5310
Swiss francs	.2242-1/2
Canadian dollars	18-1/8% discount

The Federal Reserve Bank purchased 50,000 Swiss francs for account of the Bank of Latvia.

We purchased \$2,000,000 in gold from the earmarked account of the Bank of Venezuela.

CONFIDENTIAL

The Federal Reserve Bank of New York reported that the Banque Belge pour l'Etranger, London, shipped \$56,000 in gold from England to its New York agency for sale to the U. S. Assay Office.

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

- \$16,935,000 from Sweden, representing four shipments by the Bank of Sweden for its own account to the Federal Reserve Bank of New York.
 - 5,984,000 from Hungary, shipped by the National Bank of Hungary to the Federal Reserve Bank of New York.
 - 205,000 from Hong Kong, shipped by the National City Bank, Hong Kong, to the American Trust Co., San Francisco.
 - 129,000 from Hong Kong, shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco.
 - 113,000 from Switzerland, shipped by the Banque Federal, Bern, to the National City Bank, New York.
- \$23,366,000 Total

The disposition of the shipments from Sweden and Hungary is unknown at the present time; in the past, such shipments have been placed under earmark upon arrival. Those coming from Hong Kong will be sold to the U. S. Mint in San Francisco, while the one from Switzerland is for sale to the Assay Office at New York.

On the report of March 13 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 \$17,048,000, a decrease of \$3,518,000 in the short position. The net changes in the positions are as follows:

<u>COUNTRY</u>	<u>SHORT POSITION MARCH 6</u>	<u>SHORT POSITION MARCH 13</u>	<u>DECREASE IN SHORT POSITION</u>
England	\$10,059,000	\$ 7,302,000	\$2,757,000
Europe	6,136,000	5,951,000	185,000
Canada	369,000 (Long)	785,000 (Long)	416,000 (Increase in Long Position)
Latin America	699,000	696,000	3,000
Japan	2,892,000	2,874,000	18,000
Other Asia	1,186,000	1,010,000	176,000
All Others	37,000 (Long)	-0-	37,000 (Decrease in Long Position)
Total	<u>\$20,566,000</u>	<u>\$17,048,000</u>	<u>\$3,518,000</u>

The principal item of interest in the above figures is the reduction by \$2,757,000 in the short position in sterling. It will be recalled that the British foreign exchange regulations relative to the payment of certain exports were announced in the week ending March 13, and that the open market rate for sterling declined almost 20% during that period, from 3.91-1/2 to 3.71.

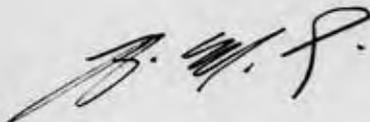
CONFIDENTIAL

The Bombay silver quotation worked out to the equivalent of 39.71¢, up 3/16¢.

In London, the spot and forward fixing prices were both unchanged at 20-13/16d. The U. S. equivalents were 35.18¢ and 34.99¢.

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

We made seven purchases of silver totaling 1,125,000 ounces under the Silver Purchase Act. Of this amount, 800,000 ounces represented sales from inventory by two refining companies, and the remaining 325,000 ounces consisted of new production from foreign countries, for forward delivery.

A handwritten signature in dark ink, appearing to be 'B. M. F.', is centered on the page.

CONFIDENTIAL

P A R A P H R A S E

A telegram (no. 87) of March 19, 1940, from the American Embassy at Peiping reads substantially as follows:

No reliable information having a direct relation to a connection between the delay in the reopening of the Yangtze and the use in Central China of Japanese military notes has been received by the Embassy. Although other reasons than the use of military notes may be mainly responsible for the delay in reopening the river, it appears to be a reasonable assumption that, unless suppressed by the Japanese, Chinese national currency would, if the river were reopened, appear again in trade at a number of places where almost the only legal tender now is Japanese military notes. Nevertheless, it is the opinion of the Embassy that there may be some basis for the prediction that increased issues of Hua Hsing Bank notes or a new currency resembling perhaps Federal Reserve Bank notes may, after a new central "government" is set up at Nanking, take the place of military notes at present circulating along the Yangtze River.

(See also paraphrase of telegram no. 221 of March 17, 1940, from the American Consul General at Shanghai.)

893.515/1488

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

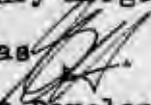
TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 19, 1940

TO Secretary Morgenthau

FROM Mr. Haas 

Subject: Current Developments in the High-Grade Securities Markets

SUMMARY

- (1) Long-term Government securities rose in price through last Saturday, but fell back slightly on Monday (Chart I). The longer Treasury bonds are now only about a point below their prices of last June (Chart II). Both corporate and municipal bonds rose in price last week.
- (2) Following the announcement on March 4 that the March financing would be confined to a note-for-note exchange, Treasury notes appear to have gravitated to New York, the holdings of weekly reporting banks in that city having increased by \$75 millions in the week ended March 13 (Chart III). Bond holdings of these banks also increased, while the holdings of both bonds and notes by reporting banks outside of New York decreased.
- (3) The usual criterion of what constitutes a "short-term" security is the price stability of that security. It is interesting to inquire whether the extension of the designation "short-term" to maturities of up to five years is justified by the facts. The average price movement of the longest Treasury note in the major price swings of the last six years has been about two-thirds that of the longest Treasury bond (Chart IV). This comparison applies to price swings of varying length (Chart V).
- (4) The existence of bearish sentiment with respect to the future course of the bond market is indicated by three recent re-funding operations in which money was borrowed to redeem securities which were not callable for a year or more.
- (5) New minimum prices on British Government bonds were placed in effect by the London Stock Exchange yesterday. The purpose of this step appears to be to insure low interest rates on Government war borrowing. Consols closed yesterday at 72-3/8 to yield 3.46 percent (Chart VI).

Secretary Morgenthau - 2

I. Domestic High-Grade Securities Markets

Long-term United States Government securities rose steadily in price through last Saturday, but fell back slightly on Monday, March 18. The average yield of long-term Treasury bonds decreased four basis points to 2.22 percent in the week ended yesterday (Chart I). Treasury notes changed relatively little in price.

The relative movements by maturity classes are shown in the following table:

	Average price change March 12 - March 18
	(In thirty-seconds)
<u>Notes</u>	
1 to 3 years	- 2
3 to 5 years	+ 2
<u>Bonds</u>	
5 to 15 years to call	+12
15 years and over to call	+19

The movement during the week carried Treasury bonds to new highs for the upward movement which started last September. The longer Treasury bonds are now only about a point below their prices of last June (Chart II).

Corporate and municipal bonds also made price gains last week. Our average of the yields of high-grade corporate bonds, which decreased one basis point to 2.76 percent in the week ended Monday, March 18, is now close to the record low yield (high price) established last August. A sharp rise last week in municipal bond prices after several weeks of relative stability is reflected in a decrease of four basis points, to 2.61 percent, in the Dow-Jones average yield of twenty 20-year bonds.

Only one sizable new bond offering was made in the New York market last week, the \$16 millions, 3-1/8 percent, 23-year issue of the Chicago Union Station Company, offered Friday at a price to yield 3.06 percent. The total of new offerings, including this issue, according to New York Times tabulations, was only \$18 millions.

The Chicago Union Station issue is interesting in the light of current controversy over the matter of competitive bidding. The company has not previously invited competitive bids, but did so on this occasion at the suggestion of the ICC. Only one bid was submitted -- by Halsey, Stuart and Company. This was rejected and the issue sold at a higher price to a syndicate headed by Kuhn, Loeb and Company. It is reported that the bonds were at a small discount from the offering price and moving slowly at the close on the day of offering.

II. Bank Holdings of Government Securities

The announcement at the close on Monday, March 4, that the March financing would be confined to a note-for-note exchange offering was an unexpected one in most quarters of the market. It resulted in a great number of switching operations on Tuesday and the few days following, as investors, who had anticipated that the Treasury would offer a new bond, bid for securities at the long end of the market and sold note issues -- both the rights and the other note maturities.

The notes, it appears, gravitated to New York, the weekly reporting member banks in that City increasing their note holdings by \$75 millions in the week ended March 13 (Chart III). Holdings of notes by other weekly reporting member banks decreased by \$20 millions, making the net increase for all reporting banks \$55 millions.

It is also interesting to note that reporting banks in New York increased their holdings of Treasury bonds by \$27 millions in the week ended March 13, while outside banks, during the same period decreased their bond holdings by \$40 millions, a net decrease of \$13 millions.

III. Relative Price Stability of Treasury Notes And Treasury Bonds

Short-term Government securities are particularly sought after because of their high degree of price stability -- the most urgent demand for them for this reason coming from banks in leading financial centers. The market's definition of what constitutes a "short-term" security was formerly very strict. Up to within the past decade this term was generally reserved for securities with maturities of one year or under. During the Thirties, however, there was a persistent tendency to liberalize the concept of what constitutes a "short-term" security, until now securities with maturities of up

to five years -- including even the longest-term Treasury notes -- have come to be looked upon as "short-term" securities. It is this liberalized concept of what constitutes a "short-term" security which explains the special demand on the part of New York banks for Treasury notes, commented upon in the preceding section.

Assuming that a high degree of price stability is the best criterion of what constitutes a "short-term" security, it is interesting to inquire whether the extension of this designation to securities with maturities of up to five years has really been justified by the facts or is, in part at least, a product of wishful thinking on the part of the market.

Chart IV compares the relative price movements of the longest-term Treasury bond and the longest-term Treasury note then outstanding in each of the eleven major price swings which have occurred in the Government bond market since the end of 1933.* The average maturity of the notes used in the comparison is four years and nine months and the average maturity of the bonds is nineteen years and four months. The average price swing of the longest note has been about two-thirds that of the longest bond.

The price swings of the notes, however, have been far from negligible. The average upward price swing of the notes during the period covered was in fact about 5 points and the average downward price swing about 3 points. The greatest downward price swing (June - September 1939) was about 4 points. On a note with a 1 percent coupon the average downswing would have absorbed 3 years' coupon-carry and the greatest downswing 4 years' coupon-carry.

The foregoing comparison, it should be noted, applies to price swings of varying length. Their timing is indicated in Chart V, which shows, on a yield basis, the major movements since the end of 1933 in the Government security market.

IV. Evidences of Bearish Market Sentiment

Three recent refunding operations indicate the existence of a respectable body of bearish sentiment with respect to the future course of the bond market. In these three cases money was borrowed for the purpose of redeeming outstanding securities aggregating

* The last pair of bars on the chart, showing the price changes from last September's low through March 16, 1940, do not necessarily represent a complete swing.

Secretary Morgenthau - 5

\$114 millions which at the time the new securities were issued were not callable for a year or more. The largest issue -- \$71 millions by the Triborough Bridge Authority -- will be used to redeem securities callable April 1, 1942. The other two refundings -- \$33 millions by the Port Of New York Authority, and \$10 millions by the Elgin, Joliet and Eastern Railway Company -- will be used to redeem obligations due about one year hence.

The bearish sentiment implicit in these transactions becomes apparent when one realizes that the issuers are undertaking to pay interest on both the new loans and the old loans until the latter mature or become callable. In the meantime, the proceeds of the new loans must be held idle until the old loans are repaid. Clearly the issuers fear that one year or two years hence, as the case may be, they may not be able to borrow except on terms less favorable than those now prevailing -- and less favorable by a margin sufficient to more than offset the additional cost they are incurring by refunding at the present time.

Additional evidence of some bearish sentiment is found in the report just released of a conference sponsored by the Savings Bank Journal at which eleven out of twenty-four financial experts expressed the opinion that bond prices would be lower at the end of 1940 than they are at the present time. Nine expressed the opposite opinion. The remaining four did not foresee any marked change in bond prices.

V. New Minimum Prices on British Government Securities

The London Stock Exchange yesterday put into effect new minimum prices on British Government bonds, superseding the minimum prices established last August. According to press dispatches, the purpose of this step is to insure the Government low interest rates on future war borrowing. The following table shows the old and the new minimum prices, and the prices at yesterday's close on three British Government securities:

	: Old	: New	: March
	: minimum	: minimum	: 18
2-1/2 percent Consols (perpetual)	62	70-1/2	72-3/8
3-1/2 percent War Loan (callable in 1952)	88-1/2	95	98-5/8
4 percent Funding Loan (1960-90)	100-1/2	108-1/2	111-3/8

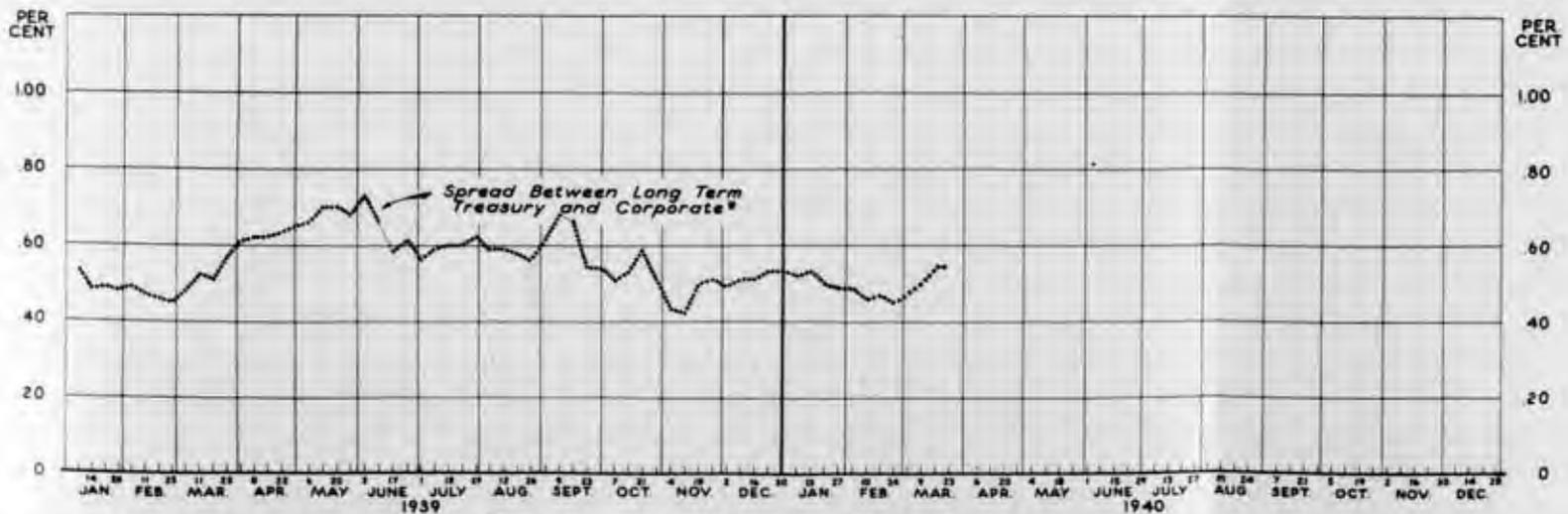
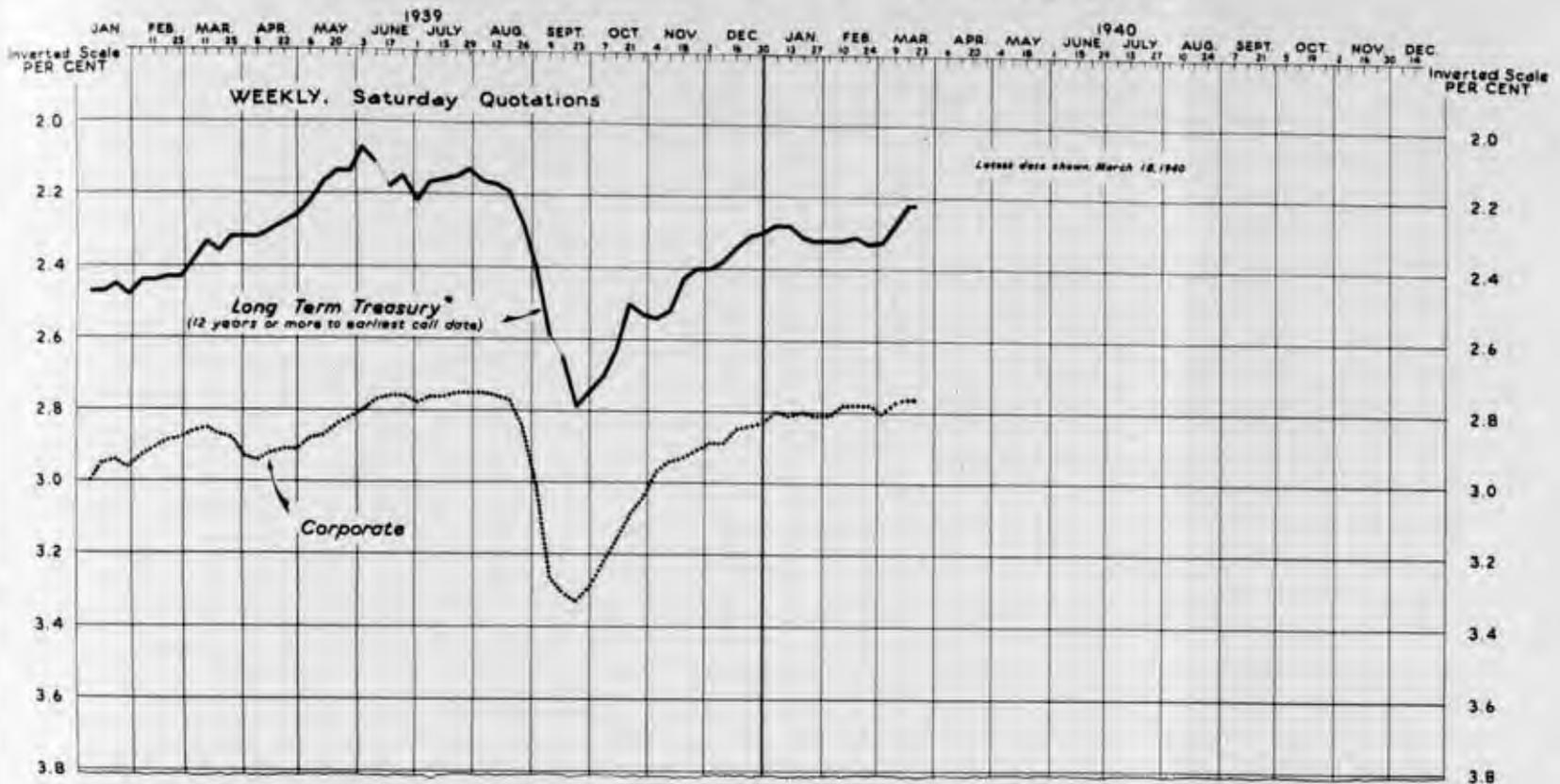
Secretary Morgenthau - 6

As the table above indicates, British Government securities have made substantial advances from the minimum prices of last August. Lately the market has been marking time, but the tendency of the past week has been downward, culminating in a sharp drop yesterday. British 2-1/2 percent consols declined 3/4 points yesterday to close at 72-3/8, to yield 3.46 percent. This compares with 73-3/4 a week ago (Chart VI). It is also understood that the new 3 percent war loan sold on Monday, the first day of trading, at a fractional discount. Official announcement was made yesterday that the new loan was oversubscribed.

Attachments

Chart I

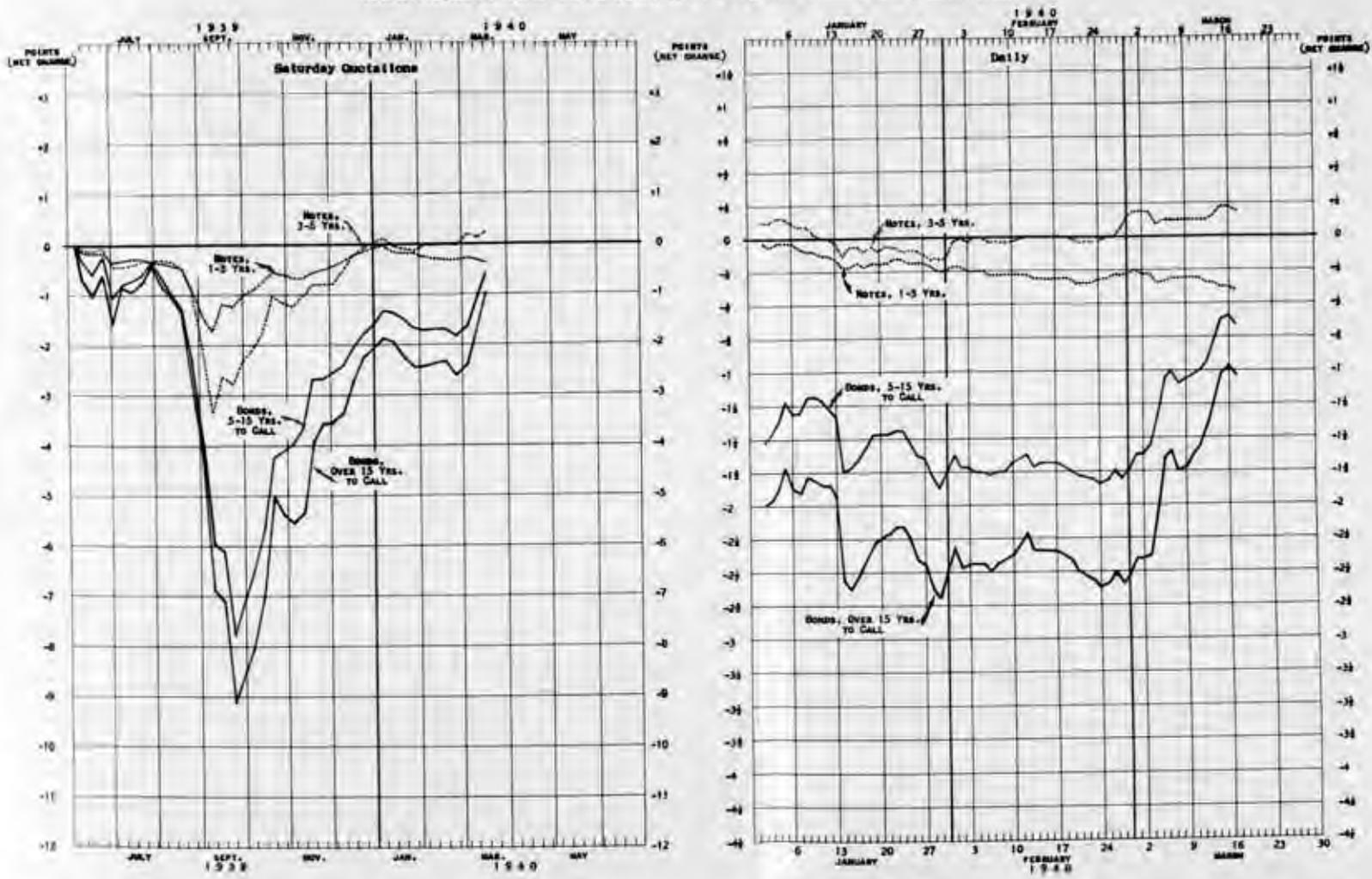
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY
AND AVERAGE OF HIGH GRADE CORPORATE BONDS



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

Chart II

CHANGES IN THE PRICES OF U.S. SECURITIES
 Points Plotted Represent the Difference from June 5, 1939 Price of Each Maturity Class



U.S. GOVERNMENT SECURITY HOLDINGS, WEEKLY REPORTING MEMBER BANKS
 Cumulative Net Change from December 6, 1939

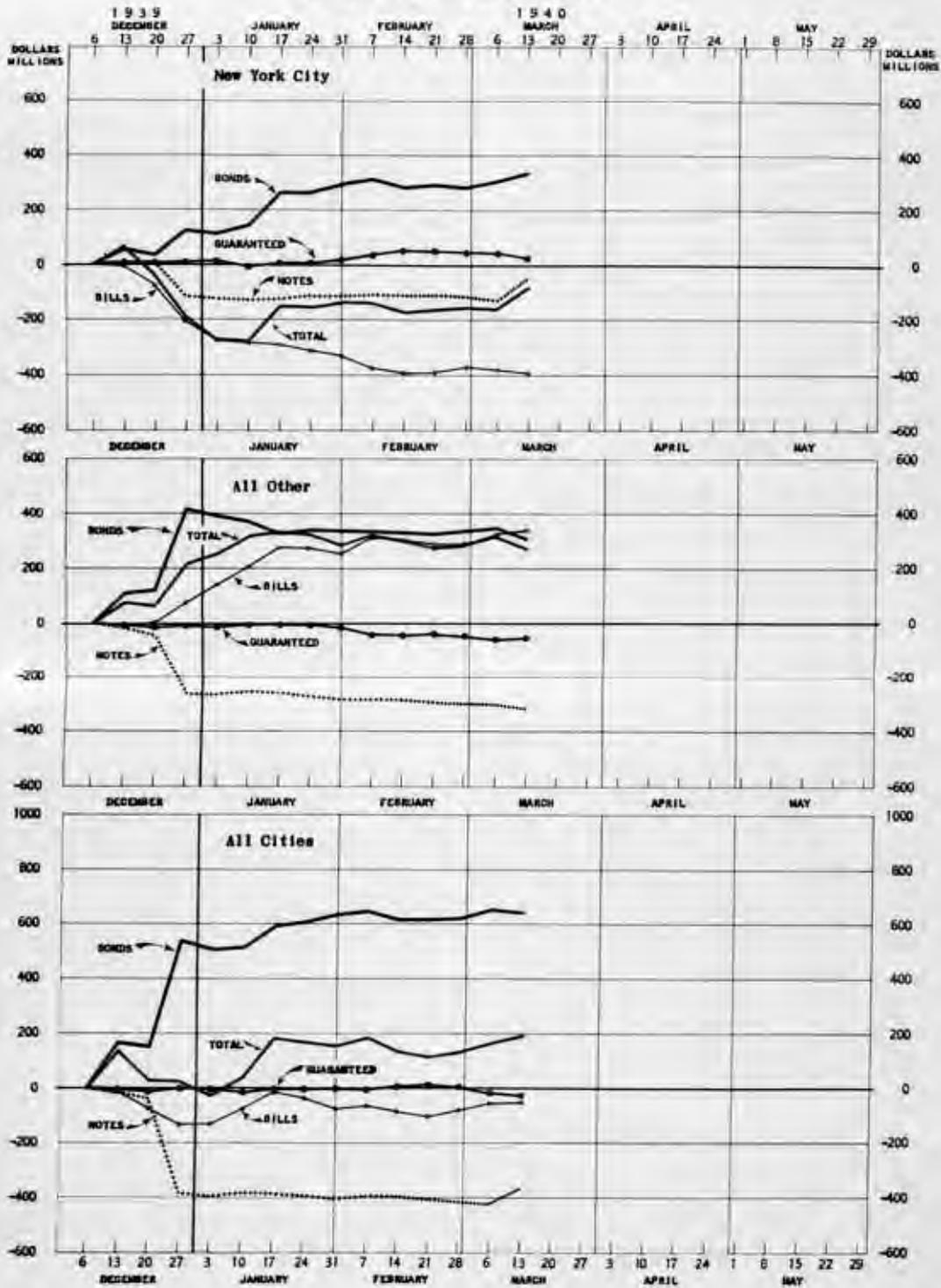
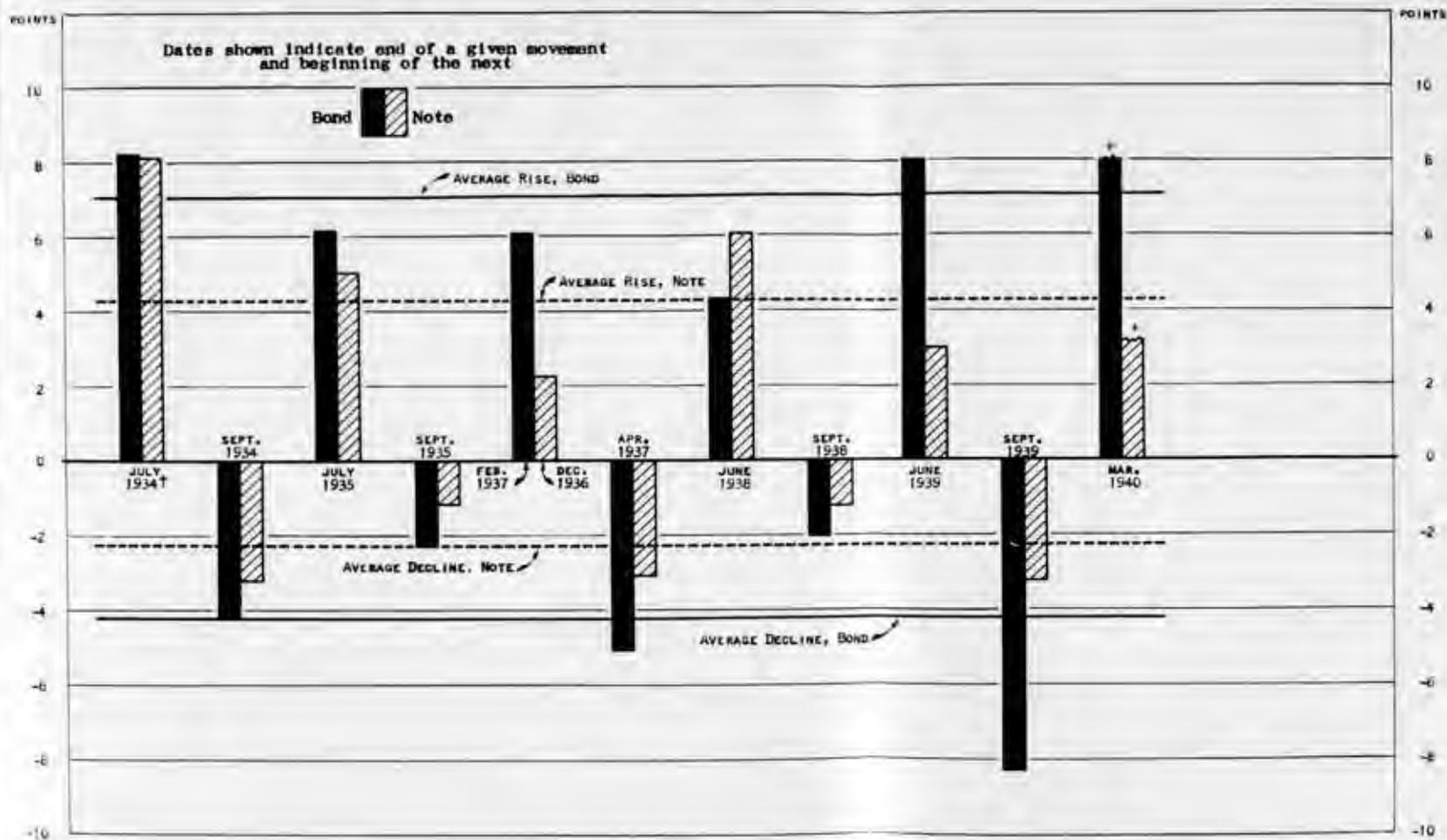


Chart IV

MAJOR PRICE MOVEMENTS OF LONGEST TERM TREASURY BOND*
AND LONGEST TERM TREASURY NOTE

Beginning of 1934 to Date



*LONGEST BOND TO EARLIEST CALL DATE

†BEGINNING OF PRICE SWING: BOND, JAN. 10, 1934; NOTE, DEC. 9, 1933

‡MOVEMENT TO LATEST AVAILABLE DATE; NOT NECESSARILY COMPLETED

MAJOR SWINGS IN THE YIELDS OF TREASURY BONDS AND NOTES

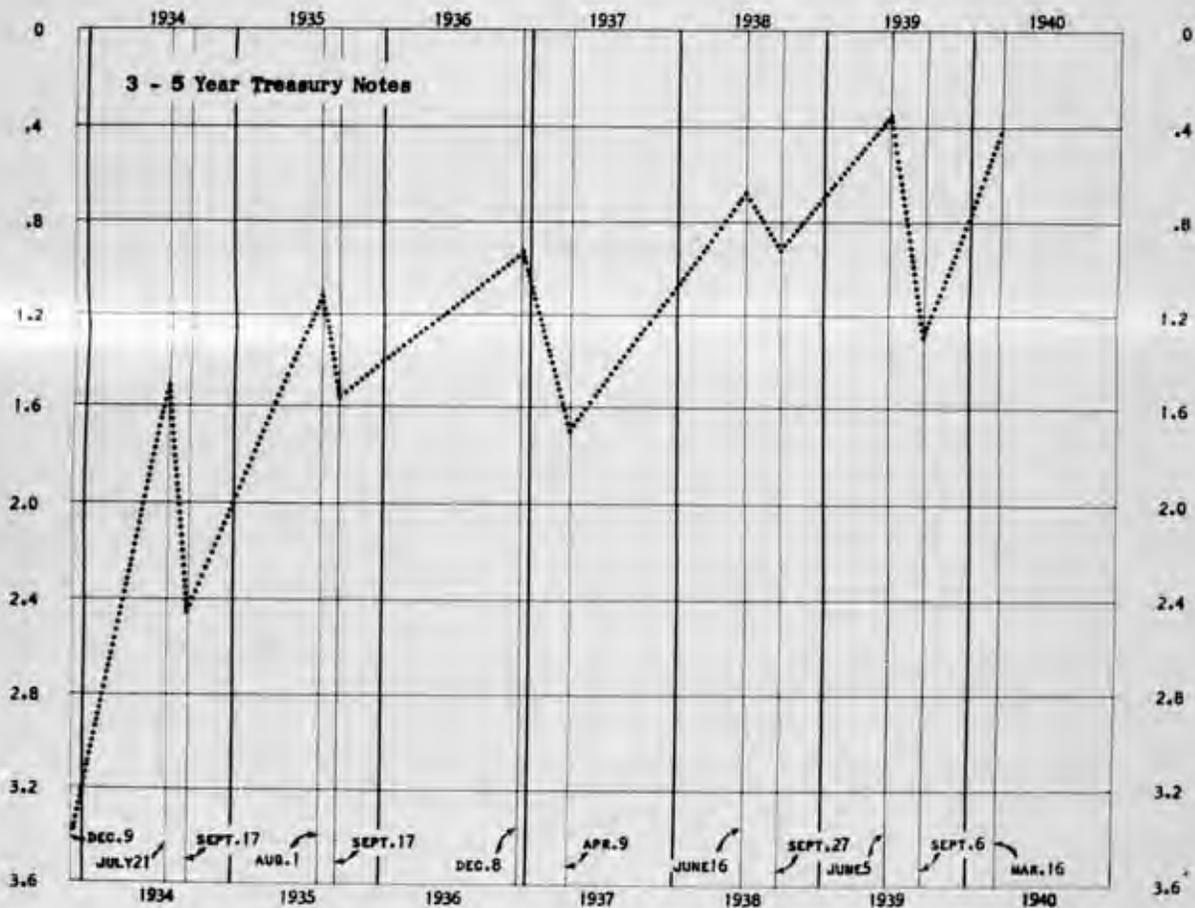
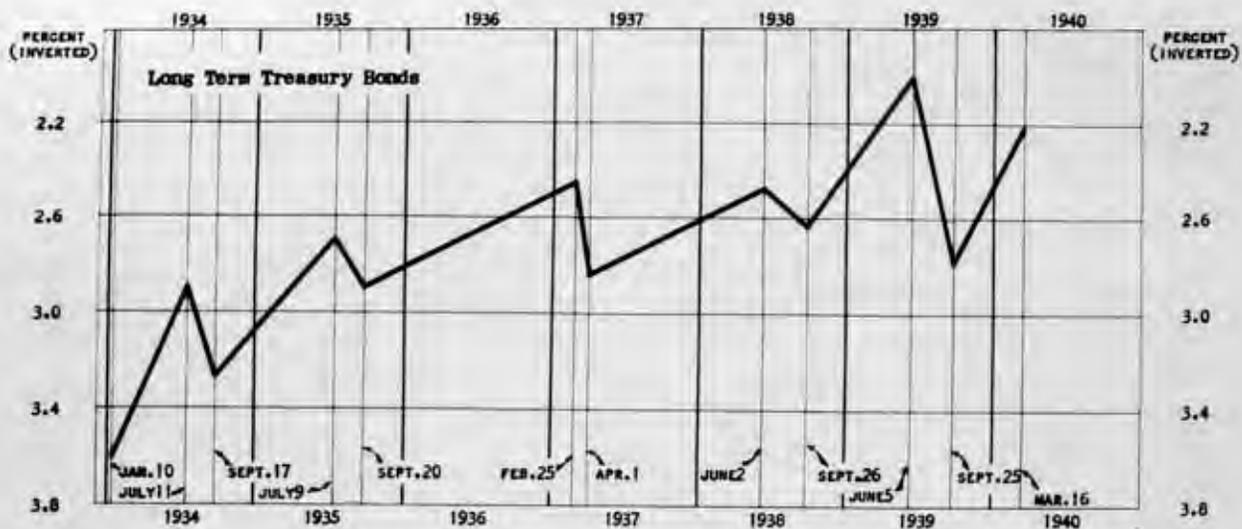
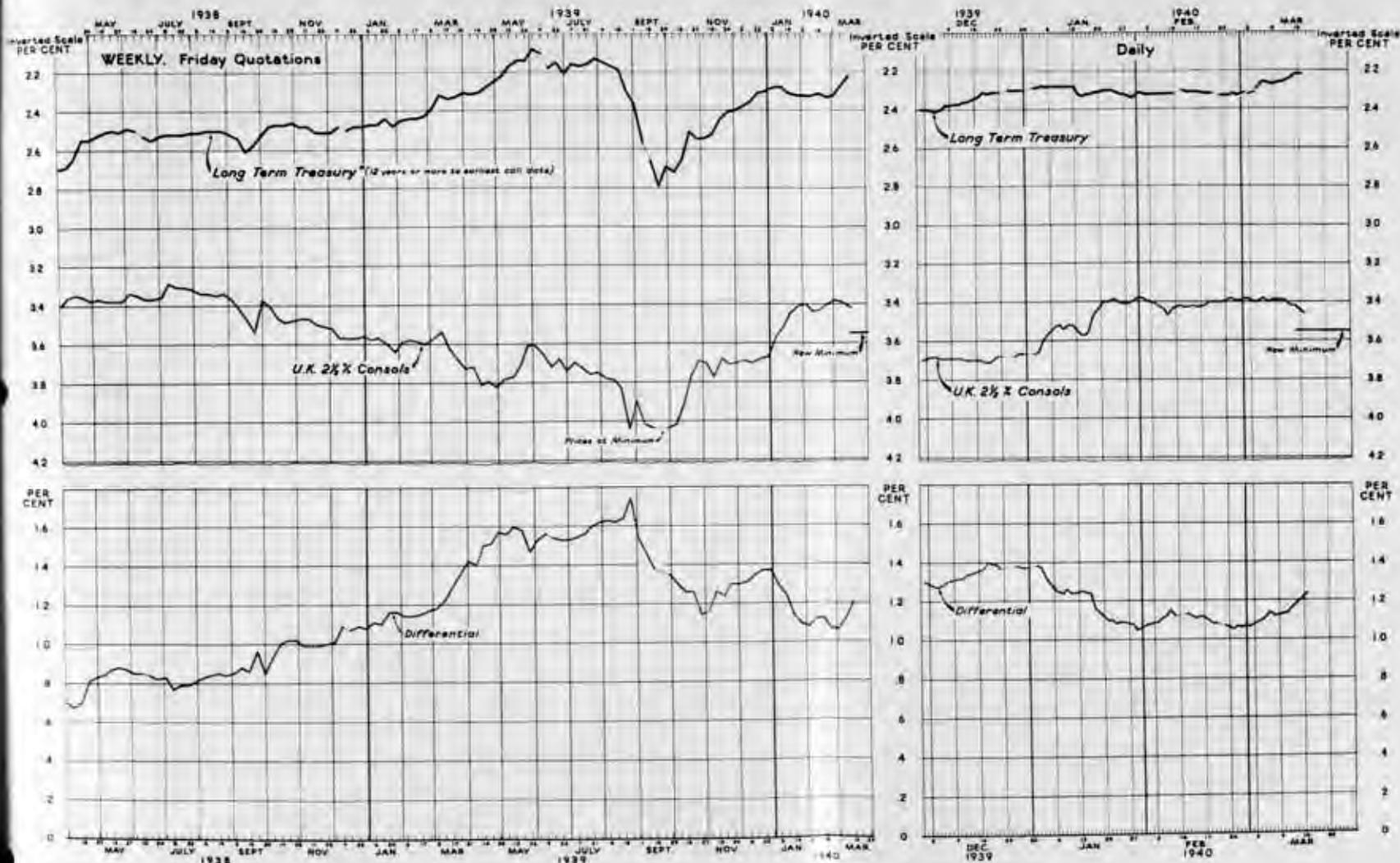


Chart VI

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY BONDS AND U.K. 2½% CONSOLS



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

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE March 19, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

By telephone this afternoon, Mr. Knoke let me know in strict confidence that there will be received at the Federal Reserve Bank in New York on about Thursday of this week a third big shipment of French gold which has arrived by Canada. He does not yet have the exact figure for this shipment, but understands that it will be one-half again as large as the last shipment. This means that this third shipment will total around \$170,000,000. It is presumed that this shipment came to Canada by warship from France. It is likely that the procedure will be followed of earmarking this gold with the Federal Reserve Bank at New York, and of selling it as dollars are required.



March 19, 1940.
9:10 a.m.

H.M.Jr: Hello.
Captain
Collins: Good morning sir.
H.M.Jr: Hello Harry.
C: How are you sir?
H.M.Jr: I'm fair. Harry?
C: Yes, sir.
H.M.Jr: You saw the Kintner and Alsop article last night?
C: I certainly did.
H.M.Jr: What did you think of it?
C: Well I don't know. I think it's just about as
concise an explanation of the difficulties as I've
seen yet.
H.M.Jr: Well I learned a lot from it myself that I didn't
know before. Harry, the reason I'm calling you
is, Sunday night I had Sir Henry Self
at the house, alone.
C: Yes sir.
H.M.Jr: And he told me a lot about their troubles in
connection with aluminum.
C: Yes sir.
H.M.Jr: I can't pronounce it the way they do.
C: Aluminum they say.
H.M.Jr: Now there seems to be that the aluminum company
is asking the Canadian Government to release
twenty thousand tons. Do you know anything about
this?
C: No, I only know this, the last time Purvis was
down, Mr. Secretary, I told him, they were still
having their consultations with Davies, the
President of the aluminum company, and I told
Purvis as soon as they could make up their minds

and if they had any difficulties to let me know and we'd take it up again through Pittsburgh.

H.M.Jr: Well, he's coming in at three tomorrow.

C: Purvis?

H.M.Jr: Yes.

C: Yes sir.

H.M.Jr: And between now and tomorrow I want you to find out all you can from whoever has handled strategic war material, whatever that board is.

C: Munitions Board.

H.M.Jr: Yes. Find out all that you can what they know about aluminum, see?

C: Well -

H.M.Jr: Hello. .

C: Yes sir.

H.M.Jr: Will you have any trouble on that?

C: No, not a bit because what they know, I think, principally, is what we've written here.

H.M.Jr: Well -

C: In our majestic studies. I'll get the whole story.

H.M.Jr: Sir Henry Self kept saying this, that the reason they can't get what they want is because United States Government has asked the aluminum company to keep certain reserve stocks.

C: Of course the United States has asked the aluminum company to set up reserves to meet their particularly- I know that end of the deal to set up reserves to particularly meet their airplane requirements.

H.M.Jr: Well what are the reserves, and what did they ask them, see?

C: Well I can get all of that, probably I could do

- 3 -

just as well by going directly up and talking with Wilbur of the aluminum company. He's got the whole story.

H.M.Jr: Well, get it from both sides.

Q: Yes sir.

H.M.Jr: Get it from the Munitions Board and get it from - who is Wilbur?

Q: He's the Washington representative.

H.M.Jr: Well get it both ways.

Q: Yes sir.

H.M.Jr: Get it both ways.

Q: Yes sir, I'll do that.

H.M.Jr: Will you?

Q: Yes sir.

H.M.Jr: Because evidently this is - from English - well the British Empire standpoint, they consider it just as important as the engines and just as difficult.

Q: Yes sir. Well of course now Wilbur has been talking with me ^{informally} for the last two weeks, and he called me last - I guess it was Friday morning and asked me if I had heard anything from the French-English and I told him I had not.

H.M.Jr: Well, they evidently are coming to a head now.

Q: Yes sir. Well it would perfectly all right to talk frankly with Wilbur because he's dealt very frankly with us and he's very deeply in the confidence of the Munitions Board.

H.M.Jr: Well, get it both ways, will you?

Q: Yes sir, I shall.

- 4 -

H.M.Jr: And then the other thing I'm supposed to go up on the Hill at three.

C: Today?

H.M.Jr: Yes, but secretly, I'm being asked to see a Congressman Snyder and his people.

C: Yes sir.

H.M.Jr: So I'd be here about twenty minutes of three to go up with me.

C: Aye aye sir.

H.M.Jr: Will you please?

C: Yes sir, I shall. And do we take anything with us or just talk?

H.M.Jr: Oh just our heads.

C: That's all right.

H.M.Jr: And anything new on - Mr. Edison called me - Mr. Woodring called me up yesterday afternoon. He was too busy to come this morning, he couldn't make it.

C: Oh that's too bad.

H.M.Jr: Yes. And - so I don't know what the Army decided on, the engines or the planes. Do you?

C: No I don't. I honestly don't know. There's another matter we can talk on our way up this afternoon about it. I've been having some talks with Arnold and it's all developing a very interesting phase of this and I think at last they're trying to find an out so they can throw everything wide open and at the same time save their faces.

H.M.Jr: I see.

C: And I worked last night, about four hours on this stuff and I've got two or three different ideas lined up that I'm going to pass it to him to see if he can develop them.

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H.M.Jr: O.K. Well I'll see you later.

C: I'll be there at twenty minutes of three sir.

H.M.Jr: And then you go on this aluminum.

C: I'll do that right away sir.

H.M.Jr: Please.

C: Aye aye, sir.

March 19, 1940.
10:07 a.m.

Operator: Go ahead.

H.M.Jr: Hello.
Alben
Barkley: Henry?

H.M.Jr: Yes sir.

B: How are you?

H.M.Jr: Oh I'm just rarin' to go. Coming up I got silver oozing out of every pore.

B: Good for you.

H.M.Jr: Yes.

B: I just called to see if you were coming over.

H.M.Jr: Oh sure, I hear Key Pittman is booked every minute all day and he can't appear.

B: Yes. We're going to have to lean on you.

H.M.Jr: Well, it's a silver reed so don't lean too heavily.

B: All right. I don't know why everybody - there's a silver lining to every cloud you know.

H.M.Jr: And everybody is so scared. Well I think that what I'm saying is all right. We worked pretty hard on it. I have a prepared statement.

B: Yes. Well I think it's better for you to come over because there's members of the committee you know, men saying well, we don't know what the Treasury, we don't want somebody down the line, we want the head of the Treasury.

H.M.Jr: Well I'm -

B: Of course I suppose Dr. White will be with you.

H.M.Jr: Oh I've got twenty experts.

B: Good. My golly, we'll just overwhelm them.

H.M.Jr: All right.

B: In numbers. All right, I'll see you.

H.M.Jr: Thank you.

March 19, 1940.
12:40 p.m.

H.M.Jr: Hello
Congressman
Snyder: Mr. Secretary?

H.M.Jr: Yes.

S: This is Mr. Snyder.

H.M.Jr: How do you do?

S: All right. It looks as though we'll have some important roll calls between three and four, an important bill, so I suggest that you come up with your old hat on and come to the corner of New Jersey and C Street entrance of the new Capital building. New Jersey and C Street entrance.

H.M.Jr: New Jersey and C Street.

S: Entrance. New Capital - new House Office building.

H.M.Jr: Entrance. New House Office building.

S: And you just step right inside there and the first door to the right 1013.

H.M.Jr: Room 1013

S: Yes, at four-thirty.

H.M.Jr: Oh, at four-thirty.

S: Yes.

H.M.Jr: Is that when you want it?

S: Yes, that's the best time because I want you to come there and I don't want to be interrupted when we get there.

H.M.Jr: I see. Room 1013.

S: Yes.

H.M.Jr: At four-thirty.

S: Yes sir.

H.M.Jr: All right.

S: Thank you.

H.M.Jr: I'll be there.

March 19, 1940.
2:40 p.m.

Operator: Operator.

H.M.Jr: Hello.

O: Mr. Harris.

H.M.Jr: Basil.
Basil
Harris: Yes, Mr. Secretary.

H.M.Jr: The President learned through Naval Intelligence that - got a pencil?

H: Yes.

H.M.Jr: A steamer called the Eastern Guide.

H: What was the last word?

H.M.Jr: Eastern Guide. G-u-i-d-e.

H: Right.

H.M.Jr: Loading - the Russians have given orders to cease loading.

H: Yes.

H.M.Jr: Somewhere out of New York I think.

H: Yes.

H.M.Jr: And there's two ships at Seattle who are supposed to sail for Vladivostok and the Russians have given orders not to let them sail.

H: Two at Sea Island?

H.M.Jr: Seattle.

H: Oh yes.

H.M.Jr: Sea Island, I'll be there Friday.

H: Yes.

H.M.Jr: Seattle.

H: Right.

- 2 -

H.M.Jr: And find out what's going on. He's very much interested what the Russians are doing on their boats.

H: Yes.

H.M.Jr: Will you step on it for him.

H: I'll get right on it.

H.M.Jr: Thanks Basil.

H: Thank you.

March 19, 1940.
4:00 p.m.

H.M.Jr: Hello.

Operator: Mr. James Fleming in New York.

H.M.Jr: O.K.

O: Go ahead.

H.M.Jr: Hello.

James R. Fleming: Hello Mr. Secretary.

H.M.Jr: Hello Mr. Fleming.

F: This is Mr. Fleming.

H.M.Jr: Yes. Mr. Fleming the last couple of weeks, Mr. Stettinius has been kind enough at this time, to give me a sort of a thumbnail sketch of how your business has been running for the previous week.

F: Yes.

H.M.Jr: And I wondered if you'd be willing to do the same.

F: I rather imagined that's what you wanted Mr. Secretary, and I can tell you that our England production, which is the measure of our business, -

H.M.Jr: Yes.

F: Is estimated at 55.8% for this week.

H.M.Jr: 55.8

F: That is the week ending the 24th.

H.M.Jr: That's March 24th.

F: And last week it was 57.0

H.M.Jr: 57.0, so it's down.

F: Yes, it's down a bit.

H.M.Jr: I see.

- 2 -

F: And a year ago, the same week, the estimate of the 24th it was 53.9.

H.M.Jr: I see.

F: So you see it's still above that. Now, the orders, they have been coming in at the rate of two hundred thousand tons a week for this past week.

H.M.Jr: Yes.

F: But the shipments are about ten percent higher than that, were two hundred and twenty-three thousand.

H.M.Jr: Your shipments are two twenty-three.

F: Yes.

H.M.Jr: And your orders are about two hundred.

F: Two hundred. Now, the capacity of those respective figures are 53% of the orders and 58% of the shipments.

H.M.Jr: 53 for orders.

F: The previous week the orders were only a hundred and thirty-seven thousand.

H.M.Jr: I see.

F: And the shipments were two hundred and thirty-nine thousand.

H.M.Jr: Well isn't that considerably better?

F: Sir?

H.M.Jr: Isn't that -

F: The orders are noticeably better for this week.

H.M.Jr: The orders are up to two twenty-three?

F: What was that?

H.M.Jr: How much are the orders up to?

- 3 -

F: No, no, the shipments were two twenty-three for this past week.

H.M.Jr: And the orders?

F: The orders were two hundred thousand.

H.M.Jr: And the week before the orders were -

F: One thirty-seven.

H.M.Jr: I see.

F: And the shipments were two thirty-nine the week before.

H.M.Jr: Well, how are the foreign orders?

F: Well the export orders are holding off. I haven't got those figures but they are about the same as they were last month.

H.M.Jr: I see.

F: I'm afraid I haven't got anything handy for that.

H.M.Jr: But this figure that you gave me for orders combine domestic and foreign?

F: Yes, that's domestic and foreign.

H.M.Jr: I see. Well how do your people feel, I mean do they think the worst is over, the decline?

F: Well of course we always like to be optimistic.

H.M.Jr: Yes.

F: We can't help but realize that there is a sort of a dropping off in business but we're hopeful that it'll recover.

H.M.Jr: I see.

F: It's hard to tell from one week's business just what the trend will be.

H.M.Jr: I see.

- 4 -

F: But we can report that the tone of the reports that we get from our companies show an improvement over a broad range of products.

H.M.Jr: They do. Well that's interesting. Well, is there anything else you could give me to throw light on it.

F: Well I think, I'd have to draw my conclusions from these figures Mr. Secretary.

H.M.Jr: I see. I see.

F: And I would think that we're holding out pretty well.

H.M.Jr: You are.

F: That's the best I can say. I think it's encouraging, but of course not too encouraging.

H.M.Jr: No.

F: Maybe we hope for too much.

H.M.Jr: Well I'm very much obliged.

F: I hope that gives you what you desire.

H.M.Jr: Yes it does.

F: Thank you.

H.M.Jr: Thank you.

F: Goodbye.

STRICTLY CONFIDENTIAL

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 19, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

I have spoken with Mr. Basil Harris and he has shown me his file of correspondence, from which it appears that the request forwarded by the Department of State to Paris is for the recognition by the French Government of two assistant Treasury attachés with diplomatic status. With your approval, I will telephone Mr. Leroy-Beaulieu at New York asking that he render any appropriate assistance toward obtaining proper status for these two officers.

In a conversation by telephone this afternoon, Leroy-Beaulieu told me that he would be quite willing to go ahead on this proposition as soon as I indicated the Secretary's desires. Leroy-Beaulieu wanted to know how close to the Secretary's heart this matter really was. He wants us to tell him how many assistant Treasury attachés are desired. He also wanted to know whether the status was a matter of temporary or permanent character. He thought it might be necessary for the French to make some stipulation to the effect that if some other countries, learning of our obtaining diplomatic status for two or more additional officers, might request similar treatment, then the French might have to reconsider the question. Leroy-Beaulieu thought this last contingency unlikely, but at the same time, felt that the French might desire a safeguarding clause.



2-14-40 to 2-19-40 77A
March 3-19-40

MEMORANDUM TO THE PRESIDENT:

I have your memorandum of March 7th, enclosing a memorandum dated February 13, 1940, from Mr. Currie, and your memorandum of March 8th, enclosing a further memorandum of February 29th from Mr. Currie transmitting a memorandum dated February 15th from Mr. Eccles, all concerning United States Savings Bonds.

There really are two aspects involved: (1) the terms of the bonds, and (2) further limiting sales.

Proposed changes in the terms of the United States Bonds have been under consideration in the Treasury from time to time since 1937, when interest rates got so low, but each time something subsequently happened to increase the rates so that the current rates on Government bonds were not so far out of line with the average rate on United States Savings Bonds.

Last June, when yields on Government securities were at their lowest, I gave instructions to consider changing the terms and conditions of United States Savings Bonds so that the matter would be ready for my approval when I returned from a vacation. As you know, when I returned the European war had started and the yields on Government securities again increased so that they were more or less comparable with the average rate on savings bonds. The matter was again laid aside. Last December yields on Government securities began to decrease rather rapidly until at the present time there is again quite a variance between such yields and the average rate on savings bonds.

I have gone into the matter again just recently and I find that the further changes we can make are divided into three categories:

1. Those changes which can be made immediately in the regulations effective as of April 1st, or thereabouts. These would involve (a) limiting the sale of United States Savings Bonds to a natural person with one beneficiary or one co-owner, thus eliminating corporations, partnerships, fiduciaries, and trust estates; and (b) limiting the sale to residents of the United States, Alaska, Canal Zones, Philippine Islands, and Insular Possessions.

2. Those changes which can be made in the regulations effective not earlier than July 1, 1940. These would involve (a) possible limitation on the aggregate amount that may be issued under one ownership to a certain specified amount, say, \$30,000. (This, however, presents serious administrative difficulties in view of the present statutory limitation.); (b) some curtailment of publicity efforts and laying more stress upon the fact that savings bonds are devised to care for the savings of those in the low-income group; (c) reduction of the average rate; and (d) the lengthening of the maturity.

3. Those changes which can be made only by securing an amendment to the Second Liberty Bond Act. These would involve (a) reduction of the statutory amount of \$10,000 in any one calendar year to a lower figure, say, \$3,000 a year; or (b) giving the Secretary authority to restrict by regulation the amount which may be acquired in any one year within the present limitation of \$10,000.

I have decided to change the regulations, effective as of April 1, 1940, so as to limit sales after that to a natural person with one beneficiary, or one co-owner, and to restrict the sales after that date to residents of the United States, Alaska, Canal Zone, Philippine Islands, and Insular Possessions.

I am continuing to study all phases of this matter with a view to making such changes as are deemed desirable in the public interest. In this connection it should be borne in mind that changes in terms of these bonds require about three months' advance notice.

DWB:NLK
3-24-40

wB

77D

THE WHITE HOUSE
WASHINGTON

March 8, 1940.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

Hooper

77E

THE WHITE HOUSE
WASHINGTON

February 29, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Savings Bonds.

Knowing that Marriner Eccles was greatly interested in this matter, I asked him for his suggestions, which are attached. The main difference from the recommendations I made on February 13th is that he would limit total purchases by each investor to \$12,000, whereas I suggested that in addition to this aggregate limitation, annual purchases might also be limited to a face amount of \$1,200.

He brings out the highly pertinent fact that a limitation of \$12,000 per purchaser would provide an investment outlet for the entire life-time savings of about 95 percent of our population.


Lauchlin Currie

February 19, 1940

UNITED STATES SAVINGS BONDS

Recommendation

The maximum purchase of United States Savings bonds permitted to an individual investor should be limited to a total of \$12,000 maturity value, instead of the present limit of \$10,000 per annum which allows the acquisition of \$100,000 in ten years. This change would permit each investor to purchase \$75 a month for ten years and then receive the equivalent of an annuity paying \$100 a month for the next ten years. An investor would be allowed to retain whatever holdings in excess of \$12,000 he had obtained prior to the effective date of the proposed change in the regulations, which might be April 1 of this year, but he could buy no more.

Reasons for recommendation

1. Wealthy investors are the principal beneficiaries under the present program. Although United States Savings bonds were originally designed to meet the needs of small investors, they have become an increasingly important investment medium for wealthy individuals, corporations, and financial institutions. In the fiscal years 1936-39 about 84 per cent of the dollar volume of sales was in \$500 and \$1,000 denominations, and other evidence indicates that practically all of these sales went to investors who bought the maximum of \$10,000 a year. It appears, therefore, that large investors held about \$2,080,000,000 of the total of \$2,470,000,000 of Savings bonds outstanding on January 31, 1940. The record volume of sales in January and February of this year indicates that large investors are making even more extensive use of Savings bonds than previously. This trend is unfortunate because it is desirable that large investors should have to find outlets for their savings in the private capital markets.

2. Large interest subsidy. In view of the drastic decline in interest rates since Savings bonds were first introduced in 1935, the purchasers of Savings bonds now receive an exorbitant interest subsidy. In addition, Savings bonds give the extremely valuable privilege of redemption on demand at the option of the holder any time 60 days after issuance without loss of principal and the holder receives on redemption an interest return which increases from 1.33 per cent at the end of the first year to the maximum average return of 2.9 per cent at the end of 10 years. Regular 10-year Treasury bonds yield only about 1 $\frac{3}{4}$ per cent, which means that the holders of outstanding Savings bonds receive a higher average interest return of about \$28,000,000 a year. From the standpoint of liquidity, the Savings bonds are more analogous to Treasury bills than to other types of Treasury securities, but give the holders a higher average return of nearly \$70,000,000 a year. The computed interest cost on outstanding Savings bonds, obtained from the current average investment yield on the various series which have been outstanding for periods up to 5 years, is about \$35,000,000 a year higher than would be paid on a like volume of regular

Treasury bonds of comparable maturities. As compared with corporate securities, Savings bonds have a tax equivalent yield of 3.4 per cent to corporate and institutional buyers. While the interest subsidy on Savings bonds can be condoned in the case of the small savers, it cannot be justified on the more than \$1,000,000,000 a year of bonds which are currently going to large purchasers.

3. Possible interest saving to Treasury. The adoption of this proposal may be expected to reduce the prospective net sales of Savings bonds next year by about \$1,000,000,000, or to a volume of from \$100,000,000 to \$200,000,000 a year. If this \$1,000,000,000 loss of funds were raised by sales of Treasury bills, the average interest savings to the Government would amount to about \$30,000,000 a year. The use of bills instead of Savings bonds for Treasury financing is even more justified at this time because the Treasury in January reduced the bills outstanding to only 1,300,000,000, or about 3 per cent of the interest-bearing debt. Bills and notes together have been reduced in recent years to only 18 per cent of the total debt.

4. Effect on Treasury cash balance. The proposed change would reduce the need for the Treasury to maintain an abnormally large cash balance. As Savings bonds are redeemable any time 60 days after issuance at the option of the holder, they constitute a demand obligation to the Treasury. The principal demand for redemption in dollar amount comes from large holders. Of the \$100,000,000 of Savings bonds redeemed in the fiscal year 1959, about \$75,000,000 were in \$500 and \$1,000 denominations, while only \$9,000,000 were in \$25 and \$50 denominations. In case of a rise of interest rates in the future or the development of a sudden desire for liquidity for various other reasons, the large holders would undoubtedly be the first group to cash their Savings bonds.

5. Statutory debt limitation. Since the statutory debt limitation has been interpreted as applying to the maturity value of Savings bonds, raising money through open-market obligations would result in a debt one-fourth lower than would be represented by a similar amount of financing through Savings bonds. To date, the use of Savings bonds instead of other issues has increased the statutory debt by over \$700,000,000.

6. The needs of small savers would still be met. The adoption of this proposal would tend to confine sales of Savings bonds to the investors of the country with small or moderate means and would, therefore, restore the program to the purpose for which it was originally intended. The proposed maximum of \$12,000 maturity value would permit an individual and each member of his family to invest a lump sum of \$9,000 cash, or to purchase \$75 of Savings bonds a month for ten years. This amount of Savings bonds would provide an investment outlet for the entire life-time savings of about 95 per cent of our population.

77H

THE WHITE HOUSE
WASHINGTON

March 7, 1940.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

770

THE WHITE HOUSE
WASHINGTON

Conrad

February 13, 1940.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

The recent tremendous sales of savings bonds, combined with the fall in the open market rate of interest since sales were initiated, has led me to believe that the program should be modified. I suggest, therefore, that permissible individual annual purchases of savings bonds be reduced to \$ face value and that aggregate purchases should be limited to \$. In order to prevent a rush of sales, this modification should be made effective as soon as announced on some early appropriate date.

I suggest that cash receipts thus sacrificed be made up, so far as necessary, and for the time being, by the issue of Treasury bills.

In explaining this move I should stress that the essential purpose of the program is to provide a safe outlet for the current savings of people of modest means; that wealthy people and financial institutions are taking undue advantage of the favorable terms and that we feel that the savings of wealthier individuals and institutions should be encouraged to go into private investment.



THE WHITE HOUSE
WASHINGTON

try file
773
February 13, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Savings Bonds.

In our discussion last Saturday you indicated that you thought either the rate or the amount sold to any one individual should be lowered. The present rate is 2.9 percent and the face amount \$10,000.

For the purpose of cutting down sales in order to keep down the government interest costs and the debt applicable to the statutory debt limit, a limitation of sales would be more effective than a reduction in the rate. Even at 2 percent the savings bonds would be more attractive to wealthy investors than 10-year open market bonds because of the cash redemption feature. Moreover, a reduction in the yearly amount purchasable could be more easily effected administratively.

I suggest, therefore:

1. Leave the rate at 2.9 percent and reduce permissible annual purchases to \$1,200 face amount. This would provide an outlet for current savings of \$75 a month with a return, ten years later, of \$100 a month. With four persons in a family, the outlet would be \$300 a month.
2. Prohibit further purchases to any person whose holdings already exceed \$12,000.

The scheme would then provide a safe outlet for the savings of people of moderate means and the more than one percent subsidy could be justified on these grounds.

A somewhat less drastic reduction would be to reduce the permissible annual purchases to \$2,400 face amount. This would permit monthly purchases of \$150 or, for a family of four, \$600. Aggregate individual purchases might, under this alternative, be limited to \$24,000.

Assuming that new sales less redemptions under this proposal would amount to around \$100,000,000 a year and that in place of \$1 billion of additional savings bonds, Treasury bills were issued, the annual interest saving to the government would be about

Memorandum to the President
Re: Savings Bonds.

-2-

77K 77
February 13, 1940.

\$30 million. Treasury bills now comprise only 3 percent of the interest-bearing debt and yield less than 1/100 of 1 percent per annum. Three to five year notes yield less than one-half of 1 percent.

In the accompanying draft of a memorandum for the Secretary of the Treasury I have left blank spaces for the permissible annual purchases.



Lauchlin Currie

February 13, 1940. 771

Cash Receipts From Sales of U. S. Savings Bonds
By Denominations

(In thousands of dollars)

Fiscal year	\$25	\$50	\$100	\$500	\$1,000	Total	Redemptions
1936.....	4,335	7,965	32,177	55,851	176,649	277,477	11
1937.....	3,801	14,426	49,523	79,692	319,324	471,765	36
1938.....	12,061	17,935	57,008	74,803	325,406	487,263	67
1939.....	16,096	22,200	68,794	92,289	491,956	691,334	32
Total.....	41,793	62,576	207,502	302,640	1,313,335	1,927,844	196
Per cent of total.	2.17	3.25	10.76	15.70	68.12	100.00	0.01

Source: Annual Reports of The Secretary of the Treasury.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Purcell of the Securities and Exchange Commission called on me by appointment at 12:30 today. We discussed the exchange of correspondence between Commissioner Frank and Secretary Morgenthau. The Commission is entirely willing to abide by Treasury terms on handling the confidential information received from the British in regard to sales of British owned dollar securities on the American market.

I am to telephone the figures to Mr. Purcell as and when received from the British Embassy. He will keep a dossier thereof which he will hand directly to Mr. Frank. Mr. Frank will have the responsibility of maintaining this strictly confidential, but may show the figures to the other Commissioners, without giving them copies, and with the dossier always returning to Mr. Purcell. This arrangement was reached after I had turned down the suggestion of Mr. Purcell that the British data be given to all of the people who regularly receive the figures now obtained from unofficial sources in New York and distributed by the S.E.C. This distribution includes various S.E.C. people, some in the Federal Reserve Board, etc. I insisted that the only justification in asking the British to give us this information is to enable us to protect the American market. With Mr. Frank and the other Commissioners, together with Secretary Morgenthau, knowing the daily operations of the British, these American officials are immediately in a position to raise a question with the British if it should appear that British official sales of securities on this market are having a deleterious effect. I promised to commence giving Mr. Purcell figures tomorrow, and to give him a table summarizing sales from February 22 to date, in order that the S.E.C. may have a complete picture of British sales under the vesting orders.



PARAPHRASE OF TELEGRAM RECEIVED

From: American Consul, Rangoon

To: Secretary of State

Date: March 20, 1940

STRICTLY CONFIDENTIAL

During the last half of February the United States attained first place in the amount of reexports of war supplies to China. American materials consisted of aircraft parts valued at 261,000 rupees or about \$78,000, 57% of which were engines. The value of total reexports was \$248,400 or 828,000 in local currency. Other than American materials the approximate values were \$23,000 from Hongkong, Russian \$61,000, French \$38,000, and Belgian \$50,000.

The Burma railways during the period April 1, 1939, to March 10, 1940, transported from Rangoon 53,777 long tons of goods destined for China. It is estimated that more than 35,000 tons of these were war materials; in addition there were transported 1,824 motor trucks. It is expected that total rail receipts from China traffic will exceed 2,000,000 rupees in the present fiscal year ending March 31.

Co:HWM:RB

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE March 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent telephoned at 12 noon that official sales of vested securities on Tuesday, March 19, were:

12,300
589,193
Nil
Nil

Mr. Pinsent contemplates leaving Washington about March 29 or 30 for a fortnight. He has nothing to take up with the Secretary, but would be glad to come to the Treasury if the Secretary may desire to see him before the Secretary leaves Washington.

The attached clipping from the New York Herald Tribune of Tuesday, March 19, is of interest.



NEW YORK HERALD TRIBUNE - March 19, 1940

MOBILIZED SECURITIES

The British order issued a month ago yesterday calling for the mobilization of sixty dollar securities held by British nationals has not resulted in the sale of a single share of the mobilized issues, so far as can be learned in Wall Street. Stock market analysts continue to insist that the price level here is being held down by fear of foreign selling of substantial proportions, but commentators in London are unable to understand this attitude and insist that official liquidation, when and if it finally comes, will be conducted so as to have the least possible effect on local prices. There was a little more foreign selling last week than in recent months, as British traders eliminated dollar debit balances under Treasury order. The extent of the selling, however, was not sufficient to cause any difficulty, brokers say.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

GOSSIP

George Harrison is said to have received the offer of the presidency of the New York Life Insurance Company several weeks ago. The idea was that this matter should, of course, be kept strictly confidential, but the new Mrs. is reported to have been so pleased with her husband's opportunity that she told Walter Winchell, and he told the world. The Insurance company is much embarrassed at not having received an answer from Harrison. If he should now turn down the offer, it would hurt the company, and make it difficult to get a good man in his place as second choice. The Federal Reserve Bank has been receiving many inquiries and poor Sproul, who is chosen by the press as the logical successor, has had to be very much on the defensive in providing answers. Eccles is said to be sore, alleging that he knew nothing of the matter until he read of it in the press. Some circles feel that Eccles might take advantage of this opportunity to put a man of his own school of thought in the bank at New York as second, most likely Ransom. Some announcement by Harrison is expected following his visit to Washington today. His friends think that he will accept the post which, I believe, carries a salary of \$85,000. While Sproul is well liked in New York, it is not expected that he would exercise great influence as head of the New York bank.

The story in Europe is that when Harrison was first named Governor of the Federal Reserve Bank of New York, Governor Montagu Norman of the Bank of England in his message of felicitation told Harrison he understood that the latter was a bachelor, which was the prime prerequisite for a successful central bank governor. Since then Governor Norman has married.



TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE March 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The reported volume of sterling transactions today was slightly lower than that of yesterday with sales exceeding purchases by approximately £120,000. In Amsterdam, sterling opened at 3.72-3/4, moved up to 3.74-5/16, and just before the opening in New York, it was 3.73-1/2. In New York, the first sterling rate was 3.73-3/8. During most of the day it moved in an erratic manner, reaching a high of 3.73-5/8 shortly before noon. In the afternoon, the rate had a weak undertone and touched a low of 3.71-1/4 just before the close. The final quotation was 3.71-1/2.

Sales of spot sterling by the six reporting banks totaled £650,000, from the following sources:

By commercial concerns.....	£ 135,000
By foreign banks (Europe, Far East and South America).....	£ 515,000
Total.....	£ 650,000

Purchases of spot sterling amounted to £531,000, as indicated below:

By commercial concerns.....	£ 298,000
By foreign banks (Far East, So. Amer., Europe & Near East)....	£ 233,000
Total.....	£ 531,000

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

£ 12,000 by the Guaranty Trust Co.
1,000 by the National City Bank
£ 13,000 Total

The belgs improved further to a high of .1705 and closed at .1704.

The other important currencies closed as follows:

French francs	.0210-3/8
Guilders	.5309
Swiss francs	.2242-1/2
Canadian dollars	13-5/8% discount

The Federal Reserve Bank of New York purchased 220,000 Swiss francs for account of the Bank of Latvia.

We sold \$150,000 in gold to the National Bank of Belgium, to be added to its earmarked account.

We purchased \$21,000,000 in gold from the earmarked account of the Bank of Sweden.

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it by the banks indicated below:

- \$12,653,000 from Canada, shipped by the Bank of Canada, Ottawa, for sale to the U. S. Assay Office.
 - 2,257,000 from England, shipped by the Bank of England, for account of the Swiss National Bank. The disposition of this shipment is unknown at the present time.
 - 1,949,000 from South Africa, shipped by the South African Reserve Bank, to be earmarked for account of the Netherlands Bank.
- \$16,859,000 Total

The State Department forwarded to us a cable stating that Erlangers, Ltd., London, was shipping \$57,000 in gold from England to the Manufacturers Trust Co., New York, for sale to the U. S. Assay Office.

The Federal Reserve Bank of New York informed us that the Central Bank of Turkey yesterday paid off \$1,000,000 of the seasonal loans made to it by the Federal, using dollars in its account with the Federal for that purpose. This transaction reduces the total of such loans outstanding to \$1,000,000, secured by \$1,111,000 in gold.

The U. S. equivalent of the Bombay silver quotation was unchanged at 39.71¢.

The London fixing prices for spot and forward silver advanced 3/16d to 21d for each delivery. The U. S. equivalents were 35.30¢ and 35.11¢ respectively.

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

We made six purchases of silver totaling 331,000 ounces under the Silver Purchase Act. Of this amount, 26,000 ounces represented trading silver, and the remaining 305,000 ounces consisted of new production from foreign countries, for forward delivery.

B. M. S.

CONFIDENTIAL

March 20, 1940.
4:47 p.m.

H.M.Jr: Hello

Operator: Mr. Miller.

H.M.Jr: Hello.

Harlan
Miller: Hello Mr. Secretary.

H.M.Jr: How are you?

M: Fine sir. How are you today?

H.M.Jr: How's the coffee cup?

M: Well it keeps me stirring around. Why I hear that you're going away and I know it's going to be difficult to squeeze me in for a little appointment. I'd like very much, on a matter that's slightly unusual, to come over and see you if possible.

H.M.Jr: Couldn't give me an inkling?

M: Well it has to do with - I'd be glad to give you an inkling if it won't interfere with my getting an appointment.

H.M.Jr: No, no.

M: It has to do with McNutt's situation.

H.M.Jr: I see. Well I tell - how long are you at your office?

M: Well I can - I can hold myself at your disposal if there's any chance of seeing you either this afternoon or tomorrow morning.

H.M.Jr: Yes, I can - oh maybe - let me just see a minute. I tell you what you do. You come here at ten o'clock tomorrow morning, will you?

M: Ten o'clock tomorrow morning.

H.M.Jr: Yes.

M: I'll be there on the dot.

- 2 -

H.M.Jr: Thank you.

M: Thanks a lot sir.

H.M.Jr: I called you because, well, I suppose it was - I'll do the best I can.

M: How's that?

H.M.Jr: I can't - if I talk I'll go to jail, but I'll be glad to see you.

M: Well you can speak freely, just handle it any way you want to, but I thought you might be interested and I thought it was necessary to try to see you in this -

H.M.Jr: Well there's a number of boys that got off on the wrong foot and I'd like to have my day in court.

M: Well I'll be over then at ten o'clock.

H.M.Jr: Thank you.

M: Thanks a lot.

March 20, 1940

MEMORANDUM FOR THE SECRETARY:

Steamer EASTERN GUIDE, New York to Vladivostok, Russia, was loading all day yesterday.

Seattle: There are no ships in this port intended for or loading for Russia ports.

(Signed) Basil Harris

(Sent to President 3/20/40.)

March 20, 1940

MEMORANDUM FOR THE PRESIDENT:

Information has just been received that the "Eastern Guide" is unloading all copper taken on and loading only machinery, on instructions from the Amtorg Trading Company.

This supplements information received in memorandum to me from Basil Harris sent to you this morning.

(Signed) H. Morgenthau, Jr.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

By Messenger MAR 20 1940 4:45 P.M.

March 20, 1940

MEMORANDUM FOR THE PRESIDENT:

Information has just been received that the "Eastern Guide" is unloading all copper taken on and loading only machinery, on instructions from the Amtorg Trading Company.

This supplements information received in memorandum to me from Basil Harris sent to you this morning.

(Signed) H. Morgenthau, Jr.

**ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY**

By Messenger MAR 20 1940 4:45 Pm.

3/20⁹⁰/40

Memorandum to the Secretary:-

Mr Harris called at 3:05 p.m. and said he had just received information that the "Eastern Guide" was unloading all copper taken on and loading only machinery. This on instructions from the Amtorg Trading Co.

The supplements information contained in his memo of this morning which you sent to the President.

D.E.M.

March 20, 1940

3:45 pm

Present:

Mr. Purvis
Captain Collins

HM,Jr: Got my engine?

Mr. Purvis: I think so, but, by Heavens! I can't tell you -- I feel as though I have won a war!

HM,Jr: Well, by golly! you had better!, as we say.

Mr. Purvis: Well, I would not think it a completely comparatively easy thing. I have this little disadvantage. Sir Arthur Street is at the Front on a tour. He's the permanent Secretary. He's number one.

HM,Jr: Who is number two?

Mr. Purvis: Kingsley Wood is Minister. And apparently the Rolls Royce is longer drawn out than I realized and it's being moved into departmental machinery and frankly I won't express my views, but in effect here is the situation.

HM,Jr: Well, don't let's take the time. You are working on it?

Mr. Purvis: I have got it, I think. All I want to do is ask you two things. One is payment.

HM,Jr: They will pay.

Mr. Purvis: I want to avoid that. What we suggest is to go back to the original suggestion which,

-2-

I believe, is acceptable to the Army, which will exchange an Allison against a Rolls Royce. That was the original suggestion, I believe, from this end, as far as I know, and that would be the easiest way.

Capt. Collins: I don't know.

Mr. Purvis: That's a very practical suggestion as to the method of carrying it out. That would avoid the question of payment.

HM,Jr: Well, ask General Arnold.

Mr. Purvis: A comparison to be made at both ends, Allison with the turbo exhaust and the #10 motor, and I feel that there is something to that. We get a comparison at both ends.

HM,Jr: Well, you (Collins) ask General Arnold.

Capt. Collins: I will take care of that.

HM,Jr: I want you to take care of it, because I am dead.

Mr. Purvis: Well, anyhow, the answer is we are over the biggest hurdle. It becomes a question of method.

There is apparently one other slight question which, on the telephone, this morning I could not get out because it's a bad line, and that is it's two engines, I understand, that you wanted.

HM,Jr: That's right.

Mr. Purvis: Some question abroad. Wrote from the Embassy on February 7th asking one and I could not get quite what they were after, but one is in their mind.

HM,Jr: General Arnold said two, because they were afraid they might break one up.

-3-

Mr. Purvis: One is unquestionably just a question of method to avoid payment -- the question arising -- and the other I am perfectly sure we can handle.

HM, Jr: (To Collins) Then let Mr. Purvis know tomorrow.

Mr. Purvis: But the thing is disposed of except for detail.

HM, Jr: Well, some detail! They want one of our engines in return.

Mr. Purvis: I think it's the Army's own proposition and if by any chance it isn't, if you will let me know we shall go ahead while you are away.

HM, Jr: Arnold told me "We will be glad to pay for it." He did not say anything about swapping to me, but find out.

Captain Collins: Yes, sir.

Mr. Purvis: Then, on the general program, I don't think I need to go over it. You have been over it with Self very recently.

HM, Jr: Very good impression on me. I wrote it all down. Excellent impression.

Mr. Purvis: We can't go far wrong with him here. After the preliminaries, we would like to get Collins in again. For the moment we are still in the preliminary stage. On the whole, it has been going very well this week.

One point on which I would like a further word with you. The light alloys situation. At the present, we are running into a snag which we can't believe is real. The production of virgin aluminium in this country is 150,000 tons a year. That was the 1939 basis. It rises to 180,000 when the new crop in the State of Washington comes in towards the end of this

-4-

year. It is a very big tonnage, because the tonnage of light alloy manufacture -- I refer to extrusions, bars, shapes, sheets, all that which goes into the airplane manufacture -- the maximum is 50,000 tons and it may interest you to know, interest you enough to put a memorandum on the subject. That's about the quantity of light alloy shapes, sheets, extrusions, bars, all that kind of thing which goes into the making of 1,000 planes a month, 12,000 a year.

H.M., Jr.: I would like a memorandum on it.

Mr. Purvis: Would you?

H.M., Jr.: Very much!

Mr. Purvis: That is the British fashion plane. Because when I got a memorandum made up yesterday, I thought with a little change it might be valuable. It would point the finger in light alloys to where there are certain deficiencies, which I think might have real value. Self and I worked it out.

But on the ingot, the virgin aluminum, which I did wonder we could get a little help on.

During the last ten days, there has been a sudden change on the Aluminum Corporation. Up to that time we placed such orders as we pleased with them for bars and sheets and shapes, of whatever kind, and they supplied them with this huge aluminum production behind. A short time ago they began to say to us, "We can only accept those orders if you give us aluminum from Canada."

Actually, if there was a genuine shortage of aluminum, we will have to strain tremendously to do it, but actually we feel this is sort of something they had introduced without real reason. I am speaking very frankly. I wonder if we could have your help in running that down for it is really a vital point. I suppose somehow or other we will have to do it, but what we would like to do is get orders

-5-

put through in a normal way and we feel they are using the arrangement the Government asked them to do with reserve stocks to do something which is really fantastic, not something you wanted them to do.

HM, Jr: There is something wrong. I am going to ask you what is Mr. Davis' name?

Mr. Purvis: I have met him twice.

(To Lieut. McKay: Call up the office of Mr. Davis, President of the Aluminum Company of America in New York. Ask him if it will be convenient for him to come to see me tomorrow at 11 a.m. Tell him I am leaving tomorrow night for Sea Island and I am very anxious to see him before I go, in connection with the English and French.)

Captain Collins: I think Davies is President.

Mr. Purvis: No. Davis is the man.

But, as I say, it has introduced a new phase which is a little worrying.

HM, Jr: Look, in order to save your time, you are not telling me anything that Sir Henry Self has not already told me.

Mr. Purvis: No. I imagine not.

HM, Jr: In order to save you, I called up this man (Collins) yesterday and I said, "You get on this aluminum thing because I am sunk."

Captain Collins: I am on.

HM, Jr: Now, tell Mr. Purvis and me, at the same time, what you know. Can I be any fairer?

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Mr. Purvis: Very fair.

Capt. Collins: Now, as the result

HM, Jr.: Let's call a spade a spade.

Captain Collins: As the result of this talk yesterday, and this is as late as 2 o'clock today, here's some figures that we kicked out by memorandum from last night and from New York: total orders placed by the British for tubes, bars, round bars and sheets, are 1102 tons. There is under consideration for the British 10,900 tons. That's tubes, bars, sheets, forging stuff of that kind, 1,000 of which is for Australia. And of this 10,000 tons there have been, according to report from Davis in New York, talks and talks and talks and talks, and nothing definite concerning sizes, quantities of different items, and this has been hanging fire -- some of this goes back to February, early part of February.

Mr. Purvis: Captain Collins, Mr. Davis is playing a rather interesting game, but I think now we have got to the bottom of this. It was sometime before we realized that this business of always saying to us, "You are not giving us accurate specifications", it was sometime before we realized we did not have the whole story. We gradually, completely put ourselves in position -- we have found always this story "You might get it tomorrow" -- that we don't give them enough information. His main strategy has been all the time to say, "We can't deliver this because we have not the specifications". Actually, we finally traced that to its lair. Take that extra quantity. We got the absolute detailed specifications. What we are met with, on the other hand, "It's no good your talking unless you can give us aluminum ingot". We know the output of ingot compares -- 150,000 on today's basis with 30,000 coming in the year. Requirements for all the airplane industry, the whole thing, 57,000 tons. And there is the whole margin -- there is something going on behind

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Captain Collins: That's a phase I did not realize, because it has never been any question in our mind of ingots.

HM, Jr: What I think you ought to do, depending upon whether we hear from Mr. Davis or not, I need two pieces of paper. What I want is the orders that you have already placed and the ones you would like to place, talking -- I think the thing is tonnage. Whether it's ingots or shapes, it all gets down to tonnage.

Mr. Purvis: Thought the difference here is in the airplane industry, the light alloy side, for airplanes. You have an unbalanced situation here, where you have an excess in sheets, a short capacity in forgings. The actual forgings and the tubes are very, very short. They are out of balance. You have grand production -- for instance, of bars, but it's unbalanced. You have not enough forgings to take care of more than 4,000 planes whereas you have enough sheets to take care of 12,000 or 15,000 planes a year. It is an unbalanced situation in the working of the ingot into shapes which I would like to put in that memorandum to you. We are up against the difficulty

HM, Jr: If he's going to be here tomorrow and if it is important enough to you, you had better stay over.

Mr. Purvis: Well, it might be.

HM, Jr: I mean, if he's coming down, I could see him for half an hour at eleven and then have you join us. He's going to say one thing and you are going to say another, and have you meet here and come back in the afternoon and say we are together or not. If it's important enough for that

Mr. Purvis: This demand for ingot, which we believe to be -- he's using our necessity to get some ingots out of Canada.

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HM, Jr: What I would like to have in a memorandum is the over-all picture of what our production is in this country. As I understand, from Sir Henry Self, the basic raw material comes from British Guiana.

Captain Collins: Bauxite.

HM, Jr: I did not know that. I thought we had mines here.

Captain Collins: No. Note of the type that is used.

HM, Jr: I would like to get the total of bauxite produced in British Guiana; so much goes to Canada; so much to another place; so much to the United States.

Mr. Purvis: I think whereas British Guiana is the place, I don't think it is the only place bauxite comes from. I think we could start with inert aluminum and work from there.

HM, Jr: You may not be able to do it tomorrow, but before I get through I would like to start from where bauxite starts; how much the tonnage is there. Is that enough?

Mr. Purvis: Yes, or whether it requires the opening up of bauxite

HM, Jr: Let's start with bauxite in the world and where does it come from. We might as well be thorough. Is that enough? Where is it distributed and where is it melted into ingots? Where does it go? Is that Canada, Niagara Falls?

Mr. Purvis: It's Canada, United States, France.

HM, Jr: Wherever it is, where they have electric power to melt it down. It's all down by electricity?

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Mr. Purvis: Yes. That's why Canada and countries like that

HM, Jr: I was wondering about France. Well, France wants to get its plane production up to so many a month; England, so many; and we, so many, for which we need so much raw materials to go into so much ingots. Our present production is this. We are short or we are not. And from that stage, trace it right up and let's see where we are at.

Mr. Purvis: Yes. Of course, we started from ingot because it would take a devil of a long time to change, but he must have that picture right at his thumbs. Davis is very knowledgable.

Our practical difficulty, you see, for the moment is, as I say, we want to place these orders. We have met day after day with the little committee that I got Davis to put up. He put up a committee from his place, a man by the name of Davies as his first fellow, and we had two of our French people and one of our Britishers, because Davies was inclined to say, "You don't speak with the same voice".

HM, Jr: This thing has me worried, because if I am supposed to do any job for the President, this is certainly a coordinating job.

Mr. Purvis: Yes. Quite.

HM, Jr: I am really worried. You think the shortage in this country is where?

Mr. Purvis: I know it. I can give you the actual chapter and verse. It's forgings, made from forgings stocks. No shortage of forgings stocks. It's the actual forging work itself, and in tubes.

HM, Jr: Forgings and tubes?

Mr. Purvis: Forgings and tubes. There is one other, possibly. Die castings, the kind of

-10-

casting that makes the airplane carburetor. That is also a dangerous thing, because it means that you have to get a very high quality of skilled labor which takes time to train. That's another tersery one. The difficulty with the tubes is just this: it's the time it takes to do anything about it. Heat treatment is involved and heat treatment is a six months' proposition.

HM, Jr: What is tubes?

Mr. Purvis: Tube is extruded

HM, Jr: What's it used for?

Mr. Purvis: Airplane struts. The British use much more per airplane. Provision of more capacity for that is really difficult and actually in forgings your output is quite a menace to your airplane production possibilities.

HM, Jr: On this thing, wouldn't it be helpful to have General Brett here? Would he know about this?

Captain Collins: No, I don't think so. I think one other man we should have here is the Washington man.

HM, Jr: That would be up to Davies, but wouldn't Brett know something about this? Who would know in the Navy?

Captain Collins: Brett would have figures.

HM, Jr: How about Kraus?

Captain Collins: Kraus would have figures, but, of course, they don't buy this as such.

Mr. Purvis: This is something in which our interests, I believe, Mr. Secretary, coincide with yours. Our airplane program may be a better way

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in bringing in a more balance picture for aircraft production. I think that is a real need, not an imaginary one.

(Lieut. McKay came in at this point, and the Secretary asked him if he had gotten the call. Lieut McKay said the operator thought she had it a minute ago. "I will give you another five minutes," the Secretary told McKay.)

Mr. Purvis: But roughly speaking, it really comes down to this: to make 1,000 planes a month, British type -- because, after all, we don't know your type and the British may take a little more than yours -- but it requires 23,500 tons of sheets, 9,400 tons of forgings and extrusions, 500 tons of castings, and 12,000 (?) tons of tubes, and then that totals up to approximately 50,000 tons for 1,000 planes a month. Then you have to allow 10,000 for scrap. So you have 60,000 tons of light alloy shapes and sizes to make 1,000 planes a month. The difficulty you are in from a National Defense viewpoint, if I may be permitted to suggest, is that your production of the various kind of alloys -- I mean the difference between sheet, casting, forging, extrusion or bar -- is out of balance. You have a high productive capacity in one and little or nothing in the other, but in any case when you have taken it all in all, the point that is being made to us, that we must supply the aluminum before they will accept our orders any longer, does not seem to be common sense, because you have 150,000 ingot per month, rising to 180,000 at the end of the year.

HM, Jr: In the United States?

Mr. Purvis: From 150,000 to 180, yes. In the State of Washington there is a new plant coming in that will make 30,000 more this year.

HM, Jr: What is your production in Canada?

Mr. Purvis: I am a little off center, but I think approximately 200,000 tons. That's another

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big item because of water power.

Mr. Davis has this suit on his mind. Every time you see him he takes three-quarters of an hour to tell you he has a suit pending and he has been in court every day for two years.

(Lieut. McKay came in to say the Chairman of the Board is in Nassau and Mr. Davies is the manager in New York.)

Mr. Purvis: Davishas the power.

HM,Jr: The man in Nassau. What about Davies?

Mr. Purvis: Awfully nice fellow, but in the final analysis, can't act. When the Chairman brings his men into the room, there is no question who's running the company.

HM,Jr: Tell you what you (Collins) do. Get outside and talk to the man who is here in Washington and say I want to talk with whoever is boss while this man is in Nassau and I would like him here at eleven o'clock tomorrow.

(At this point, HM,Jr spoke to General Watson and said:

"I am having a meeting tomorrow on aluminum. I find it is a very critical situation. I would like to have General Brett here, who does the buying on the airplanes, and I think it's Captain Kraus in the Navy. Would you be willing to tell their bosses to have them here at my office. Aluminum in connection with airplanes and those two or anybody they want to send along. In connection with supplying of aluminum for airplanes. I find it is something that is quite serious. Another "neck of the bottle".

"Did he see General Marshall today? Wonderful! Swell!

"That was good stuff that you gave to Alsop. (Laughter). Boy, oh, boy! Not a bit!"

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(When the conversation was concluded, HM?Jr wrote out for Miss Chauncey what General Watson had said, and it is attached to this page.) ←

Mr. Purvis: May I ask you a question and ask how the release is going?

HM,Jr: I think this: I think the thing is going along beautifully. Those articles were not any accident. I told you the President gave two and one-half hours to it. The Army has got their orders. I think they have got to come through. If you have any trouble while I am gone -- I have a direct wire down there -- tell Collins what's on your mind and give him the time when you can be reached and your telephone number and I will call you.

Mr. Purvis: Exactly!

HM,Jr: (To Mr. Collins, who returned from the Secretary's outer office..) I was telling Mr. Purvis if something important came up to tell you; you phone me down there and you have his phone number and where he will be and I will call him within half a day.

Mr. Purvis: Splendid! Wonderful!

Captain Collins: We are still suspended. Mr. Hunt, of the company, can't leave New York. He's tied up in a law suit and impossible to get him out.

Mr. Purvis: That's the son-in-law.

Captain Collins: Wilbur is phoning Pittsburgh concerning one Vice President who would be cognizant with the policies of the company.

HM,Jr: Who is Hunt?

Captain Collins: He's the President.

HM,Jr: Why in the hell can't he be excused from Court?

Pres. gave General ←
Marshall his
address today what
he wanted in regard
to planes for address.

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Captain Collins: Anti-trust suit, he said. Hunt is definitely out. He tried him the other day.

Mr. Purvis: You see what I meant? There is one gentleman there has it like that (clenching his fist), but policy is under his direction. Davis has left instructions, no doubt, that every order must be subject to our getting the aluminum, so we are hamstrung.

HM, Jr: How long is he going to be down in Nassau?

Mr. Purvis: I don't know. I imagine a couple of weeks.

What we may find there is just this one pocket. What they are trying to do is utilize the urgency of our demands as a means of getting some ingot out of Canada.

HM, Jr: Let's lay this on the table.

Where are you on engines right now? Are you anywhere?

Mr. Purvis: Going much better than we thought even when Self was with you.

HM, Jr: All right. Tell me where you are on engines.

Mr. Purvis: We are in the position we are expecting now to cable today for final authority on the program along the lines of 3500 Allison, 4000 Pratt-Whitney, 4,000 Wrights. That's 11,500, but that includes the 3500 of the French options for airplanes built in France.

HM, Jr: What's that mean?

Mr. Purvis: You remember there were 3500 on the old option which France had.

HM, Jr: But those are not orders on the books?

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Mr. Purvis: They are options which the French have to exercise. What will be required for the 5000 planes that will be built here are 8000 engines, which is the difference. And there is the picture which we are hoping to cable to London and Paris to get a green light on, on that basis. As to type, subject to release always of planes, 3000; types, mainly Curtiss, Lockheed P-38 -- improved Curtiss, I mean, if we can get it -- and the Bell P-39.

HM, Jr: You want the Bell airacuda? That ought not to be too difficult.

Mr. Purvis: The Lockheed two-engine interceptor and the improved Curtiss.

HM, Jr: You want something better than the P-40.

Mr. Purvis: Pursuit planes. The Lockheed interception 39, the Bell 39, and the improved Curtiss - I don't know its number.

Captain Collins: Have we got the breakdown on those or is that supplied.

Mr. Purvis: We have not got a breakdown, because, frankly, we had to concentrate on engines and have had only preliminary talks on bomber. On bomber, 2100 bombers, which would Douglas attack, the Glenn-Martin 187 and the Lockheed 37. 3,000 fighters, the Curtiss, Lockheed P-38 and Bell P-39. But there is one difficulty in it and that will be in the forging, the aluminum.

(Miss Chauncey was excused from taking any further notes.)

(About ten minutes later, the Secretary asked her to return and she took the following:

Mr. Purvis: On nickel. I am advised that the Canadian Government, which had been considering allowing some tonnage to be shipped to Japan of nickel,

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has rescinded that and has advised the Japanese Minister in Ottawa that for the time being no nickel export license will be given either for the boat that was under consideration at the end of March or for the next boat, which I believe to be in two or three weeks -- later in April. That will give an opportunity for the development of policy along a little more different lines and the opportunity of discussion by Rist and Gwatkin and myself with Dr. Skelton in Ottawa about ten days from now.

(At this point, HM, Jr dictated the attached letter to the President and directed that a copy of it be sent to Secretary Hull.)

oOo-oOo

March 20, 1940

My dear Mr. President:

I have just had a conference with Mr. Purvis.

You will remember that Mr. Purvis informed me that during the months of January, February and March, the International Nickel of Canada would export to Japan 835 tons, which was a balance of a 1939 contract. This has been shipped over the period of January, February and March, instead of January and February which was what the Japanese wanted.

Mr. Purvis informs me, this afternoon, that the Canadian Government has postponed making any future contract for shipment of nickel to Japan for the time being and has so advised the Japanese Minister at Ottawa. He further advises me that he will take this matter up again with the Canadian Government about April first.

I am sure this will be very pleasing to you, because it shows that the Allied Purchasing Mission is cooperating with us.

Sincerely yours,

The President,
The White House.

March 20, 1940

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Sincerely yours,

The President,
The White House.

PRESIDENT EXALTS AIR EXPORT POLICY

He Says Foreign Buying Has
Expanded Plants and Given
Vital Aid to Defense

MUST SELL NEW MODELS

Only Way to Gain Purchasers
He Declares—Calls Talk of
Lost Secrets 'Bunk'

By TURNER CATLEDGE
WASHINGTON, March 19—Presi-
dent Roosevelt today entered a vig-
orous defense of the Administra-
tion's policy of releasing latest
model aircraft for sale abroad, de-
claring that he was serving the best
ends of American national defense
by encouraging expansion of do-
mestic plant facilities to fill for-
eign orders.

The President stepped into the
controversy over export of planes
and munitions on the eve of a hear-
ing by the House Military Affairs
Committee at which War Depart-
ment officials will be questioned
concerning the effect of foreign or-
ders upon the speed and price at
which aircraft is being delivered
to the United States Army.

Among those invited to testify
are Secretary of War Woodring,
Assistant Secretary of War John-
son, General George Marshall,
Chief of Staff, and Major Gen.
H. H. Arnold, chief of the Army
Air Corps.

Clies Tripling of Capacity

Taking advantage of a question
propounded at his press conference
this afternoon, Mr. Roosevelt ad-
vised that foreign plane orders had
increased the responsibility of the
planting within the last year of plant
capacity for building airplanes and
airplane engines in the United
States. He characterized this as
one of the most important things
that had happened to our own na-
tional defense in many years. Such
a development "did not have taken
place, he added, "without the sale of
airplanes abroad.

The President put down as pure
bunk any suggestion that in the
sale of fighting airplanes to Euro-
pean nations, vital military secrets
of this government were being dis-
closed. Speaking specifically of the
Curtiss P-40, the pursuit plane
which the War Department released
in December for sale to the Allies,
he said that he had seen one of
those types as early as 1928, that
some of the newspaper men present
in the room had seen it at the same
time, and that later he had noticed
pictures, drawings and cross sec-
tion diagrams of its various parts
in technical magazines.

The President added that there
were three or four devices, outside
of completed planes, which this
government thinks other nations
haven't acquired or developed as
yet. These devices were being kept
absolutely secret, he stated, and
would neither be sold nor given to
anybody. He cautioned the news-
paper men not even to ask what
they were, adding it would not be
good Americanism even to try to
find out.

Our Defense Called Rude

Reviewing in considerable detail
the American policy of permitting
sales of war planes to European na-
tions, Mr. Roosevelt declared that
it was premised on the needs of our
own defense, and particularly on
the requirements for additional pro-
duction. The deficiency in plant
capacity to produce fighting planes
was noted by him about a year ago,
he said, when, as Commander-in-
Chief of the nation's armed forces,
he began to take stock of defense
problems in the light of the situa-
tion then drawing to a head in
Europe.

The first two questions that came
to his mind, he said, were: How
many planes does the United States
need in never time? And how many
can the United States produce?

He found the totals of both planes
and pilots to be wholly insufficient.
At that time, he asserted, and he
began immediately to seek means
of making up the deficiency. What
has happened since then, particu-
larly in the matter of providing
production facilities for building
planes, constituted a perfectly amaz-
ing story, he contended.

It was obvious, the President
went on, that such expansion would
have been impossible had not this
country been able to sell planes
abroad—to any country, belligerent
or neutral, who would come after
them and pay for them. And the
only criterion for selling the planes,
he said, was to sell to foreign pow-
ers the planes they would buy.

Supplies Held Open to All

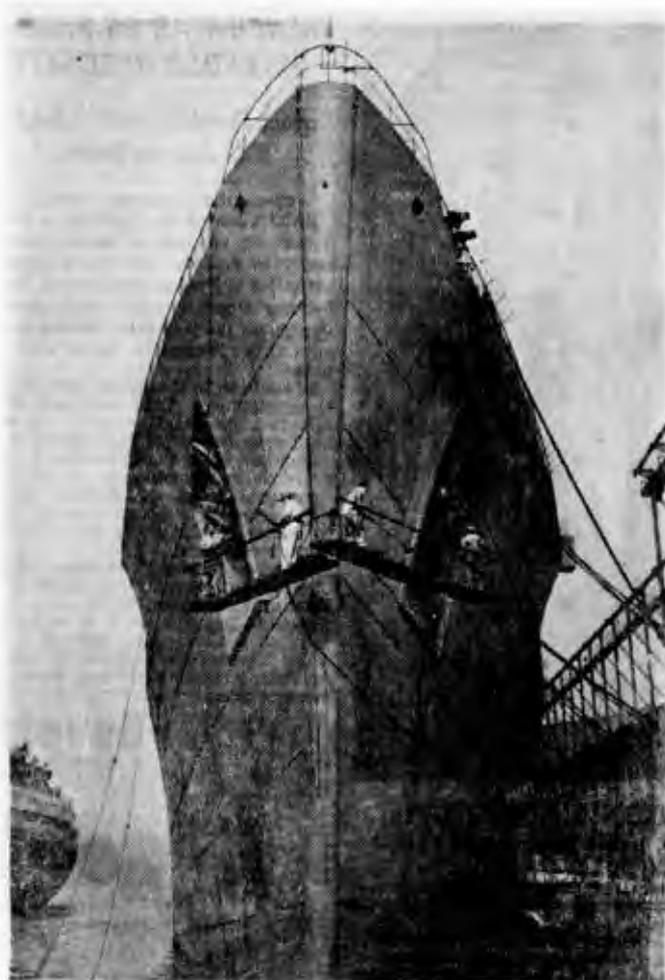
The President left no doubt that
he would insist upon a continuation
of sales abroad. He posed a ques-
tion whether he considered it more
in the interest of the defense of
the United States to sell planes to
a particular side in the current Euro-
pean war. He insisted that the
present policy was to sell to any
one who would come and get them.

Being strictly in command of the
administrative arm of the Govern-
ment, as well as Constitutional
Commander-in-Chief of the army
and navy, Mr. Roosevelt thus ap-
parently settled the controversy
over foreign plane sales as far as
the Executive branch is concerned,
a controversy which arose when
certain officials in the War Depart-
ment objected to the policy under
which it was proposed to release
latest design planes for export.

There remained considerable ques-
tion, however, whether the dispute
was disposed of finally, for Con-
gress has been exhibiting a recent
nervousness about the situation.

The House Military Affairs Com-
mittee's inquiry was ordered last
week when the controversy, then
brewing between the War Depart-
ment and an unofficial coordinat-
ing committee headed by Secretary
of the Treasury Morgenthau, seemed
about to burst into the open. A
resolution calling for a thorough
investigation into the whole matter
of foreign plane and arms sales was
introduced in the Senate by Senator
Lafayette Smith and is now pending be-
fore the Military Affairs Commit-

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THE QUEEN MARY TAKES ON A COAT OF WAR PAINT

Admiralty gray being applied to the liner yesterday

Associated Press

MAR 20 1940

My dear Senator:

The following information is furnished you in compliance with your telephone request of this morning.

In the 1941 Budget submitted to the Congress in January of this year it is estimated that the Treasury's working balance on June 30, 1940, will be about \$1,011,000,000, a reduction of \$1,291,000,000 during the current fiscal year. The Treasury does not segregate its working balances in the General Fund to show its obligation on any particular class of accounts, but considers its total working balance as available to meet the demands made on any of these accounts as well as to meet general and trust fund expenditures of the Government.

In view of the large amount of demand obligations now outstanding which the Treasury may be called upon to meet, such as the checking accounts and deposits of governmental corporations, credit agencies, etc., in the aggregate amount of over \$400,000,000; the Unemployment Trust Fund, amounting to \$1,610,000,000; special obligations issued for account of the Postal Savings System and the Federal Deposit Insurance Corporation, amounting to \$142,000,000; and outstanding United States Savings Bonds with a redemption value of \$2,700,000,000. It is felt that the estimated working balance of the Treasury on June 30, 1940, as contemplated by the President's Budget, will be about as low as it can be permitted to go.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Harry F. Byrd
United States Senate, (Floor)
Washington, D. C.

MAILED 3-10 1940
BY SPEC. MESSENGER 2:25 P.M.

FILE TO _____

COPY TO _____

DATE: 3-10
March 20, 1940

MAR 20 1940

My dear Senator:

For your information I am transmitting herewith a copy of my letter of today to Senator Byrd in response to his request for information on the working balance of the Treasury.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Alben W. Barkley,
United States Senate,
Washington, D. C.

Enclosure.

DWB:WLE
March 20, 1940

MAILED 3-20 1940
BY SPEC. MESSENGER 2:25 P.M.
FILE TO _____
COPY TO _____

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON

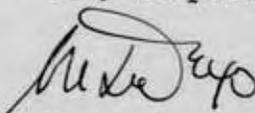
20 March 1940

My dear Mr. Secretary:

The enclosed is in connection with your inquiry on this subject.

I am forwarding this information in Mr. Edison's absence and trust that it is what you wish.

Very respectfully,



M. L. Deyo
Captain, U.S.Navy
Aide to the Secretary

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

Encs.

COPY

114

FROM: ALUSNA LONDON 191900CR872
ACTIONL SECNAV

RESTRICTED

MARCH NINTH BRITISH AGREED RELEASE THIRTEEN ITALIAN SHIPS AND CARGOES GERMAN COAL X ITALY AGREED HER SHIPS WHICH HAD NOT ALREADY SAILED FROM DUTCH PORTS WOULD LEAVE IN BALLAST AND NO FURTHER SHIPS WOULD ATTEMPT ENGAGE THIS TRAFFIC X THIS ACTION CONSIDERED HERE TACIT RECOGNITION BRITISH REPRISAL MEASURES AGAINST GERMAN GOODS ARE IN FULL OPERATION XX IT IS FACT VESSELS WHICH LEFT ROTTERDAM IN BALLAST CALLED AT CARDIFF FOR LOADING X SEE ALSO EMBASSY DESPATCH FORTY EIGHT ZERO SIX AND TELEGRAM FIVE SIX EIGHT BOTH SEVEN MARCH LIKEWISE DISPATCH FOUR EIGHT THIRTY NINE OF TWELVE MARCH FOR FULLER PARTICULARS PARA-UNABLE DETERMINE HERE CHARACTER AND DETAILS ARRANGEMENTS BETWEEN GERMANY AND ITALY FOR SUPPLY COAL TO LATTER X MINISTRY ECONOMIC WARFARE ESTIMATES ITALIAN YEARLY IMPORTS FOREIGN COAL ABOUT TWELVE MILLION TONS OF WHICH TEN MILLIONS HERETOFORE RECEIVED FROM GERMANY AND POLAND THEY BELIEVE INADEQUATE RAIL TRANSPORTATION FACILITIES WILL CURTAIL IMPORTS TO ABOUT FOUR MILLION ACTUALLY DELIVERED ALTHOUGH ADMITTING HIGHER RATE COULD BE MAINTAINED FOR SHORTER PERIOD SAY ONE MONTH AND SUCH RATE USED FOR PROPAGANDA PURPOSES PARA ENGLAND HAS EXPORTED TO THEM SOMEWHAT OVER TWO MILLION TONS YEARLY AND CAN POSSIBLY DOUBLE THIS AMOUNT BUT CRUX IS PAYMENTS X SPECIAL MISSION FAIRCHILD NOW IN ROME ON THIS POINT X HEAVY GOODS NOT OFFERED BY ITALY IN SUFFICIENT QUANTITIES ESPECIALLY THOSE ASSIMILATED TO MUNITIONS AND ENGLAND UNWILLING ABSORB LARGER QUANTITIES LUXURY TRADE OR AGRICULTURE PRODUCTS PARA ABOVE AFFECTS SHIPPING AS COLLIERIES FINDING DIFFICULTY SUITABLE AND PROFITABLE CARGOES FOR RETURN VOYAGE TO ENGLAND X ANTICIPATED BULK ENGLISH COALS WILL TRAVEL IN ITALIAN BOTTOMS WHICH MAY OR MAY NOT ACCEPT CONVOY BUT PRACTICALLY ALREADY SHOW DISPOSITION TO TRAIL PRESENT EAST COAST CONVOYS X RECKONED COAL FOR ITALY WILL COME ONE THIRD EAST COAST TWO THIRDS CARDIFF AREA PARA MY OPINION NEW ESTIMATE COAL DELIVERED BY RAIL FROM GERMANY PROBABLY LOWER THAN WILL ACTUALLY MATERIALIZE X CONSIDER BRITISH DELIVERIES CAN NOT FILL GAP AS A-PART FROM ECONOMIC ASPECT DOUBT IF THEIR TRANSPORTATION STORAGE AND HANDLING FACILITIES ADEQUATE TO MEET GREATER THAN TWO FOLD EXPANSION WITHOUT DIVERTING COAL SUPPLIED OTHER COUNTRIES WHICH REPLY UPON ENGLAND AS SOURCE NOTABLY ARGENTINA X BELIEVE NAZI AIR ACTIVITY EAST COAST CAPABLE CAUSING SERIOUS INTERRUPTIONS NEW CASTLE OUTPUT X SUGGEST POSSIBILITY AMERICAN COAL DELIVERIES ITALY OPPORTUNE

TOR CODEROOM 0100

DISTRIBUTION

16 ACTION

00A - 01 - 10/11 - 12 - 13 - 38 - NAVAID - OPNAVDO - FILE

COPYNAVAL MESSAGE
(Navy Department)

SECNAV

ALUSNA LONDON

Released: R.Ad. W.S.Anderson

Date: 15 March 1940

INFORMATION DESIRED AS FOLLOWS ONE AGREEMENT BETWEEN GREAT
BRITAIN AND ITALY COVERING RELEASE OF COAL TO ITALY TWO
ARRANGEMENT AS TO SUPPLY OF COAL TO ITALY BY GERMANY AND HOW
WILL DELIVERIES BE EFFECTED THREE ANY FURTHER INFORMATION OF
INTEREST BEARING ON THIS SUBJECT AND PROBABLE EFFECTS OF
THESE AGREEMENTS INCLUDING YOUR OWN OPINION REPLY FULLY BY
DESPATCH

HSM

PLAIN

London

Dated March 20, 1940

Rec'd 2:29 p. m.

Secretary of State,
Washington.

702, March 20, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. The Chancellor of the Exchequer was asked in the House of Commons a number of questions regarding the exchange control regulations, the most interesting of which was why the new regulations (my 594, March 9, noon) are confined to a limited number of commodities and for certain destinations only and whether to secure the maximum of foreign exchange for war purposes he would extend these regulations over the whole of the export trade of the country.

Simon replied: "It was thought desirable that the regulation referred to should be made applicable in the first instance to a list of commodities and currencies in regard to which the maximum amounts of the foreign currencies most required could be obtained without excessive administrative complications. The question will be kept constantly under review as experience of the working of
the

hsm -2- No. 702, March 20, 7 p. m., from London

the regulation is gained. I must however again point out that the obligation to offer for sale to the Treasury all American and Canadian dollars, French, Belgian and Swiss francs, Norwegian and Swedish crowns, Argentine pesos and Amsterdam and Java guilders, received for exports, applies to all commodities. The necessary steps are being and will continue to be taken through the censorship and otherwise to see that this obligation is strictly complied with."

2. British national revenue has already exceeded the war budget estimate for the full financial year. The latest exchequer return shows that up to Saturday last, when fifteen days remained to the close of the budget year, revenue had reached £1,000,900,000, an increase ^{of} £114,800,000 on the figure for the corresponding period of the previous year and £5,700,000 above the estimate for the whole of the budget year 1939~~40~~. As revenue totalled £41,200,000 in the last thirteen days of the exchequer year 1938-39 the estimate for the current year may eventually be exceeded by some £50,000,000.

Meanwhile expenditure of the supply departments continues to increase but slowly and a substantial shortfall on the year's estimate is certain. The amount required last week was £47,600,000, some £2,900,000 more than in the preceding week and about £5,000,000 above the average
for

hsm -3- No. 702, March 20, 7 p. m., from London

for the past few months. This brings total supply expenditure since the beginning of the budget year up to £1,448,600,000 at which level it is still as much as £237,800,000 below the war budget estimate for the full twelve months. Even if a marked acceleration in the rate of spending now takes place as a result of the usual end-year settlement of outstanding accounts the total required during the two weeks still to go is unlikely to exceed £120,000,000. Thus the short-fall of supply expenditure will be at least £115,000,000 and may reach £140,000,000.

The budgetary deficit was originally estimated at £938,000,000.

3. The three percent war loan closed today at only an eighth discount. British security markets were favorably affected at the opening by the Prime Minister's speech on the progress of the war and when the Paris Bourse strengthened after the fall of the French Government the markets here responded.

KENNEDY

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 121

DATE: March 20, 1940

Reference is made to the Department's telegram no. 73 of March 15, 4 p.m.

Replying to the inquiry of the Foreign Bondholders Council regarding the settlement of the Geará matter, Aranha said that if the Council made a "reasonable suggestion", it would be given careful consideration by the Brazilian Government.

All of the Government offices in Rio will be closed until Monday noon. Aranha is going to Pocos de Caldas and will return on Tuesday.

EA:EB



AMERICAN RED CROSS

NATIONAL HEADQUARTERS

WASHINGTON, D. C.

120

March 20, 1940

NATIONAL OFFICERS

Woods B. Roosevelt, President
 Charles Cross Hughes, Vice President
 Hiram H. Howell, Vice President
 Robert H. Jackson, Counselor
 John W. Hayes, Treasurer
 Albert T. Bushart, Secretary

NATIONAL EXECUTIVE OFFICERS

William H. Davis, Chairman
 James L. Feltus, Vice Chairman
 Joseph K. McDonald, Vice Chairman
 Lowell J. Smith, Vice Chairman

COUNCIL COMMITTEE

William H. Davis, Chairman
 Mrs. August Belmont
 Albert T. Bushart
 Mrs. Helen B. Davison
 Joseph B. Flanagan
 William Foxworth
 John W. Hayes
 George L. Harrison
 Robert H. Jackson
 Samuel Knight
 Maj. Gen. James Carré Magee
 Rear Admiral Ross T. McIntire
 F. Walton Moore
 Clarence D. Rice
 Mrs. Helen B. Rex
 Henry Ussell Sims
 Emil Wadsworth
 David B. Wilson

WOMEN'S ENDOWMENT FUND

Henry Margentha, Jr., Chairman
 Henry S. Jackson
 Howard W. Fenton
 William D. Hoover
 William A. Jones
 Thomas G. Mason
 James H. Perkins
 John W. Hayes
 Elizabeth Rice

My dear Mr. Secretary:

With reference to our conversation last night about Finland's needs, may I present the following facts:

Shortly after the outbreak of war in Finland, the American Red Cross sent Mr. Wayne Chatfield-Taylor to Helsinki to survey the needs and to report his conclusions. It was on the basis of his recommendations and those of Dr. H. A. Spencer, assigned to the American Red Cross by the United States Public Health Service, that our program has been planned.

The endeavor of the American Red Cross has been to provide a measure of medical relief and to date we have expended more than \$328,000 in cash for supplies, including ten ambulances, hospital equipment, surgical instruments, tents, blankets and X-ray machines. In addition, Chapter volunteers throughout the country have shipped over 66,000 articles of clothing and 192,000 surgical dressings.

Our latest purchases for Finnish relief were made following reports of tragic needs from Dr. Spencer, a copy of which is enclosed. These supplies were of various character and included 10,000 blankets, 10 X-ray machines, 40 basic sets of surgical instruments and a large quantity of clothing.

In addition to cablegrams from Dr. Spencer, we have received through the International Red Cross Committee and the League of Red Cross Societies appeals from international organizations. One received on March 15th from the Cajander Committee, which was signed by Suomen Huolto, is as follows:

"Left alone to defend her independence and neutrality Finland after an unyielding fight of three and a half months as the advance post of western civilization has found herself forced to conclude a burdensome peace. The activity of the National Committee of the Relief Fund for Finnish Civilian Population will not be diminished but on the contrary calls for greater effectiveness. The number of evacuees having increased the distress among them is great.

The number of persons having suffered from air bombardments is considerable. Large families of killed on battlefield and invalids are in need of constant assistance. Those who have suffered most from war are evacuated children with a tendency to illness. Until situation is settled broad assistance is necessary. Work will be more difficult than during war. The Committee sends you an urgent appeal for continual aid to relieve distress of civilian population."

Another cablegram received from the League of Red Cross Societies states that "Information from Finland emphasizes tragic plight Finnish children. 275,000 including thousands war orphans will return to ruined homes. As result peace treaty two hundred thousand population Karelian Isthmus abandoning homes. Immediate relief imperative considering weakened condition due prolonged suffering danger disease due inadequate food clothing. Most urgent needs money followed if possible by rapid despatch clothing especially underwear soap sheets towels dried fruits vegetables vitamins and milk products knitting and sewing needles thread wool materials."

From the League of Red Cross Societies on March 2nd came a cablegram informing the American Red Cross that refugees in Finland at that time numbered 600,000, of whom 300,000 were children, 270,000 women and 30,000 men, the number increasing constantly.

In a letter dated February 13th, Dr. Spencer points out the great need of hospital beds, not only for the army but for the civilian population as well. In this letter he asked that if possible 10 complete hospital units of 10,000 beds each be assembled and shipped to Finland. Dr. Spencer further stated that there were needed in Finland at that time a minimum of 30,000 hospital beds to take care of a civilian population of over three million.

Our last cablegram from Dr. Spencer came on March 16th in which he says "After detailed discussion with officials Finnish Red Cross it is clear that material requested in my telegram #82 is urgently needed for over 50,000 wounded and increasing hospital demands influenced by factors of great importance."

The American Red Cross is continuing to help meet the medical, hospital and clothing needs in Finland but it is of necessity limited in its efforts by funds at its disposal provided from its own treasury and contributions received from the public.

Please be good enough to let me know if there are any additional questions which occur to you.

Sincerely

Ernest J. Swift
Ernest J. Swift
Vice Chairman

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

AMERICAN RED CROSS
NATIONAL HEADQUARTERS

Date received:

March 16, 1940

Cablegram received from:

HELSINKI (FINLAND)

Through State Dept.

Dated March 15, 1940.

#148.

FOR AMERICAN RED CROSS FROM SPENCER.

"On the evening of March thirteenth a shadow fell over Finland when it was learned that under the peace terms the penalty imposed was heavier than anticipated. This depression seen on every side was further increased by the pity and sympathy going out to over one hundred thousand persons who last night were forced to leave their homes with a few personal belongings, hastily snatched together, these to be added to unhappy five hundred thousand previously expelled from their homes by the relentless invader. Of the total number four hundred seventy thousand are without homes and must be given immediate help; old men, old women and children are now travelling to an unknown destination by trains, trucks, afoot, horse drawn sled and by other means at hand from territory ceded to Russia. The new frontiers of Finland are indicated only by officials stationed on the road.

"Juho Koivisto, Minister in charge of evacuation, announced last night that the migration has started and stated in part 'they have had to leave their homes in centers where in many cases for generations and even centuries they developed traditions and affections.' The intimate familial and tribal characteristics of the Finnish people must be understood to appreciate these terrible conditions adding mental suffering to the physical hardships. These people must be housed, fed, clothed and above all have careful medical attention to ensure their existence and with the children to prevent a warping of the mentality."

(Section Two) "The expense and care borne by the state for evacuees during the war was dollars seventy thousand per day aside from monies contributed by foreign organizations. No estimate can be obtained of the sum now needed except that it will be greatly increased. Assistance in preparing the above was given by Beatty and Fourche of United Press. Additional information relative to specific needs will be sent as soon as information can be obtained in accordance our telephone conversation last evening. Sending further requests, advise hold all shipments." (End)

SPENCER (signed Schoenfeld, American
Minister)

Circulated usual
list.

MA

PLAIN

London

Dated March 20, 1940

Rec'd 1:54 p.m.

Secretary of State
Washington

701, March 20, 7 p.m.

Embassy's 32, January 5, 6 p.m.

Details will be published next week of the Anglo-Spanish loan agreement and payments agreement signed in Madrid on March 18. The published summary indicates that under the loan agreement the British Government will advance 2 million pounds for the purchase of goods of sterling area origin and a sum sufficient, together with the amount of nearly pounds 2 million standing in the reserve fund at the Bank of England under the 1936 payments agreement, to enable an immediate dividend of 50 per cent to be paid on outstanding debts. These are estimated at about pounds 7 million. Payment of interest on these loans will be made from the outset but no repayment of capital until 1942.

The payments agreement reestablishes a clearing and as THE TIMES puts it provides "a framework within which each country can buy from the other what it needs up to the limit of available supplies and of the sums available for payment."

There

There is considerable satisfaction that these long-drawn out negotiations have ended in what is regarded here as a favorable conclusion.

Please supply copy to Treasury.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 20, 1940, 5 p.m.

NO.: 366

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

This morning at 11 o'clock I visited our friend at the Bank of France. On the market money was more plentiful in view of the vote of the Chamber yesterday and the resulting resignation this morning of the Government - as implying the "reorganization" in the Government which has been so strongly desired by the country so there could be a more vigorous prosecution of the war. He said that Government obligations, war maturities in particular, were strong. The Bank of England telephoned to him while I was there to inquire as to the reaction. He gave them the same optimistic assurances, and added his own view that the meeting between Hitler and Mussolini had been taken with great calm and "almost an indifference" in the country.

Last week he had been to London, and received there a favorable impression of the smoothness with which the financial accord between Great Britain and France is operating. Rueff had expressed a similar view to me - reference, telegram of February 29, No. 274, from the Embassy.

END SECTIONS ONE AND TWO.

MURPHY.

PARAPHRASE OF SECTIONS THREE TO FOURTEEN, INCLUSIVE,
TELEGRAM NO. 366 OF MARCH 20, 1940.

I asked whether the trend thereunder was still in favor of the franc. He said that there had now been a change in the tide, that the French credit balance has now been reduced to 21 million pounds, whereas at the beginning of January it amounted to 30 million pounds. Those who had been fearful about French accumulation of unwieldy sterling, he said, were proved completely wrong now, that from the beginning he had insisted that it could not be otherwise with all the French had to purchase in the British Empire. He expressed the belief that French purchases in the British Empire will continue to increase, in view of their vital need for husbanding resources of gold and dollars. Our friend mentioned that they hoped to get Katanga or Rhodesian copper, in particular. In this connection he remarked that copper contracts between American concerns and the French had been "very stupid" and at prices which were far too high. He said that due to the restriction agreement, the copper mines in British Africa were not yet geared to maximum output, though he thought that in a year they would be able to supply French needs.

Our friend continued that he felt financial negotiations between France and other countries had not been aggressive enough. In Argentina, for example, with all that France purchases there, it would be in a position to refuse to
make

- 2 -

make payments in dollars at all instead of the percentage agreed upon, and the same situation held for Brazil, though the amount involved was on a lesser scale.

I asked our contact whether he was worried about the New York free market quotations for the franc and sterling. He said that personally he was not, but some agitation had been shown by the Governor of the Bank of France. He added he was annoyed at people in France looking on the fall as franc weakness whereas it really was pound weakness, as the franc is necessarily tied to the pound. The sole reason for the drop, he said, was the British action in instituting exchange control measures reducing the free market demand for sterling by requiring delivery of foreign exchange for certain specified exports, and failing to take measures to reduce the supply at the same time. He thought that the British authorities would take steps in accord with the latter shortly. He estimated, incidentally, that daily franc transactions on the market in New York amounted to about 20 million francs.

He did not deny that the French are following a policy of requiring certain exporters from the United States to invoice in francs. He described this policy as the most stupid and shortsighted possible, saying that he had

made

- 3 -

made vigorous protests against it. - Similar views have been expressed by Couve de Murville and others, references, telegrams from the Embassy of February 14, No. 213, of February 20, No. 237 and of February 27, No. 262. However the policy still continues.

He said that French purchases in the United States are increasing. For both Government and private purchases he gave me a figure of about \$6,000,000 a month - which amount is substantially lower than the figure given by Couve de Murville of \$45,000,000 on Government orders and \$45,000,000 on private orders, although both agreed that the trend is upward, reference, telegram of February 28, No. 270, from the Embassy.

He again made reference to Belgian "cooperation" in accepting gold instead of the dollars they had previously insisted upon in payment for French exports (reference, telegram of January 19, No. 94, from the Embassy) saying that since January he had saved \$20,000,000 in this way.

There is reasonable smoothness in the operation of the French exchange control, he said, but he did admit it is not entirely airtight; however, as for the control of franc accounts of foreigners, he does not think there are any important loopholes. There is possibility of some leakage in view of the large quantity of French francs in Belgium before the outbreak of the war and the daily
workmen

- 4 -

workmen border traffic with Belgium, but it would be difficult to stop this. From several sources I have heard, incidentally, that French monetary control at the frontiers is far from thorough. He believes, however, that there has been liquidation of most of the important holdings of French francs which had been acquired when the belga showed weakness.

Reference, telegram of March 18, No. 357, from the Embassy: my Bank of France friend confirmed the statement of Jahan that the authorities are working on draft regulations for the requisition of private holdings of foreign exchange - some of which holdings are already obligated for payments - and he thinks the estimate of 150 million dollars is probably the maximum amount. He also confirmed that consideration is not being given at the present time to a move for requisitioning of French owned dollar securities, and he again minimized the amount of such securities. Incidentally, he said that the British think the Federal Reserve gave too high estimates of their dollar security holdings.

He expressed the belief that in the near future gold also will be requisitioned, but that the authorities are reluctant to make this move. He agreed with all others with whom

- 5 -

whom I have discussed the question that it is hardly likely the gold which the peasants have been hoarding for so many years will be turned over to the Government. He said that he could make no estimate as to the amount of other gold holdings of individuals and companies, but they were probably substantial.

As for the 30 billions gold which the Bank of France ceded to the stabilization fund recently, he said that confidentially it had been his personal view that at this time a larger amount should be ceded, but that Governor Fournier had opposed it, wanting even a lower figure of 25 billions (compare with telegrams of March 10, No. 320 and of March 13, No. 335 from the Embassy).

While in London he said that he had heard a lot of discussion of the Keynes plan, but he did not believe the British were ready to adopt it yet. He said he had heard estimates that a figure of £300,000,000 would be reached for voluntary savings invested in savings certificates, and so on, and that this amount, in addition to the recent £300,000,000 war loan, would finance the Government for some time as far as concerned that aspect of the situation.

Gold holdings of the Netherlands Bank still in the Netherlands he estimated at between £30,000,000 and £40,000,000 as compared with the amount at the outbreak of the war of £80,000,000.

- 6 -

I remarked that I had noticed a private estimate in the March 16 issue of the London Economist that since the war the living costs in France have risen 17.3 percent, 12 to 13 percent of this being attributed directly to the war. He felt this was a fairly accurate estimate, and he thinks the trend continues upward. Since no seasonal adjustment has been made in the foregoing, he thinks that a brake against the rise may soon be operated through a reduction in agricultural prices.

My friend is not as pessimistic as others that lack of labor, et cetera, will seriously hamper French agriculture. However, he is in agreement that the export trade of France is depressed, and that the obstacles to bringing about any material increase are almost insuperable. However, he remains supremely confident of eventual Allied success in the war. This attitude, since the Finnish defeat, is somewhat less universal here, although the overwhelming majority of Frenchmen continue to be determined to see it through and are opposed to bringing about a "white peace".

END SECTIONS THREE TO FOURTEEN, INCLUSIVE.

MURPHY.

EA:LWW

JT

GRAY

PARIS

Dated March 20, 1940

Rec'd 5:47 p.m.

Secretary of State,
Washington.

366, March 20, 5 p.m. (SECTION FIFTEEN)

The securities market today made a good showing in the face of the government's resignation and the Brenner meeting though it closed somewhat irregular. French bank issues advanced and rentes were up from 5 to 70 centimes.

Daladier having declined to form a new government, Reynaud has just been called to the Elysees Palace and charged with the task. He has asked till tomorrow morning to give his reply.

(END MESSAGE)

MURPHY

LMS:NPL

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington.

From: American Embassy, Madrid.

Dated: March 20, 1940, 8 p.m.

Rec'd: March 20, 1940; 7:03 p.m.

No. 52.

Reference my telegram no. 51 of March 19, 10 p.m.

I now have obtained copy of statement on the Anglo-Spanish commercial agreement prepared by the Press Attaché of the British Embassy and intended for the Spanish press, of which I quote hereunder the most interesting paragraph:

"The most original and interesting aspects of the new agreement is that the Government of Great Britain recognizes the necessity on the part of Spain to make payment for the importation of raw materials with pounds realized from the exportation of Spanish goods to the United Kingdom. The fact that almost half of the current account in sterling has been assigned in recognition of this necessity is a notable indication of the spirit of English understanding of the economic situation of Spain and its desire to contribute in a material way towards the reestablishment of Spanish industries."

I am also informed by the British Embassy that the Spaniards vigorously pressed up to the last moment for some reference in the treaty to quantities, even unguaranteed, of Spanish products to be imported by the United Kingdom.

This

This was particularly desired by the Spanish Government because of the internal political effect. However, the British delegation declined to consider the inclusion either of a list of products which might be imported by the United Kingdom from Spain or a list of British products which might be exported to Spain. In the first case the refusal was based upon the fact that Spanish prices are frequently out of line with world values, and in the second case it was due to the difficulty of assuring delivery as a result of the current hostilities.

Referring to the final paragraph of my telegram under reference, it is reported that private purchase agreements between British and Spanish firms cover iron ore, wines and foodstuffs in addition to pyrites. A maximum and minimum value in pounds sterling has been established in each case by the two governments covering Spanish exports, and contracts for private purchases must be made within the limits of these established prices on an individual basis.

Miss Chauncey:

Dr. White took this to Sea Island with him; the Secretary has seen it and this is the Secretary's copy.

MCH

April 5th

File 3/20

Summary
of Report

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 20, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Participation by the United States in Finland's Reconstruction Program 1/

This is a preliminary report on the proposed plan of American participation in a program of reconstruction for Finland. A definitive report must await the receipt of information from Finland on several important aspects of the current Finnish economic situation and further study by the Treasury.

SUMMARY

1. Finland needs funds for the following purposes:
 - a. To resettle and rehouse possibly as many as 100,000 families who have lost or left their farms and homes.
 - b. To reconstruct Finland's transportation and port facilities.
 - c. To rebuild public buildings, plants, public utilities which have been destroyed or damaged.
 - d. To replace industrial establishments in areas ceded to Russia.
 - e. To strengthen her monetary system.
 - f. Contribute to the support of war casualties, economic and physical.
 - g. To feed and clothe large sections of the population now in economically devastated areas.
 - h. Possibly to construct military defenses.
2. The cost of the total program of reconstruction would, we roughly estimate, be in the neighborhood of three-fourths of a billion dollars.

1/ Prepared by H. D. White, H. Glasser, O. Gase and D. N. Wheeler.

A reconstruction program of this magnitude probably could not be carried out in less than several years. There are sound reasons why the program should not be rushed: (a) the maximum use should be made of local savings and local resources, and (b) every effort should be made to avoid the development of unsound boom conditions which would be inevitably followed by serious maladjustments.

To obtain the best results a reconstruction program would have to be worked out according to some preliminary plan. Such a plan would doubtless indicate how many years are necessary for its execution. In the light of Finland's annual income and her investments in the past, it is our tentative view that the program should occupy from four to six years. It may be found necessary to rely more heavily in the earlier years on foreign capital than it will in the later years.

3. Of the sum needed for reconstruction program we estimate that not more than one-third, or \$250 million, should be obtained in the form of foreign capital, the remainder to be raised domestically in three ways: (a) Private savings; (b) Federal and local government investment; and (c) Expansion of commercial loans.

4. The \$250 million which Finland may need to borrow from abroad might be made up in the following way:

a. \$50 million gold loan, for strictly monetary purposes to be made with the United States Stabilization Fund (with the acquiescence of Congress but without new legislation). This loan should be granted under conditions which would permit only a small part of it to be used during any one year. It should bear a very low rate of interest, probably 1 percent, and all of the gold should be kept on earmark in the New York Federal Reserve Bank.

b. A \$100 million long-term loan to be authorized by Congress and to be prorated over the period of reconstruction. (To avoid an increase in the public debt, the funds could be obtained from the gold now in the Stabilization Fund or possibly from silver seigniorage.) The lower the rate of interest charged the greater will be the security of the loan and the better will be the credit of the Finnish Government. It will also make it easier for Finland to borrow other funds from private foreign sources at low rates of interest. Amortization payments should be made flexible and tied up with developments in Finnish trade, to the end that the Government portion of the loan be paid off as rapidly as the economic conditions in Finland warrant and yet give the Finnish Government some relief during bad years.

c. The remaining \$100 million should be raised by a flotation of bonds in the United States or other foreign countries. The grant of a \$50 million gold loan and \$100 million dollar long-term investment loan by the United States Government, together with Finland's excellent debt record would make it relatively easy for Finland to raise private funds in foreign markets.

d. The present credit extended by the Export-Import Bank might be reserved for the extension of short-term credit of six months to three years for the financing of urgently needed imports into Finland. One advantage of making the present credit a short-term loan would be to add to the funds that the Export-Import Bank would have available for loans to other countries.

5. We estimate tentatively that after the war Finland will have enough foreign exchange currently available for outpayments of \$25 million a year on capital account.

From 1932 to 1938 Finland reduced her net foreign liability by about \$160 million. This is an excellent record. (Part of that reduction was achieved by refunding foreign into local indebtedness.) Assuming Finland's trade position will be no worse after war than it was after the past decade, a figure of \$25 million is not an unreasonable one.

Our information (which is not adequate as yet) indicates that the amount she needs currently to meet net outpayments is about \$5 billion a year. Therefore she should have left about \$20 million a year to meet the service charges on foreign loans needed for her reconstruction program. This sum would be quite adequate to pay the interest and substantial annual repayments on the magnitude of borrowing indicated above.

6. This report is incomplete because we have little information on the Finnish situation as it is right now, and as it will be during the remaining months or years of the European war. Much of our report and conclusions are based upon the assumption that Finland will be able politically and economically to resume a foreign trade position comparable to the one she held before the outbreak of war last summer.

Should the shipping situation interfere significantly with Finland's ability to conduct her commerce, or should Finland undertake special commercial and economic arrangements with neighboring countries of a character which would substantially alter the picture which prevailed before the war, our conclusions will have to be modified.

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Clearly much more study and information is needed before anything like a definitive report which can be presented to any other department can be prepared.

7. There is appended in addition to the memorandum of which this is a summary, the following material relative to the Finnish situation:

- a. A survey of the economic situation in Finland based on such data as is available to us now.
- b. A survey of the political situation of Finland. The most recent developments are not included inasmuch as our information on such developments is very scanty.
- c. A map of Finland showing the main transport routes and the areas which will probably be ceded to the Russians with the main industries located in these areas.

Report on Participation
by U. S. in Finland's
Reconstruction Program

PARTICIPATION BY THE UNITED STATES IN FINLAND'S
RECONSTRUCTION PROGRAM

(Division of Monetary Research)

I. What does Finland need money for?

Finland needs funds for the following special purposes:

a. To feed and clothe the refugees and the large sections of the population living in economically devastated areas.

(1) The food stocks of Finland were probably exhausted during the period of hostilities. The normal imports of food were sharply reduced during the past four months and will need to be replaced, and stocks of food were probably destroyed in the bombings.

(2) The normal imports of clothing and raw materials for manufacture of clothing probably ceased during the war period and will need to be replaced immediately.

(3) Replacement of livestock losses. This is an essential item of replacement.

b. To resettle and rehouse families who have lost or left their farms and homes, or whose homes have been destroyed.

An estimate of 100,000 families has appeared in the paper but we have no reliable information as to the extent of this need.

c. To reconstruct Finland's transportation system and port facilities.

(1) A new railway from the Russian border to the West Coast is called for by the peace terms. Also, a large amount of railroad construction will be necessary because of the loss of Viipuri, which was a transportation center.

(2) Considerable road and bridge building and repair is probably necessary to replace the roads passing through areas occupied by Russians, and to replace roads destroyed by military operations.

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(4) Replacing of ships sunk during present hostilities.

d. To replace the industrial establishments which were ceded to Russia.

Although we do not yet know precisely where the new boundary lines will be drawn, it appears from the items indicated in the treaty of peace that Finland will lose the following: (See appended map)

The largest part of her iron and metal industry.
Most of her sugar refining plant.
Her only copper smelter, at Imatra.
Her principal hydro-electric development.
Her only rayon plant at Enso, of which \$1,400,000 has been invested.
About one-tenth of her saw mills.
Her most important inland artificial waterway, which taps Finland's important timber resources. It has recently been rebuilt but is now included in Russian territory.

e. To replace her public utilities, public buildings, and factories destroyed during the war.

We have no reliable information as to the extent to which public utilities, hospitals, churches and public buildings of Finland were destroyed or damaged by bombing, but judging from newspaper accounts, the damage must have been widespread.

f. To contribute to the support of persons made destitute by the war or persons incapacitated by the war.

We do not know what the Finnish casualties were. According to Press reports, only 15,000 men were killed and 30,000 wounded. Yet to provide for the families of even that small number would call for annual expenditures of 5 to 15 million dollars a year for the next few years. This item would differ from the others enumerated above in that it would be for some time to come a recurrent expenditure.

g. To strengthen her monetary system.

Finland needs to increase her metallic reserves (a) to provide a more adequate basis for the expansion of credit that will be called forth by the reconstruction program, (b) to increase confidence in Finland's currency so that capital will be more easily forthcoming both at home and from abroad, (c) to strengthen her exchange position during the period of readjustment and uncertainty, and (d) to relieve some of her current foreign exchange reserves for meeting the adverse balance of payments during the coming critical period.

(1) The present foreign exchange reserves of Finland are not known to us. The Bank of Finland in its latest official statement reported that they had \$24 million of gold and \$30 million of other foreign assets. In addition there are about \$9 million of private dollar deposits in the United States. To this sum must be added the private deposits in other Scandinavian countries and in England. The funds in these latter countries are probably small because the estimates we have of the total of Finnish foreign balances right before the war are only a few million larger than the figures we now have for their dollar holdings alone.

(2) The Finnish mark has depreciated only 15 percent since July 1939. Whether the Finnish mark at the present level is appropriate to Finland's competitive position and her reconstruction needs cannot be determined without more study and more information as to her present trade situation. But whatever the rate Finland decides would be most appropriate, she must be in a position to maintain that rate, because she must do everything possible to strengthen her credit standing in foreign countries, and maintain confidence in her currency. Continued weakness in mark exchange will make foreign borrowing from private sources much for difficult.

(3) The note circulation on October 14, 1939 (the last we have available) was 3.3 billion marks. Demand deposits in banks at that time were 3.9 billion marks, making a total demand liability of some 7.2 billion marks or approximately \$140 million. In addition to these demand deposits in banks, there was about \$350 million of savings in various other

institutions. Some portion of these in practice are demand liabilities. We do not know how much her note issues and deposits expanded during the war months but it must have been a great deal.

A metallic base of at least one-fourth of her demand liabilities would be desirable during the coming few years of her adjustment period. She must have an adequate metallic base upon which to initiate a lending program to take care of the enormous demand for capital during the reconstruction period, and to promote the utmost confidence in the strength of her currency. Some portion of her present gold and foreign exchange will doubtless be used up to meet commitments made during the war and to meet the adverse balance which Finland is bound to experience because of the difficulty she will experience of exporting goods in the near future and the need she will have for increased imports. How much additional gold Finland will need to adequately strengthen her monetary system will be clear only after we have more information with respect to matters indicated above.

A portion of the gold should be set aside to be used as a sort of Stabilization Fund protected by conditions such that its depletion will be a consequence chiefly of seasonal variations and possibly some minor cyclical flow. A Stabilization Fund is not designed to meet a continuous adverse balance of payments.

h. Defense expenditures.

Finland may decide to fortify herself against potential enemies. How much capital will be required for this program may be anything, depending upon whom she is defending herself against and why. Such expenditures will not, of course, increase Finland's standard of living, nor her ability to carry through the reconstruction program. If the United States is to extend any large loans, she may or may not wish to limit the use of those funds to so-called non-productive purposes.

II. How Much Money will Finland need for these Purposes?

We estimate tentatively that the total expenditures required for the above program is somewhere in the neighborhood

of $\$3/4$ of a billion. The information that will be furnished by the Finnish Government may alter this figure substantially. (Our proposals are based tentatively on the estimate of $\$3/4$ billions total capital required.)

The $\$3/4$ billion should be divided into two categories:

- a. Local capital to be expended on domestic materials and labor.
- b. Foreign exchange to pay (1) for materials and equipment that she can not produce at home, and (2) an adverse balance of payments which will arise.

The bulk of the capital needed should come from local sources since the bulk of the expenditure should consist of labor and materials that can be produced within Finland. We estimate that about $2/3$ of the total expenditure should go for domestic labor and materials, leaving $1/3$ to be expended on imported equipment and materials. It is presumed that during the reconstruction period Finland will curtail her imports to non-essentials as much as possible. (The reconstruction imports are apart from the normal imports which Finland has been making.) During 1938 Finland imported about \$175 million of goods. She should be able to reduce these normal imports substantially, especially if she sets up import restrictions.

The reconstruction program should be spread over a sufficient number of years to accomplish the following:

- a. The rate of capital construction should be enough to maintain employment at the highest reasonable level;
- b. The period should be long enough to avoid the development of any unsound boom conditions. Unless care is exercised in this point the prosperous period during reconstruction is very apt to be followed by severe dislocations;
- c. The longer the period of reconstruction, the larger the proportion of capital needed that can be raised from domestic sources. It is desirable from Finland's point of view to maximize the capital raised from domestic sources in order to lighten the burden on her balance of payments in future years, and to avoid the serious attacks on her currency that may arise if too great a

burden is imposed on her balance of payments. This is particularly important because Finland's balance of payments depends in substantial part upon climatic conditions. Fortunately, she has had favorable climatic conditions during the past decade but it would be unreasonable to assume that favorable climatic conditions can continue year in and year out.

III. Can Finland obtain one-half billion dollars of savings from the domestic market?

Inasmuch as the period of the reconstruction program presumably will last from 4 to 6 years, the rate of domestic savings would have to be roughly \$100 million a year, in addition to the ordinary capital needs of the country, which may be as high as \$50 million a year.

Finland's national income before the war was between one-half and three-fourths of a billion dollars a year. If Finland is able to save 15 percent of that income she is doing pretty well. A 15 percent saving would yield roughly \$75 to \$100 million.

The Government should have no difficulty borrowing whatever domestic savings are available because her debt record and position is so excellent. Finland's total domestic debt immediately prior to the war was less than \$50 million and the yield on her issues was very low. Savings of \$75 to \$100 million a year would not be adequate for current and reconstruction needs. Finland may find it necessary to adopt one of the following alternatives to increase the proportion of total national income that will be available for investment: (1) increase taxation; (2) restrict imports and possibly promote rising prices through expanded note issue and government borrowing; (3) postpone a portion of her reconstruction program; or (4) borrow a larger proportion of her capital needs from foreign countries. Probably it will be found desirable to proceed along all four lines should the rate of domestic investment prove inadequate.

The Finnish Government can encourage domestic investment by increasing confidence in her currency system, and by appropriate banking policy. A program of the magnitude envisaged here would easily bring about a state of full employment in Finland, so that a reduced standard of living for the individual through higher taxes and possibly moderate price rises would be politically feasible during the earlier years of the program.

Any program adopted will, of course, be flexible, so that the rate of expenditure can be adjusted to the amount of capital Finland can raise during any given period. It is possible at the outset to know only very roughly the conditions which will determine how much can be borrowed and how much spent during the next four or five years.

The Government would have to guard against attracting too large a proportion of her population to construction and developmental activities and away from those pursuits -- agricultural, forestry and industrial -- upon which Finland must depend in the long run to maintain a stable economy and a rising standard of living.

IV. How much of Finland's capital needs can the United States supply?

Finland would be best served by four types of assistance.

a. She needs short-term credits for her immediate relief needs, for imports to carry her over the immediate adjustment period from war to peace, and for the more urgent capital expenditures. The remainder of the Export-Import Bank credit of \$30 million will probably fulfill these needs during the next few months. Furthermore, Finland probably will receive assistance during the next few months from friendly neighbors.

b. Finland will need a long-term United States Government loan of possibly \$100 million on 20 to 30 year maturity. This long-term loan would supply the core of Finland's foreign exchange needs for her reconstruction program. It is essential, however, that the rate of interest on this loan be moderate so as not to overburden Finland's balance of payments in future years and to provide reasonable assurance that the loan will be completely amortized over the stated period.

The usual practice is to require that Government loans be expended within the lending country. However, there may be some advantage under present circumstances in permitting Finland to use part of such loan to spend in friendly neighboring countries. Politically it would be easier to make the loan if the proceeds were required to be spent in the United States, but it may be of some value in the interests of more liberal trade policies to permit a portion of the proceeds to be spent elsewhere.

Then, too, Finland might be able to make some savings if she could spend the money wherever she can get the most for it.

This loan could take one of two forms. It could either be a direct loan by the United States Government (or one of its agencies), or it could be a United States Government guaranteed loan. The latter would have the advantage of not increasing the public debt, and of being, in effect, much less a Government operation than a private operation. It would probably also be easier to get a guaranteed loan out of Congress than a direct loan. Whether the loan is direct or guaranteed, the presumption is that new legislation would be required.

The proceeds of a direct loan could come from several sources that would not increase the public debt. There are several advantages of an appropriation for loans of this type out of the Stabilization Fund:

- (1) It would be regarded as making good use of an idle asset.
- (2) Whatever is used in this way can not be used for less desirable purposes.
- (3) The funds might otherwise come from sources regarded in some quarters as a less desirable source.

Should a Government guaranteed loan be preferable, Congress might set aside a much smaller sum as a fund out of which any possible losses could be met.

Two other features of her foreign borrowing could add to the security of the debt and to the ease of repayment.

Firstly, her borrowing could be extended over the period of reconstruction so that the repayments will not become heavy until after Finland is fully reconstructed.

Secondly, the rate of amortization charges could be flexible, and should be regulated by the balance of trade.

It would probably be desirable to set conditions upon the loan which would ensure its use exclusively for productive purposes.

c. Finland would find a monetary gold loan of considerable assistance. This loan might be a gold loan of \$50 million with the following restrictions:

(1) The loan to be for 10 years but subject to cancellation by either side with six months' notice if the purposes for which the loan was originally made are not being served.

(2) The gold to be held in New York under earmark.

(3) Sale of the gold restricted to 10 percent per year and none of it to be used to supply foreign exchange for capital outflows.

(4) Finland to be permitted to include the gold as a part of her monetary reserves.

(5) Finland might indicate her willingness to cooperate toward the promotion of stable world exchanges by making a declaration of adherence to the Tripartite Accord. This would place her in the same category vis-a-vis monetary stability with Belgium, Switzerland and Netherlands. (The importance of this step is in the pattern it sets and not in any contribution that Finland can make to world stability of exchanges.)

This gold loan would necessarily have to be at an extremely low rate of interest, perhaps 1 percent per year.

The advantages of this type of loan from the United States' point of view are: (1) it would be the first real instance of a monetary stabilization loan made; (2) it would increase the prestige of gold; (3) it would show Congress that use can be made of our gold; (4) convert a dead asset into an earning asset.

It is expected that this loan would be made by the Stabilization Fund (with the approval of either a Congressional Committee or of Congress), and regarded as a monetary stabilization fund procedure. As such all matters pertaining to it would necessarily follow under the jurisdiction of the Treasury Department.

d. Finland will need to borrow from \$15 to \$25 million a year for the next five years on bond issues floated in private banking circles. Private sources will be willing to lend to Finland if the United States establishes the basis of Finland's credit through the loans indicated above.

Private loans of \$15 to \$25 million per year for a period of five years is just about what Finland borrowed in the United States during the period 1922-1928. These borrowings were serviced and amortized in full through the depression and there is less than \$10 million still outstanding in the United States. This record should go a long way toward a successful private flotation. However, it is not likely that any private flotation can be successful until the present government has firmly established itself and until the reconstruction program has gone far enough along to indicate clearly a successful consummation. This will include, of course, full public confidence in the successful maintenance of the present political structure in the face of the disturbed international situation in northern Europe.

V. How much foreign debt can Finland service?

Under conditions of international trade such as prevailed before the outbreak of war last summer, Finland could probably have serviced a foreign debt of approximately \$250 million. From 1932 to 1938 she actually reduced her net foreign liabilities about \$160 million. If her trading position should be regained, Finland should be able to set aside more than that sum because she should reduce her unessential imports. Finland's capacity to service foreign obligations was probably improving in recent years and the industrial projects already started before the outbreak of war would have further increased her ability to acquire foreign exchange on trading account. Therefore, it is not unreasonable to expect that after the resumption of peace and the restoration of normal trading relations, Finland will have currently available some \$30 million a year with which to service a foreign debt.

In 1938 she needed less than \$5 million to service her outstanding foreign debts. Therefore we can assume that she can increase her foreign debt by several hundred million dollars without raising insuperable obstacles for transferring her interest and amortization payments, and without endangering the position of her currency or gold resources.

VI. The Next Steps in this Project

- a. The information which is necessary to complete the picture of the present situation in Finland should be obtained as soon as possible.
- b. We are preparing a list of specific questions, the answers to which are essential in the preparation for a program such as is envisaged here.
- c. Further examination of the material already available and conferences within the Treasury will proceed immediately.

The Economic Position
of Finland

THE ECONOMIC POSITION OF FINLAND

Division of Monetary Research

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Prepared by Mr. Wheeler and Mr. Gass.

THE ECONOMIC POSITION OF FINLAND

(Division of Monetary Research 1/)

March 16, 1940

Geography, natural resources and population

Finland is a country of low hills and marsh forests. The surface is highly glaciated and dotted with countless lakes which have been developed into a fine system of inland waterways. Seventy-four percent of the area (apart from Lake Ladoga) is covered with forests, 7 percent is under cultivation, and 9 percent consists of inland waters.

Though Finland lies in the same latitudes as the main body of Alaska (60° and 70° N), it is kept fairly temperate by the gulf stream. Iinahamari in Petsamo, Finland's Arctic port, is free of ice all the year round.

The total area of Finland before the beginning of the war with Russia was 148,000 square miles, which compares with an area of 158,000 square miles for the State of California. According to press reports, the areas ceded to Russia add up to about 9 percent of the whole.

Finland's agricultural land is suitable primarily for the raising of fodders, hardy grains and root crops. In 1937, about 52 percent of the cultivated land was devoted to hay, 18 percent to oats, 9 percent to rye, 5 percent to barley, 3 percent to potatoes and 13 percent to other crops. Finland still must import about 20 percent of her total grain consumption.

Finland is richer in forests than any other country in Europe, if the relative area of forests is taken as the basis of comparison and she is second richest in absolute extent of forests. Moreover through an intelligent control over forest lands by the national government, Finland is constantly adding to her forest resources. Growing stocks of timber are estimated to be about 57 billion cubic feet, chiefly pine (61 percent), spruce (28 percent), and birch (11 percent). The annual increment of growth is estimated to be 1.6 billion cubic feet and the annual fellings only 1.4 billion cubic feet.

Finland is fairly well-provided with mineral resources. The gross value of mineral production is about \$3 million a year. She has copper, iron, zinc, sulphur, and nickel. The amount of copper mined in Finland has increased seven-fold during the past 10 years and the production of pig iron and ferro-alloys almost three-fold. Her copper production is more than sufficient for Finland's needs, but the by-products — iron and sulphur — fall short by over half of her current consumption.

1/ Prepared by Mr. Gass and Mr. Wheeler

In Finnish Lapland are numerous large deposits of iron ore but these, because of lack of cheap means of transportation, are not being worked at present. Rich nickel deposits have been located in the mountains of Petsamo. These deposits have not been thoroughly prospected and actual mining and smelting will not get under way for several years to come.

The population of Finland in 1937 was about 3,800,000. The population is still rising but the birth rate is declining. The number of births per thousand of the population fell from 25 in 1921-25 to 20 in 1935-37. The number of deaths fell during the same period from 15 per thousand to 13 per thousand. The average life expectancy of a child has risen by 10 years during the past quarter century; the life expectancy of a Finnish child is now 56 years compared to 61 for the United States.

Ninety percent of the population of Finland speak Finnish and nearly 10 percent Swedish. Illiteracy is virtually non-existent. One out of every 500 persons is in attendance at one of the three Finnish universities compared to one out of every 120 in the United States; a further considerable number of Finns attend foreign universities. Ninety-six percent of the population is Lutheran.

Seventy-eight percent of the Finnish population live in the country. Helsinki, the capital and largest city, has a population of less than 300,000. No other city has 100,000 people but Tampere, Viipuri and Turku each have about 75,000. In 1930, 60 percent of the population was engaged in agriculture and forestry, 14 percent in industry and handicrafts, 8 percent in commerce and transportation, and 15 percent in other occupations. Since then the occupational distribution has shifted considerably in favor of industry and commerce but not so drastically as to transform the fundamental economic structure of the country.

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IndustryThe Forest Industries

Forest industries are the backbone of Finland's economic life. Finland exports a greater proportion of her national production than any European country except Denmark and Switzerland, and eighty-five percent of her exports consist of foreign products. Finland is to an exceptional degree a one-industry country. Not only do the Finnish cities depend upon the processing and export of timber, but a large part of the farm population is also partly dependent on income from the felling, hauling, and floating of timber.

Finland enjoys exceptional natural advantages in forest industries. Most of her great forest areas are concentrated in the southern part of the country. This is a land of low hills; the surface is dotted with countless lakes, which have been adapted into a fine system of inland waterways. Practically all of the forests lie within easy reach of water transportation.

The chief forest products are rough sawn timber and pulp. In the past three years, Finnish exports of sawn timber have been about 1 million standards, that is, about 2.4 billion board feet. (United States annual domestic production is about 35 billion board feet.) The greater part of the sawn timber exported is of a coarse grade. It is used principally in the construction industry in Britain.

The sawn timber market is highly unstable, reflecting the instability of the building industry. Thus, sawn timber prices rose from an index of 100 in 1935 to 151 in 1937, and then fell back to 120 in 1938. The heavy fall in prices in 1938 occurred in spite of the Copenhagen agreement of 1936 which assigned quotas to the principal European producers.

Viipuri has in the past been the principal point of export for sawn timber. The Seima Canal has furnished a cheap route from the forests and mills around Lake Seima to salt water at Viipuri. The lumber mills and handling equipment are modern and efficient. Lumber mill capacity, however, has not been expanded in recent years. Exports of sawn timber even in the good year 1937 did not reach the 1928-29 level.

The Finnish pulp and paper industry has been thoroughly reequipped and expanded in the past ten years. The output of chemical and mechanical pulp has been trebled since 1930, and at the same time the manufacture of pulp boards and paper has been doubled. The pulp and paper industry is concentrated in the hands of a few large concerns; the Finnish Paper Mills Association alone exported 330 thousand tons of paper in 1937, well over half of Finland's paper exports. These large concerns have been able to finance the installation of the most modern types of equipment. Mechanical pulp has been largely displaced by sulphite and sulphate cellulose.

The output of sulphite pulp has now reached the limit of the supply of spruce available in Finland. The increase in sulphate pulp output in the past few years has been the outstanding feature in the development of Finland's pulp and paper industry.

The market for paper and other cellulose products is much more stable than the sawn timber market. Consumption of newsprint and other paper products shows a strong upward trend. The introduction of paper containers in many new fields opens up new uses for wood pulp, and the use of synthetic cellulose fibres will undoubtedly continue to increase. Finland has also increased her output of spools, bobbins, furniture, boxboards, wall boards, and packing material. Production of rayon and cellophane was scheduled to begin on a small scale in 1938.

Cellulose and other elaborated wood products, of course, have a more extensive and a more stable market than sawn timber. The Finnish government has hoped that the development of the more advanced branches of the wood products industry would enable Finland to strengthen her export position.

Other Industry

The rapid development of Finland's industry may be read in the changing composition of Finnish imports. During the past ten years, raw materials and machinery have represented a growing share of Finland's imports at the expense of foodstuffs and manufactured goods. Within these categories, there is a shift towards the less elaborated commodities.

The expansion of heavy industry and building is reflected in the rise in imports of metals and metal products such as pig iron, beams, plates, wire, and rails and the shift from imports of wheat flour to imports of wheat. Similarly, imports of raw fibres -- cotton and wool principally -- increased by 26 percent between 1935 and 1937.

The principal consumers' goods industries in Finland are the food industries and textiles. The milling, margarine manufacture, sugar refining, brewing, and confectionery industries process a large part of the total supplies consumed in Finland. The textile industry produces about two-thirds (by value) of Finland's textile consumption. Cotton and woollen manufacture have made up almost all of the value of this, but a rayon plant has been completed at Enso at a cost of about \$1,400,000 which was planned to produce all of Finland's requirements of artificial silk, as well as about 350 tons of cellophane per year.

Finland has a small metal working industry which has been until recently almost entirely based on imported raw materials. While the output has been small in absolute terms, it has been considerable in importance to Finland. Output in 1936 was valued at over \$7 millions,

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exclusive of smelting and refining. In 1938, 26,000 tons of rolled steel was produced. Finland is able to produce the greater part of her railway rolling stock, a considerable part of her rails, and some other machine products, including centrifugal cream separators, a considerable quantity of which has been exported. She has a small shipbuilding industry, an airplane plant, and a rifle works.

The Finnish steel industry has in recent years depended on imported pig iron and scrap. However, the production of iron from local ore has recently been resumed with the inauguration of the Imatra Iron Works. The raw material for the new works will be supplied by ore from the Outokumpu mine after copper and sulphur have been extracted. It is estimated that over 50,000 tons of iron per year can be produced in this way.

Finland's principal mineral resources consist of nickel and copper. Iron deposits are extensive, but owing to transport and other difficulties no development worthy of mention has been attempted. Molybdenum deposits have been located, and some zinc appears to exist. As yet, no important development of either of these has been planned. Our trade statistics show imports of cobalt from Finland of \$400,000 in 1938, although we have no specific information about such deposits in Finland.

The outstanding mining development has been in Petsamo, where the Mond Nickel Company has made large investments in a mine at Kvalatunturi which is expected to be one of the most productive nickel mines in the world. The ore from this mine will be concentrated in Finland and exported by highway via Petsamo for refining.

The Outokumpu mine, east of Kuopio, produces copper, sulphur, and iron. Copper concentrates are shipped to the new electric smelter at Imatra where they are reduced to blister copper. In the past most of this blister copper had been exported to Germany where it has been refined by electrolysis. Output of blister copper is about 12,000 tons per year. The sulphur is used in the pulp industry, and the iron is used in the Imatra Iron Works.

There has been, then, a rapid development of manufacturing and mining in Finland during the past ten years. Yet the possibilities for further industrialization appear to be severely limited by the lack of basic raw materials. Finland has neither coal nor oil. Her agriculture cannot be developed to supply basic raw materials such as cotton, vegetable oils, or sugar. Finland is not richly supplied with any of the secondary minerals except perhaps nickel. Her water power resources are valuable, but they cannot compensate for the lack of coal and oil.

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Transportation

The development of Finland's basic industries has been dependent on efficient transportation facilities. A great network of inland waterways has brought Finnish forest products to the Baltic ports from which they have been exported around the world. The Finnish Railway network is also well developed, and important extensions are planned. The highways however are in a backward state; there are about 18,000 miles of gravel road and only 120 miles of paved highway.

The Canals of Finland carried nearly four million tons of merchandise in 1937. The greatest volume of traffic consisted of wood, wood products, and a large volume of minerals. The heaviest traffic is carried by the Saima Canal, from Lake Saima to Viipuri, which carried almost a million tons in 1937. The Karvis and the Pilppa canals were next in tonnage. The Berijarvi, the Taipale, and the Konnus each carried over 400,000 tons.

Extensive reconstruction work was in progress on the Saima Canal. This work is now almost completed; when finished, the canal will have a minimum depth of 14 feet and will carry a vessel of 1,300 tons. It is in large part due to such canals as the Saima that Finland has been able to compete on the wood products market with such favored producers as Canada. (The probable effects on Finnish transportation of the cession of territory to the U.S.S.R. will be discussed below.)

Finland's Baltic ports are unfortunately ice-locked during a large part of the year. The ice begins to form at the heads of the Gulf of Bothnia and the Gulf of Finland during November, and by December as a rule all of the Baltic ports are closed. It is sometimes possible to keep the ports open longer by use of ice-breakers, but they are ineffective in ordinary severe weather. The ice usually blocks the Baltic ports until May.

Finland has an ice-free port in Petsamo, but it can be reached only by gravel highway from the rail head at Rovaniemi, two hundred miles distant. During the past winter, a few truckloads of paper products were sent out by this route, but it is obviously not economically feasible to truck such bulky products as wood so far. On the other hand, it is planned to truck out nickel concentrates by way of Petsamo.

The Finnish Diet has authorized initial expenditures for a railway extension to Petsamo, but this project is still in the survey stage.

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At present, the alternative routes by which Finnish products may reach the world's markets when the Baltic is closed are only two -- by railway to Narvik, and by railway to Murmansk. Neither of these routes is feasible for any large volume of traffic. Both Narvik and Murmansk are nearly a thousand miles from Southern Finland. The Finnish railways are built on the Russian 5-foot gauge, and therefore through shipments via Narvik are impossible; all products must be reloaded at the Swedish frontier. The Murmansk railway is in doubtful state of repair, and in any case could not carry much additional traffic.

The proposed extension of the railways to Petsamo would provide a feasible alternative route for the import and export of some commodities, but it would be an expensive route compared with the Baltic.

Agriculture

The character of Finland's agriculture has been determined mainly by geographic factors. The whole of Finland lies north of the latitude of the southern tip of Greenland. The growing season tends therefore to be short, late Spring and early Fall frosts are common, and crop failures are frequent with many kinds of crop.

The principal crops of Finland are hay, hardy grains, potatoes, and root crops, which are well adapted to Finland's climate. Oil-producing and protein-producing plants do not thrive, and fruit growing is scarcely possible. Until recent years, Finland produced very little wheat.

Finland has therefore depended upon imports for most of her lard, wheat, fruit, and sugar, and of course for coffee, tobacco, and cotton, as well as for all tropical foodstuffs.

Since the world war, however, the Finnish Government has made considerable efforts to increase agricultural production with the object of reducing Finland's dependence on imported foodstuffs.

The results have been truly remarkable. Since 1921, the cultivated area has been extended by 25 percent. At the same time, yields per acre have risen by about 50 percent. As a result, although population has increased by 15 percent and per capita consumption has increased, Finland is less dependent than in 1921 on imported food. In the years 1921-1925, Finland imported on the average 280 million kilos of bread grain; but from 1936 to 1938, she had to import only 160 million kilos on the average.

Imports of animal foodstuffs, which formerly were considerable, have dwindled to negligible quantities since 1925. Finland has even become a considerable exporter of dairy products, although, to be sure, on the basis of imported fodder.

One major reason for this great increase in output has been persistent favorable weather during the whole decade of the 30's. Incredible as it may seem, in not a single year of this decade did the adverse weather conditions develop which were formerly regarded as normal for the great increase in output of spring wheat. Bread grains as a whole have in the past few years yielded double the pre-war yield. But weather conditions are not the whole reason.

The cultivated area has been extended by 25 percent since 1921. This extension is a result of the kallio tenure laws, the general protective policy of the government, and the activities of the cooperatives in making credit available for development work on favorable terms.

The technical level of Finnish agriculture has also been raised considerably since 1921. Chemical fertilizers were little used in 1921; since 1925 in particular the use of chemical fertilizers has increased greatly. In 1925, imports of all fertilizers were valued at 84 million marks; in 1937, the value had reached 225 millions of marks. The technique of agriculture has been improved equally in other respects for which statistical data is not available. Farm machinery of all types is more widely used, technical education has been advanced, and electricity has been brought to a large number of farms.

The Cooperatives have played a leading part in the improvement of agricultural technique. Cooperative banks have made it possible for farmers to equip their farms with needed machinery. Cooperative stock breeding societies have solved one of the toughest of agricultural problems -- how to improve breeds and raise the general level of quality of livestock in an agriculture of independent smallholders. Cooperative creameries, which produce 93 percent of Finland's butter exports, have greatly increased the efficiency of the dairy industry in Finland. The dairy cooperatives have been a strong influence for the improvement of methods at every stage of dairy farming.

In spite of great improvements in the structure of Finnish agriculture, it has not been possible for Finland to free herself from a substantial dependence on imports not only of raw agricultural products, but of foodstuffs as well. The severe climate makes it improbable that Finland can avoid large imports of fats. Finnish butter exports are based on the import of fats in cruder forms. Finland cannot produce any large part of her fruits, and it is probable that in the long run, she will have to import considerable quantities of bread cereals. The favorable weather of the 30's is not likely to continue for long unless it is a consequence of some secular climatic change.

Finnish agriculture therefore will continue to be dependent on foreign trade. The trend towards greater imports of crude agricultural supplies -- fertilizers, oil seeds, and other concentrated fodder -- will continue. Conversely, imports of finished foodstuffs such as lard may fall somewhat. Wheat imports will probably have to be increased in the long run, and fruit imports will supply almost all of Finland's consumption.

Distribution of Cultivated Land in Finland

Size of holding	Number of holdings	Area
0 - 5 acres	77,162	72,473 acres
5 - 7.5 "	31,993	72,896 "
7.5 - 25 "	108,642	601,518 "
25 - 62.5 "	51,683	766,121 "
62.5 - 125 "	12,219	401,377 "
125 - 250 "	2,864	187,016 "
Over 250 "	227	136,937 "
	285,390	Total 2,238,338

Source: Annuaire Statistique de Finlande

From the evidence of this table, it appears that smallholdings predominate in Finland. Compared with Poland or the Balkan states, there is a remarkable concentration of holdings in the range from 7.5 to 62.5 acres. Even in France the land tends to be more concentrated in the hands of the larger landowners. At the same time, the 827 largest holdings, totalling 137 thousand acres, included practically as much land as 109,000 of the smallest holdings.

Monetary and Banking System

The Bank of Finland, founded in 1811, is the State Bank and the only bank of issue. The capital of 1,250 million marks (about \$22,000,000) is held entirely by the State. The management is entrusted to a Board of Management, consisting of a chairman and not more than four members appointed by the President of the Republic. The Board of Management functions under the supervision of the Bank Supervisors of the Diet (the Finnish national legislature). The Supervisors have various functions normally carried out by the executive or directing body of a Central Bank, such as fixing the rate of discount and interest, decisions on questions of foreign credit, the distribution of work among the Managers, and the settlement of all matters relating to salaries. Their powers enable them to determine the broad policies of the bank and to decide many administrative details. The Bank of Finland is therefore a fully politically controlled institution.

By law, as amended December 1939, the bank is entitled to issue notes to the sum of the full amount of its gold reserve, its foreign currency holdings, and 1.8 billion marks (approximately \$32 million, at the present rate of exchange) against a so-called supplementary cover.

Of Finland's nine joint stock banks, with about 500 offices, two conduct about 80 percent of the business. These two banks -- the Kansallis-Osake-Pankki and Nordiska Foreningsbanken -- recently increased their share capital, a move necessitated by expansion of turn-over. The Finnish banking law requires: (1) that the banks keep a minimum reserve of 20 percent in cash assets against sight liabilities, and (2) that share capital and reserves represent at least 10 percent of total liabilities. Actually, the banks normally have a cash ratio far in excess of the legal minimum. Interest is paid on both time and demand deposits.

In addition to her bank of issue and the joint stock banks, Finland has savings banks with deposits of about \$ billion marks (\$160 million) in September 1939. She has Post Office banks with savings deposits of about 500 million marks (\$10 million), Cooperative Credit Societies with deposits of about 1.5 billion marks (\$30 million), and Consumers' Cooperatives with deposits of about 700 million marks (\$14 million).

The monetary unit

The Finnish monetary unit is the markka (commonly written "mark"). In 1930, when Finland was on the gold standard, the mark was worth 2.52 cents. The depreciation of sterling forced the depreciation of the mark, and the especially depressed market for construction material made the mark even weaker than sterling. Under the gold standard the mark had been valued at about 193 to the pound. Then, after a period of monetary independence extending from September 1931 to April 1933, the mark was again pegged to sterling, the rate chosen was 227 to the pound. The mark remained at this rate until August 1939, when it began to appreciate against sterling. The average rate on London during September 1939 was 197 instead of 227. Since July 1939 the rate in New York has moved in the following way:

(In United States cents)

1939 - July	2.05
August	2.05
September	1.90
October	1.89
November	1.90
December	1.81
1940 - January	1.92
February	1.71
March 2	1.75
March 9	1.41
March 16	1.75

On March 16, 1940 the free market rate for Finnish marks in New York was 15 percent lower than the average for July 1939; during the same period, the free market rate for sterling fell 19 percent.

On October 14, 1939, the last date for which we have official figures, the Bank of Finland had about .24 million of gold and about \$40 million of foreign assets. At the end of September, the joint stock banks had foreign assets of about \$9 million. Since then, no doubt, the foreign assets of Finland have been seriously depleted.

As will be shown below, Finland has decreased her foreign indebtedness and increased her liquid foreign assets greatly since 1932. However, this past experience affords little presumption that Finland will be able to maintain — far less improve — her exchange position while there is war on her major sea lanes.

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ResearchThe supply of money

The supply of money increased gradually from the beginning of 1933 to the summer of 1939, as the result of the adoption of an easy money policy and the expansion of business. A more rapid increase took place in the later months of 1939 to meet special war demands. It is probable that means of payment have been further increased since the beginning of hostilities with Russia but we have no figures for any date after October 14, 1939.

Bank of Finland Note Circulation

(Millions of marks at end of month)

1932 - December	1,085
1933 - December	1,184
1934 - December	1,277
1935 - December	1,381
1936 - December	1,630
1937 - December	2,052
1938 - December	2,086
1939 - July	2,179
August	2,262
September	2,547
October 7	2,552
October 14	3,308

As the above table shows, Finnish note circulation rose by slightly less than 1.1 billion marks in the 6-1/2 years from December 1932 to June 1939 and by rather more than 1.1 billion marks in the 11 weeks from the end of July to October 14.

Demand deposits also increased rapidly during the 1930's. Current accounts at the Bank of Finland increased more than tenfold, from an average of about 92 million marks in 1931 to an average of 1,062 million in 1938. Domestic deposits of the joint stock banks increased from 7,155 million in December 1932 to 10,755 in December 1938.

Enormous withdrawals took place on the eve of hostilities and probably continued through at least the early weeks of war. Current accounts at the Bank of Finland fell from 1,088 million at the end of June to 448 million on October 14. Domestic deposits at the joint stock banks fell from 11,167 million at the end of June to 10,624 million at the end of September; no doubt even greater withdrawals took place in the period for which we have no figures.

Interest rates and security prices

The structure of Finnish interest rates is rather different from that of the United States. Most rates are, however, quite low and rates on commercial loans are perhaps lower than rates to businesses of the same size in the United States.

Since 1937 the banks have been paying an average of 3-1/2 percent on savings deposits. Formerly rates on deposits were even higher; in 1933, for instance, they averaged 4.8 percent.

The effective rate on outstanding bonds has been 4.7 percent since 1937. In 1933 the effective rate was 7.0 percent. However, the effective rate rose sharply in the summer of 1939; the index of bond prices fell from 100 in March to 92 in September. We have no figures for any later dates.

Rates of interest on all loans advanced by the joint stock banks averaged 5.85 percent in 1938. When it is considered that these banks were paying 3-1/2 percent on savings deposits, these loan rates are remarkably low. First class mortgage loans were made generally at 4-3/4 percent. Loans of the size made by Finnish banks would have probably paid higher rates in the United States.

The "Unitas" stock exchange index shows a consistent rise from 101 in January 1936 to 163 in March 1937 and thereafter a fall to a low of 129 in December 1938. This index stood at 133 in September 1939, but since then has probably fallen greatly. We have no comparable data for any period after the end of September.

Capital formation

According to the Finnish Central Statistical Office, there was a net increase of over 2500 in the number of corporations and of over 2 billion marks (\$40 million) in the capital of corporations in the 3-3/4 years from January 1936 through September 1939. The increase was remarkably steady and undoubtedly mirrors the expansion of Finnish industry and commerce which took place during those years.

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Foreign TradeExports

Finland has increased her exports during the 1930's, and she has had a favorable balance of trade in every year of that decade except 1939. In the first 8 months of 1939 her exports expanded again, establishing an all-time record.

Finland's Foreign Trade

(In millions of marks)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1928	6,245	8,013	- 1,768
1930	5,404	5,248	+ 156
1932	4,631	3,502	- 1,129
1934	6,226	4,776	+ 1,450
1936	7,223	6,369	+ 854
1937	9,380	9,306	+ 73
1938	8,398	8,607	- 209
1938			
(first 8 months)	5,178	5,549	- 371
1939			
(first 8 months)	5,760	5,481	+ 279

The bulk of Finnish exports (over 80 percent) consists of wood and paper products. About 10 percent consists of agricultural products and the rest is made up of many small items.

Finnish Exports by Commodity Groups

	<u>Timber</u>	<u>Paper</u>	<u>Agriculture</u>	<u>Other</u>
1928	57%	30%	11%	2%
1934	49	37	8	6
1937	45	39	8	8
1938	41	41	10	8

The United Kingdom was by far the most important buyer of Finnish exports. Germany was second in importance.

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Principal buyers of Finnish Exports

	<u>United Kingdom</u>	<u>Germany</u>	<u>U.S.A.</u>
1928	35%	16%	7%
1938	44	15	9
1939 (first 8 months)	42	15	11

Imports

About two-thirds of Finnish imports consisted of producers' goods, compared to about one-half in 1928. The decline in the relative importance of consumers' goods reflects both the increased self-sufficiency of the country in staple foods and the expansion of industry.

Finnish Imports by Major Types

	<u>Articles of consumption</u>		<u>Producers' goods</u>	
	<u>Foodstuffs & luxuries</u>	<u>Finished indus- trial products</u>	<u>Raw & semi- finished</u>	<u>Finished</u>
1928	26%	24%	33%	17%
1937	13	20	46	22
1938	14	22	41	22

Germany was the most important supplier of Finnish imports in the 1920's, but in recent years the United Kingdom has become almost equally important. Sweden now comes third and the United States fourth.

Principal sources of Finnish Imports

	<u>Germany</u>	<u>U.K.</u>	<u>U.S.</u>	<u>Sweden</u>
1928	37%	12%	15%	8%
1938	20	22	9	13
1939 (first 8 months)	20	21	10	14

Trade with the United States

The balance of Finnish trade with the United States looks quite different in her statistics than in ours. Our exports, valued at embarkation in our statistics, must bear the costs of a long sea voyage before they reach Finland and consequently are valued about 20 to 25

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percent higher in her statistics. Our imports (valued F.O.B. in her statistics and C.I.F. in ours) also cost us 20 to 25 percent more than they net her.

These discrepancies in the basis of calculation may be quite misleading. For instance, our statistics show that Finland had a favorable balance of trade with the United States both in 1937 and 1938. In each of these years, according to our figures, we bought about \$18 million from Finland and sold her about \$12 million. But in the Finnish statistics these facts appear quite differently. According to them, Finland sold us 740 million marks of goods in 1937 and bought from us 775 million; in 1938 she sold us 773 million marks worth and bought 774 million marks.

Since the Finnish statistics provide the more significant basis for the evaluation her foreign exchange position, we shall use her figures throughout this section except where specific statement is made to the contrary.

The share of the United States in Finland's imports was at a lower level in the 1930's than in the previous decade and has risen only very slightly in recent years. The importance of the United States as a purchaser of Finland's exports has increased over the two decades but shows no consistent trend.

Finland's Trade with the U.S.A.

	Bought from U.S.A.		Sold to U.S.A.	
	Millions of marks	% of total	Millions of marks	% of total
	C.I.F.	: imports	F.O.B.	: exports
1920	795	22	192	7
1922	609	15	291	7
1924	629	13	301	6
1926	801	14	365	7
1928	1,179	15	409	7
1930	638	12	412	8
1932	269	8	444	10
1934	412	9	429	7
1936	517	8	667	9
1938	774	9	773	9
1939 (first 8 months)	551	10	631	11

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Trade relations between Finland and the United States are governed by the Reciprocal Trade Agreement of May 18, 1936. In this agreement, the United States made concessions with regard to mechanical and chemical woodpulp, newsprint, wrapping paper, cardboard, paper boards, plywood, spools, matches, separators, cheese and granite. Finland's engagements in favor of the United States covered fruit, raw cotton, secondhand sacks, films, patent leather, tires, copper rods, typewriters and business machines, motor cars and spare parts.

This trade agreement did not raise Finnish purchases from the United States to the level of the 1920's. Finnish purchases from the United States have contracted because she now produces most of her own cereals; the increase in her purchases of our industrial raw materials, metals and machinery has not compensated for the decline in her purchases of our agricultural products.

Finland's Imports from the U. S.

(In millions of marks)

	<u>1920</u>	<u>1923</u>	<u>1928</u>	<u>1932</u>	<u>1938</u>
Cereals	371	330	346	43	63
Apples and pears	-	1	10	5	27
Raisins and plums	21	11	21	9	24
Petroleum products	99	51	133	39	108
Raw cotton	20	16	138	72	141
Metals and metal goods	26	15	55	14	77
Machinery	20	12	45	13	89
Passenger cars	4	9	151	2	50
Parts for means of transports	-	3	47	3	36
Total (including others)	795	584	1,179	269	774

Finnish sales to the United States consist of 90 percent of pulp and paper products. The other 10 percent is made up of hides, granite, cheese and a number of minor articles.

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Finland's Exports to the U. S.

(In millions of marks)

	<u>1920</u>	<u>1923</u>	<u>1928</u>	<u>1932</u>	<u>1938</u>
Mechanical pulp	33	11	9	22	17
Sulphite pulp	66	125	163	206	293
Sulphate pulp	44	54	77	83	117
Newsprint	34	86	95	90	250
Wrapping paper	4	1	-	2	22
Cardboard	6	8	8	4	8
All other	5	58	57	37	66
Total	192	343	409	444	773

Foreign Capital in Finland and her Foreign Liabilities

During the period of civil war and privation which followed the Russian revolutions of 1917, Finland accumulated debts to the government of the United States which were funded in 1923 in a single loan of \$9 million at $3\frac{1}{2}$ percent interest. On December 15, 1939 Finland still owed about \$8,143,000 on this loan.

In the 1920's Finland obtained further long-term capital abroad, principally in the United States. About 60 percent of the long-term capital she received from abroad during the years 1922-1938 came from flotations of dollar bonds. Aside from the war loan, Finland raised \$99.3 million of long-term capital from the sale of dollar bonds. Her other long-term issues, sold chiefly in England and Sweden, amounted to \$75.5 million.

Finnish \$ Bond Issues

Issued by	Year of issue	Original amount of issue in \$ millions	Rate of interest %	Amount out- standing at end of 1938
Finnish Government	1923	10.0	6	4.9
Finnish Government	1923	2.28	6	1.9
Finnish Government	1925	10.0	7	-
Finnish Government	1926	15.0	$6\frac{1}{2}$	-
Finnish Government	1928	15.0	$5\frac{1}{2}$	-
Finnish Government	1934	10.0	4	4.0
Finnish Guar. Municip. Loan	1924	7.0	$6\frac{1}{2}$	-
City of Helsinki	1930	8.0	$6\frac{1}{2}$	7.0
Industrial Mortgage Bank	1924	12.0	7	-
Residential Mortgage Bank	1928	10.0	5	4.0

At the end of 1938, there were \$21.8 million of dollar bonds outstanding. About \$2.4 million were redeemed in the early months of 1939. Moreover, about \$10.8 million of these dollar bonds were estimated to be held in Finland. Therefore only about \$8.6 million of Finnish dollar bonds are held abroad, of which at least \$2 million are believed to be now held in various European countries.

Finland reduced her net foreign liabilities (apart from her debt to the government of the United States) from 9,060 million marks (roughly \$180 million) at the end of 1932 to 650 million marks (roughly \$13 million) at the end of 1938. At the end of 1938 the declared gold holdings of the bank of Finland were about twice as large as the total of Finland's net foreign liabilities.

Finland's Foreign Liabilities, Excluding Current War Debt

(In millions of marks)

	End of year	<u>1932</u>	<u>1934</u>	<u>1936</u>	<u>1938</u>
Liabilities					
1. Finnish securities held abroad					
a. Government and municipal		5,300	3,750	2,370	1,440
b. Private long-term		3,070	2,255	1,680	1,060
2. Floating foreign debt					
a. Government and municipal		258	139	49	-
b. Banks					
1'. Foreign deposits		132	247	250	310
2'. Other debts		890	433	280	340
c. Other businesses and individuals		290	681	971	1,110
Total liabilities		<u>9,947</u>	<u>7,505</u>	<u>5,600</u>	<u>4,260</u>
Assets					
1. Central and local government		10	58	55	235
2. Banks					
a. Deposits abroad		419	1,811	1,889	2,610
b. Foreign exchange		261	253	245	215
3. Other businesses and individuals		190	328	261	550
Total assets		<u>880</u>	<u>2,450</u>	<u>2,450</u>	<u>3,610</u>
Net Liabilities		9,060	5,055	3,150	650

In addition to Finland's foreign liabilities, there are substantial amounts of foreign direct investments in Finland. The nickel mines are British owned, and we have heard that a large portion of the paper and pulp industry is German owned. More information on this point is needed for our evaluation of Finland's balance of payments situation.

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Balance of Payments

Finland has had a favorable balance of payments on current account in every year of the 1930's. This favorable balance has enabled her to redeem and buy back her foreign indebtedness, to add to her foreign deposits, and to accumulate gold. The reasons for her favorable balance have been: (1) the expansion of paper and pulp exports, (2) the extension of cereal acreage, leading to greater self-sufficiency in foods, (3) a frugal standard of living, which permitted exports to rise while imports for consumption remained relatively stationary, (4) increased income from services, especially shipping, and (5) conversion of foreign bonded indebtedness at lower rates of interest.

Finland's Balance of Payments on Current Account

(+ means excess of inpayments, - excess of outpayments)

(In millions of marks)

	<u>Merchandise</u>	<u>Interest and dividends</u>	<u>Other services</u>	<u>Total</u>
1922	+ 479	- 238	+ 268	+ 509
1924	+ 268	- 258	+ 362	+ 372
1926	- 65	- 284	+ 420	+ 71
1928	- 1,178	- 350	+ 525	- 1,603
1930	+ 183	- 412	+ 441	+ 212
1931	+ 980	- 436	+ 448	+ 992
1932	+ 1,129	- 583	+ 630	+ 1,176
1933	+ 1,370	- 530	+ 510	+ 1,350
1934	+ 1,461	- 425	+ 535	+ 1,571
1935	+ 913	- 325	+ 540	+ 1,128
1936	+ 1,028	- 270	+ 560	+ 1,318
1937	+ 238	- 195	+ 775	+ 818
1938	- 72	- 150	+ 750	+ 528

Public Finance

Finnish public finances have been managed quite successfully during the 1930's. The government has operated railways, post and telegraph services, the State forests and many other enterprises with considerable profit. Expenditures and receipts have increased quite steadily, the public debt has been reduced, and the foreign public debt almost eliminated.

Receipts and expenditures

Since 1932 Finnish budgets have observed the distinction between capital and current accounts.

One of their distinctive financial mechanisms has been a Budget Equalization Fund, a liquid reserve against emergency demands. The Equalization Fund was particularly designed to compensate for variations in receipts and expenditures resulting from cyclical changes. At the end of 1938 there was about \$27 million in the Fund, but whatever was in the Fund has probably now been used for war purposes.

Finnish national taxation bears primarily on consumption, rather than income or property. In 1938 about half of total receipts from all national taxes was derived from customs.

Receipts from Taxes and Monopolies, 1938

	Amount (In Millions) of Finnish Marks	Percent
Taxes on consumption	2,752	71
Income and property taxes	944	24
Stamp duties on business transactions	136	4
Other tax revenue	<u>18</u>	<u>1</u>
	3,896	100

National government taxation is officially estimated to be equal to about 15 percent of the national income.

National Income and Taxation

	National Income (In Millions)	Taxes (In Millions)	Percent of National Income
1924	14,500	1,897	13.1
1928	19,600	2,491	12.7
1932	13,900	1,959	14.1
1936	20,500	2,993	14.6
1938		3,896	

A general idea of the revenue and expenditure of the State in recent years is afforded by the following table:

(In Million Marks)

	<u>1932</u>	<u>1934</u>	<u>1936</u>	<u>1938</u>
REVENUE				
Current revenue	2,438	3,366	3,725	4,862
Loans	214	503	900	500
Other capital revenue	272	265	245	172
Total	<u>2,925</u>	<u>4,135</u>	<u>4,870</u>	<u>5,534</u>
Utilized out of balance from pre- vious years	42	-	-	-
Deficit	34	-	-	-
Grand Total	<u>3,001</u>	<u>4,135</u>	<u>4,870</u>	<u>5,534</u>
EXPENDITURE				
Current expenditure	2,484	2,599	2,983	3,487
Redeemed loans	58	394	915	244
Other capital expenditure	456	1,107	932	1,351
Transfer to Budget Equalization Fund	-	-	31	350
Total	<u>3,001</u>	<u>4,100</u>	<u>4,861</u>	<u>5,432</u>
Surplus	-	35	8	101
Grand Total	<u>3,001</u>	<u>4,135</u>	<u>5,870</u>	<u>5,534</u>

As can be seen from this table, current revenue doubled between 1932 and 1938. This increase in revenue was not due primarily to increases in rates of taxation. Only alcohol and motor vehicles and their fuel have been taxed substantially more heavily in the 1930's than in the 1920's. The increase in current receipts has come primarily from the increase in the size of the national income.

State enterprise, loans and guarantees

The Finnish government owns and operates a large number of business enterprises. The most important of these, from a commercial point of view, are the State railways, the State forests and the post and telegraph office. The State also operates canals, dock yards, a margarine factory, State farms, and many smaller enterprises.

The State does considerable lending for public purposes. Loans are regularly given to local Government authorities for performing certain public duties, for example, the building of schools, hospitals and charitable institutions. Public loans are given also to private business engaged in activities affected with a special public interest such as private educational institutions. The greater part of State loans, however, refer to agriculture — the provision of land for the landless population, soil improvement, drainage, various forest projects, etc. The State also makes housing loans. There has been very little recent subsidization of large-scale industry, though a loan fund for shipping was being set up in 1939.

Loans granted by the State have for the greater part been mortgage loans, with a comparatively long period of redemption. The rate of interest on such loans in 1939 was between three and four and one-half percent. At the end of 1937 the total State loans outstanding amounted to almost 2 billion marks, or more than one-half of the full year's national government tax receipts.

The State has guaranteed interest and principal of the bonds of financial institutions engaged in mortgage, agricultural credit, mining and other industries. The total of such guarantees was over 2.3 billion marks at the end of 1937.

Public debt

The total nominal public debt was reduced about 10 percent between the end of 1932 and the end of 1938.

Finland's Public Debt

(In Millions of Marks)

	<u>1932</u>	<u>1934</u>	<u>1936</u>	<u>1938</u>
Funded Debt	2,937	3,273	2,981	3,195
Foreign	2,432	2,283	1,129	775
Internal	505	991	1,853	2,419
Floating Debt	535	109	138	57
Foreign	351	59	57	-
Internal	184	50	81	57
Total Public Debt	3,472	3,382	3,119	3,251

The real reduction was even greater because the foreign debt is carried in the Finnish public debt statement at its mark value at time of issue. Since the mark depreciated from 2.52 cents to 2.05 cents and from 197 to the pound to 227 to the pound, the paying off of foreign debt was an even more considerable accomplishment than appears from the Finnish figures. And it was particularly the foreign debt which was paid off during these years. The foreign debt fell by about three-quarters, from 2,783 million marks at the end of 1932 to 775 million marks at the end of 1938. Furthermore, of the small outstanding public debt in foreign currencies, a large part was actually held in Finland.

We have no information on how much debt Finland incurred during the war with Russia. Most of the aid which she received from abroad, aside from the Export-Import Bank credit, probably took the form of gifts. However, she no doubt added considerably to her domestic public debt.

The Economic Effects of the New Frontiers

We do not have information as to the precise location of the new Soviet-Finnish frontier in Karelia; in fact, the precise location has not yet been determined. The clearest available guide is the schedule of evacuation in the protocol attached to the recent treaty. In this protocol, a series of towns is mentioned which indicates that the new frontier will follow the boundary of Viborg province as ceded by Charles XII to Peter the Great by the Treaty of Nystad (1721).

If the new frontier follows this line, it may cause serious disruption in Finland's industry and in the flow of trade. Finland may reach an agreement with the Soviets whereby the flow of materials may continue substantially on the old lines. If such an agreement is impossible, or if Finland chooses to follow a contrary policy, a very considerable reconstruction of her industries will be necessary. It would be impossible to replace on Finnish soil all of the facilities which have been ceded to the Soviets.

The transportation routes of southern Finland will be severed by the new frontier in any case. The Soviets will get Viipuri and the terminus of the Saima canal, which is the outlet for all of the timber and pulp industry around Lake Saima. The re-routing of this traffic by rail would be expensive, and it may not be feasible at all. Other canals are involved in the same manner, such as the Taipale, an important carrier of wood and minerals.

The Vuoksi Valley on the Karelian isthmus has a large part of Finland's smelting and metal working industry. A slight shift in the frontier one way or another might have far-reaching effects in this area. At Imatra on the Vuoksi river is located Finland's single copper smelter. Her main hydroelectric development at Imatra Rapids has a total capacity of over 400,000 horsepower. Some of the principal iron works are also at Imatra.

The recently constructed sugar refinery at Antrea near Viipuri will be in the ceded area.

At Enso a rayon plant has just been completed at a cost of \$1,400,000. This plant was designed to supply all of Finland's requirements in artificial silk, and in addition about 350 tons of cellophane per year. At Enso is located one of the biggest sulphite mills in Finland. At Varttilla there are iron works which may be in the ceded area.

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The new frontier will certainly cut many principal traffic routes, some of which cannot be replaced by construction within the new Finnish frontiers. The new line may also cut vital power lines.

The complete reconstruction of Finnish industry to attain independent of the routes and plants in the ceded area would involve Finland in very large capital expenditures.

The Political Situation
in Finland

THE POLITICAL SITUATION IN FINLAND

(Division of Monetary Research 1/) March 12, 1940

Summary

1. The traditions of democracy are deeply rooted in Finland. The struggle against the Tsarist regime in Finland before the World War took the form of a fight for democratic rights and national self-determination for the Finnish people. The small farmers and workers who took a leading part in that fight have remained staunch defenders of democracy to this day. The leading party in Finland today, the Social Democrats, represented in the government by Tanner and several other Ministers, place at the head of their program the demand for the extension of democracy. The powerful cooperative movement in Finland represents a venture in economic democracy which has been admired around the world.

2. Powerful authoritarian forces have persisted in Finland. Although Finland became a Republic in 1918, this was an accidental result of the collapse of the German Empire. The founders of the Republic had originally intended to make Finland a German Kingdom. Both General Mannerheim and Regent Svinhufvud were Monarchist in their political views. A considerable part of the very influential Lutheran clergy has favored an authoritarian form of government. Dictatorial methods of government have also been supported at times especially under the impact of economic depression by the leaders of the timber trade, by high army officers, and by the banks.

3. The bitter political conflicts of the civil war period have never completely died down under the Republic. Fear of the U.S.S.R. has been a major factor in Finnish politics since 1918. Under all these circumstances, democratic civil liberties have not been secure. Measures aimed at restricting Communist activities have on occasion been extended to include progressive groups of all kinds. Thus in 1930 the Finnish trades unions were dissolved on the alleged grounds that they were Communist-controlled. But since 1936 there has been a resurgence of democracy in Finland.

1/ Prepared chiefly by Mr. Wheeler

THE POLITICAL SITUATION IN FINLAND

March 12, 1940

Domestic traditions in Finland

The Finnish Republic is not yet 22 years old. Yet those 22 years have brought every crisis which can confront a state — industrial depression, insurrection, foreign conflicts, and minorities quarrels. How have Finnish democratic institutions withstood the strain of the bitter conflicts which have developed over these questions?

The traditions of democracy are deeply rooted among the Finnish people. The struggle of the Finns against the Tsarist regime in the early part of this century was fought chiefly for the extension of the democratic rights of the Finnish people. The Finnish labor movement played an important role in this struggle. In their own social and economic life the Finns have built up a cooperative movement which has been the envy of cooperators throughout the world.

These cooperatives, which have played such a vital part in the economic and social life of all the Northern countries, represent an extension of the democratic ideal to economic life. The Cooperatives, aside from their immediate objectives of providing better and cheaper goods to the poorest sections of the community, have had the larger aim of extending the spirit of cooperative endeavor in all spheres of public life. Thus the Cooperators hope to solve the economic and social problems of the country through voluntary cooperative effort, without abridgment of individual liberties and without the tragic waste and bitterness of class struggle.

Most of the population of Finland is engaged in the forest industries and in agriculture. Small farms and small businesses are the rule; only in the woodpulp and lumbering industries are there great industrial concerns. Finland is therefore a land of small proprietors, and this fact is clearly reflected in the tone of Finnish politics. Even the Social Democratic party, which is nominally a collectivist party, is in reality strongly individualist, in accord with the small proprietor outlook of its leaders.

Liberal democracy in Finland is the political expression of the cooperative and the individualist trends in Finnish social life. Public opinion in Finland is lively and well informed. The Finns read an

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immense volume of political literature of all kinds; most of the people take an active part in the political life of the country through membership in the political parties or in other groups. The policies of the government are subject to constant scrutiny and criticism.

The Finnish Constitution guarantees to the people the right to religious freedom, freedom of the press and of speech, and protection against illegal arrest or search. The people's Deputies to the Diet are immune to penalties for their political beliefs. Like the American Constitution, the Finnish Constitution provides that in part the defense of civil liberties rests with the Courts. The ordinary guarantee of these constitutional rights, however, rests with the Diet, which as the democratically elected representative chamber has supreme power in Finland.

In general, the liberal guarantees in the Finnish Constitution have been carefully observed. However, in some respects the civil liberties of minority groups have been seriously invaded. This is especially true of the Communists. Since 1918, the Communist party has been proscribed in Finland. The Communists evaded this restriction by organizing and working under another name — the Finnish Labor Party. Under this name they were able to attract a considerable amount of support; in 1922 they elected 27 Deputies to a Diet of 200. The Finnish Government was worried by the strength of the Communists, and consequently dissolved the new party in its turn. The Communists were forced to reorganize under still another name. In 1930, they held 23 seats in the Diet at the time of the rise of the Lapuan movement which aimed at forcing a fascist form of government on Finland. Under the pressure of the Lapuans, the Communist deputies were arrested and imprisoned, their party and their press suppressed. During the years from 1930 to 1932, the structure of civil liberties in Finland was largely destroyed. Kidnapping and beating of the leaders of the liberal and radical parties was common. All forms of radical political activities were rigorously suppressed.

After 1932, the political tension relaxed somewhat, and minority groups were allowed more freedom. However, the prohibition against the Communists remained, although it was no longer rigorously enforced. By 1936, Finland had returned in large part to the liberal traditions of the late 1920's. Yet even in 1936 the shadow of social conflict lay over the liberal institutions of Finland. A significant example of the frailty of the system of civil rights in Finland is contained in a letter appearing in the English liberal weekly, *The New Statesman*, for January 6, 1940, over the signature "Barrister". It appears that *The New Statesman* had published an account of the ill-usage to which the Finnish Communist, A. tekaïnen, had been subject. This account was reprinted in a Finnish journal, *Tuleskantaya*, as a result of which the

editor, Erki Wala was sentenced to four months in prison. After the elections of 1936, Wala appealed to the Appeal Court at Abo. He hoped that, with the return to a more democratic atmosphere in Finland his sentence might be reversed. But, on the contrary, his sentence was increased to eight months.

Another example of the persistence of the conflicts of the civil war period appears in the structure of the Finnish armed forces. The regular Finnish army is very small in peace time, less than 30,000 men. In principle the obligation to serve in the regular army is universal. Actually, the Civic Guard, with about 100,000 men has in many ways been more important than the regular army. The Civic Guard (also known as the White Guard, the Protective Corps, and otherwise) is the successor of the privately-organized White Guards of the 1917-1920 period. Its direct historical affinity is with the various Freikorps organizations of Germany and Austria, who were everywhere the central nuclei of the post-war fascist parties. Although under the Republic the Civic Guard has become a semi-public body, it has never entirely lost its political character. Thus it does not accept men whose political antecedents suggest socialist sympathies. The Social Democrats, for their part, have been extremely suspicious of the Civic Guard. The Civic Guard was deeply involved in the abortive insurrection of 1930. The Social Democrats have forbidden their members to join it. James A. Dridge, writing in the New York Times for March 12, remarks that only a few weeks ago Vaino Tanner, the leader of the Social Democrats, "swallowed a bitter pill" in allowing members of his party to join the Civic Guard. The Social Democrats and other liberals have often complained that the Civic Guard was intended to be used against the labor movement.

The special position and influence of the Swedo-Finns has been a cause of disputes and ill-feeling in Finland. The Swedish colonists who came to Finland during the long period when Finland was subject to Sweden established themselves in a dominant position in Finnish affairs. Swedo-Finns controlled a large part of the wealth of the country; they established a quasi-monopoly of political offices, and they occupied the leading positions in cultural life and in education. After Finland became independent, Finnish nationalists demanded that Swedish influence should be curbed. The quarrel centered on the education question; the Finns demanded that educational expenditures should be strictly in proportion to the numbers of the Swedish- and Finnish-speaking population. This would have been a severe blow to the Swedo-Finns, who held a predominant place in secondary education. A compromise was finally arrived at, which left the Swedes part of their advantage; although they represent only 10 percent of the population, 20 percent of the secondary school expenditures go to their schools. The quarrel has died down in recent years, although some of the Finns are still dissatisfied.

Geography and Independence

Geography has not favored the development of a strong and independent Finnish nation.

Finland has never had either the man power or the economic resources to support a successful national struggle against the expansionist aims of her neighbors. Nor has her geographic position afforded her any sure protection; she has been repeatedly overrun by the armies of Sweden, Russia and Germany. Frequently political quarrels in Finland have opened the door to foreign domination. As a result of these severe handicaps, the Finns throughout most of their long history have been a subject people.

The first Swedish crusade against the Finnish tribes was organized in 1154. By the end of the thirteenth century Sweden had conquered all of Finland and had driven the Russians behind the line of the Neva. Swedish colonists established themselves in a dominant position in the social, cultural, and political life of the country.

The whole history of Finland before 1815 is, in large part, the history of the struggle between Sweden and Russia for mastery of the Baltic. With Sweden's decline in the eighteenth century her grip on Finland weakened, and Russia under Alexander conquered the country in 1809. From that time until 1917, Finland was an autonomous Grand Duchy under the Russian Tsar. Finland had her own Diet, her own financial and judicial administration, and a Governor-General representing the Tsar as Grand Duke.

With the collapse of the Russian Empire in 1917, Finland became a German puppet state. Only as a result of the successive defeat and collapse of the Russian and the German Empires did Finland become independent.

Revolution and Intervention

In February 1917 the first Russian revolution broke out. The Tsar was deposed, and a Provisional Government under the liberal Prince Lvov was formed. The Provisional Government acted at once to remedy some of the immediate grievances of the Finns. The Finnish Diet which the Tsar had refused to call was summoned; the liberal Stahkovitch was appointed Governor-General to replace the hated Seyn; and many political prisoners were released and recalled from exile.

But on the fundamental question of Finland's relation to Russia the Lvov government never adopted a clear position, nor did the

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succeeding government of Kerensky. In July the Finnish Diet in which the Social Democrats were a majority passed a Bill which claimed for Finland complete independence except in military and foreign affairs. To this resolution the Kerensky government eventually sent a reply repudiating the right of the Diet to decide the matter without the consent of Russia. Stahkovitch dissolved the Diet and announced new elections in which the public could decide on the July Bill.

Meanwhile the storm of Social revolution was gathering in Russia and Finland alike. The Finnish conservatives formed a White Guard which they equipped with arms from abroad. The Social Democrats organized a Red Guard armed by the sympathetic Russian garrisons.

In the new elections the Social Democrats lost their majority; instead of 103 members out of 200, they now had but 92.

When the new Diet met the October revolution had brought the Bolsheviks into power in St. Petersburg. The new middle-class majority of the Finnish Diet was therefore particularly anxious to sever all connection with Russia. On November 15, they declared that supreme power belonged to them by virtue of the feudal constitution of 1772. As the Bolsheviks in St. Petersburg did not oppose this move, the Diet proceeded (on December 6, 1917) to proclaim Finland an independent state. The Bolshevik regime for a variety of reasons did not oppose Finnish secession. Soviet Russia was the first state to recognize Finland; recognition by Sweden, France, Germany and other states followed.

On the night of Sunday, January 23, 1918, the Finnish Reds carried out a coup d'etat. The Red Guards took over authority in Helsinki and in all the larger Finnish towns. Only in Northern Finland were the White Guards able to suppress the Red insurrection. The Reds issued a provisional constitution along liberal parliamentary lines, and hastily set about building a Red Army at Helsinki.

Meanwhile the Conservatives were rallying their forces at Vaasa, on the Gulf of Bothnia. General Mannerheim, a former Tsarist officer, was entrusted with the task of organizing the White Guard for action against the Reds. The Vaasa Committee appealed to Sweden and to Germany for help. A number of Swedish officers volunteered with the White Guard; many Tsarist officers, refugees from the Bolshevik revolution, also joined the conservative forces. But the decisive help came from another source. Svinhufvud, the conservative leader, had escaped from Helsinki to Germany on the outbreak of the insurrection. There he had come to a close understanding with the German Government; Count von der Goltz was appointed to head a German expedition to Finland.

On March 20, Mannerheim was ready to begin his campaign against Tampere, the northern stronghold of the Reds. But the promised German aid had been delayed. Mannerheim telegraphed via Stockholm to Berlin "I consider it an urgent duty to hasten the arrival of the German expedition. Delay fatal". As there was no satisfactory reply, Mannerheim had to undertake the attack on Tampere without help. However, von der Goltz's expedition finally arrived in time to turn the tide. The Germans, landing at Hango, took the Reds from the rear, and Mannerheim was sooner able to take Tampere.

The Germans captured Helsinki on April 12. The Reds were in full retreat towards the Russian frontier, but their retreat was cut off by another German detachment at Lahti. After that the Red forces soon collapsed. On May 16, General Mannerheim entered Helsinki in triumph. According to Finnish government figures, fifteen thousand Reds were shot for their part in the insurrection; 80,000 supporters of the Red regime were imprisoned in concentration camps, where about 10,000 of them died of hunger or disease. The Reds are estimated to have executed upwards of a thousand men during their months in power. Thus ended the war which is known officially in Finland as the War of Independence.

Nevertheless, German troops were in occupation of Helsinki, and they had been sent to Finland, not to make Finland independent, but to make her one of a band of puppet German States, stretching from the Arctic Ocean to the Caspian Sea, which the German government hoped to create out of the fragments of the Russian Empire. Accordingly, in May the Finnish Diet was called, or more precisely, 109 of its 200 members were called, for the Social Democrats were not allowed to take their seats. This rump Parliament elected Svinhufvud as Regent, and Svinhufvud asked Kaiser Wilhelm II to put forward one of his sons as King of Finland. The Kaiser refused the crown for his sons, but allowed his brother-in-law, Prince Friedrich Karl to be elected. Prince Karl spent an arduous summer learning Finnish; but as the summer wore on he realized that Imperial Germany was on the verge of collapse. The fall of the German Empire meant the end of German ambitions in the East. Thus the official War of Independence ended with Finland a German vassal state. Finnish independence in actual fact came about as accidental result of the Allied victory over the Central Powers.

The Struggle Against Bolshevism

The coming of the Armistice failed to bring quiet to Finland's stormy foreign and domestic politics. The bitter struggles of the

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civil war period were continued in a different form. With the collapse of German power, Svinhufvud was forced to resign as Regent. His place was taken by Baron Mannerheim; for, although up until May 1918 Mannerheim was regarded by the Allies (and particularly by Lansing) as a tool of the German, he had succeeded in freeing himself from this association and placing himself at the head of the groups favoring close cooperation with the Allies.

The conservative parties were all agreed that the very existence of the Bolshevik regime in St. Petersburg constituted the greatest threat to Finland's independence and indeed to all the things they held dear. Therefore they were extremely anxious to obtain assurances from the Western powers of support against the Bolsheviks if it should prove necessary. And General Mannerheim's Government was ready to cooperate in any feasible plan for restoring the authority of the conservatives in St. Petersburg. The British government was also anxious to replace the Bolshevik regime with one more in line with Russian traditions, but serious difficulties arise between General Mannerheim and the Allied governments, as a result of which full cooperation against the Bolsheviks was not achieved.

When at the end of May 1919 the British 237th Brigade (of the expeditionary force under Major-General Maynard's command) reached Lake Onega, Mannerheim offered cooperation in return for Petrozavodsk, on the Kurmansk Railway. General Maynard refused Mannerheim's assistance, probably because Mannerheim's ambitions conflicted with the aims of other Russian groups with whom the British were cooperating.

A Finnish volunteer force nevertheless assaulted the town, but it was driven back by the Red forces. Again, at the close of the year 1919 when the White General Yudenich marched on Petrograd, Mannerheim sounded the Allies on Finnish intervention. Nothing came of his proposals.

Finally at the end of May 1920 the Finnish Minister in Washington appealed to the American government for the aid of American warships in the Gulf of Finland to act against the Bolsheviks. The Finnish government stated that if aid were not forthcoming, it might be necessary to conclude peace with the Bolsheviks. The American government through Hugh Gibson firmly declined to supply any warships for such a venture. The Finnish government, therefore, gave up its hopes of gaining Karelia and other territory from the Bolsheviks. In October 1920 the Treaty of Dorpat put an end to hostilities between Finland and the Soviets.

The Formation of the Constitution

The new Finnish Republic adopted a constitution which embodies principles drawn from the German, English and American political systems. A single Diet of 200 members has the supreme legislative power. The President is chosen by an electoral college, which unlike the American electoral college exercises considerable discretion. The President of Finland is powerful; the control of foreign policy and of the armed forces is in his hands, and he has the right of issuing administrative edicts provided that these do not contravene existing laws. He appoints the Cabinet members, not necessarily from the Diet, and he is not bound to take their advice. Finally, he has an effective suspensive veto. On the other hand, the President's decisions must be countersigned by the minister concerned, and his acts are furthermore subject to judicial review. The Finnish system is thus based in part on the American idea of checks and balances.

The balance of political forces in Finland after the defeat of the Reds made it inevitable that some form of moderate coalition would assume power, depending on the votes either of the Swedish conservatives or of the moderate socialists. The Social Democrats had expelled their communistic left wing; the Agrarian and Progressive parties had forced through a partial amnesty for imprisoned Red adherents.

The first great political problem which confronted the Republic was the land question. Throughout central and eastern Europe, the peasant demand for land redistribution had become the paramount political issue, and Finland was no exception. The Finnish Agrarian party, the Social Democrats, and the Progressives agreed that in one way or another land must be made available to the poverty-stricken peasantry. At the same time, the Finnish government could not adopt a program of drastic expropriation. The Kallio agrarian law therefore represented a compromise; the peasants and rural workers themselves were obliged to bear part of the burden of redistribution, the State bore a share, and the great landlords a share. While the Kallio law did not please all political groups, it did result in great extension of land holding among the peasants and rural workers. Landholding is still far from universal; in 1930, 32 percent of the rural population were landless laborers. Seventy-six percent of the holdings are less than 25 acres (cultivated), while on the other hand there are 827 estates of 250 acres or more of cultivated land. Nevertheless, landholding in Finland has become more widely dispersed than in France, the traditional country of small holdings, and compared with the situation in Italy, Hungary, Poland, or Spain, Finland is indeed a land of democratic land ownership.

Finland made rapid economic and political progress during the post-war decade. Democratic political organizations and cooperative societies drew into active public life great numbers of the Finnish people. The great political problems of the day were the subject of lively discussion and controversy which was carried on freely in the press and on the platform alike. The only exceptions to a general regime of free discussion and free political activity were the measures taken against the Communists.

With the continued prosperity of the late 1920's, the social conflict in Finland died down and the occasion for repressive measures against extremist minorities disappeared. The Communists remained subject to the legal ban, but in actual practice they were allowed to organize and agitate without much interference. By 1929, the regime of political liberty appeared to be as firmly established in Finland as in any country in Europe. But in fact Finland was about to enter another period of bitter political strife complete with violence and suppression of normal political rights.

Economic Depression and Political Reaction

By 1930, Finland was feeling the full effects of the great depression. As a producer of building material, Finland suffered severely from the collapse of building activity in Britain, her principal market. Unrest was widespread in Finland. In November 1929, a group of farmers broke up a meeting of the Young Communist League in Lapua. This riot inflamed public opinion throughout Finland, and Lapua became the center of a growing anti-Communist movement which reflected the suffering and discontent of the farmers and middle-class people of Finland. The Lapua movement, led by Kosala, advanced a vaguely Fascist program; the Communists were to be exterminated, the Social Democrats suppressed, the party system abolished, and the powers of the Diet handed over to a powerful executive. The Lapua movement found powerful support for its organization. The leaders of the timber trade, well-to-do farmers, the Lutheran clergy, the banks, high army officers, and the Neutral Cooperatives all lent their support, because they saw in the Lapua movement a political organization which promised to destroy once and for all the threat of Communism in Finland.

With such powerful backing, the Lapua group did not hesitate to resort to direct action against the Communists and indeed against the organizations of the Left in general. Socialist printing presses were smashed, Communists were kidnapped and beaten, and on July 5, 1930, two Communists members of the Diet were kidnapped from a meeting of a Standing Committee in Helsinki and taken to Lapua for punishment. The police were unable or unwilling to take any action against the Lapuans.

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Under the pressure of the Lapuans, Prime Minister Kallio resigned his office after having ordered the suppression of the Communist press. His place was taken by Svinhufvud, who had been in retirement since 1922. Svinhufvud formed a conservative government which hastened to grant the essential demands of the Lapuans. The 23 Communist Deputies were arrested; the rump Diet proceeded to pass a series of laws dissolving the Trades Unions outright and outlawing virtually every kind of political activity of the opposition parties.

In order to ratify these changes to the Constitution, it was necessary to hold new elections, in the course of which the Lapuans with government toleration engaged in every variety of illegality in order to be assured of the two-thirds majority necessary to the ratification of the new laws. The elections of October, 1930 gave the conservatives the necessary votes in the Diet (plus one) and the "anti-communist" laws were passed.

The Lapuans had succeeded in large part in their political aims; but their terrorist activities did not cease. After the October elections a group of terrorists led by General Wallenius kidnapped President Stahlberg and his wife, but they were released unharmed after a general popular outcry. Throughout 1931, kidnapping of socialists and over-inquisitive journalists continued. In July Wallenius was acquitted of complicity in the Stahlberg kidnapping, although he had made a full confession of his guilt at the time when charges were first preferred against him.

In the spring of 1932 General Wallenius, in cooperation with leaders of the White Guards, was planning a march on Helsinki. Before these plans had been carefully matured, Wallenius' hand was forced by a riot in Mantsala. Wallenius made immediate preparations for a march on Helsinki; but the expected cooperation of the conservative leaders failed to materialize. Svinhufvud came out against the plan, and as a result the armed forces of Wallenius melted away before a shot had been fired. Once again, however, the Lapuans were partially successful, for as a result of General Wallenius' demonstration the government arrested and imprisoned a large number of Communists, while Wallenius and Kosala were let off with suspended sentences.

The fundamental reason for the failure of General Wallenius' attempted coup was the fact that by 1932 the Lapuan movement had lost the support of the propertied classes in Finland. The latter no longer felt the necessity, (as they had in 1930) of relying on the Lapuan forces for keeping Communism in check. Svinhufvud and his supporters felt that the government was itself well able to cope with the Communists.

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After the defeat of General Wallenius' attempted coup, the Lapuan movement developed internal quarrels and ceased to be an immediate threat to the Republic. With the progress of economic recovery and expansion after 1933, the moderate parties regained their former strength.

Throughout his presidency (1931-1937) Svinhufvud had persistently refused to accept any Cabinet containing a socialist, in spite of the predominant position of the Social Democrats in the Diet. The Social Democrats determined to defeat Svinhufvud when he ran for reelection in 1937. Therefore they formed a coalition with the Agrarians, and succeeded in electing the candidate of the latter, Kallio.

Kallio called on Professor Cajander, a Progressive, to form a Cabinet. Since 1937 Finland has been governed by a coalition cabinet, headed by Cajander, including 5 Social Democrats, 5 Agrarians, and 2 Progressives.

The defeat of Svinhufvud seemed to be a serious reverse for the Conservative forces. For the first time, they had failed to block the inclusion of Socialists in the Cabinet. A thoroughgoing realignment of national politics seemed imminent. In fact, however, the revolution was not very profound; the Social Democrats remained a minority party.

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The Political Parties and Their Policies

After the destruction of the Bolsheviks in 1918, the political center of gravity shifted to the Agrarian party. But no one party in Finland is normally strong enough to form a cabinet alone. Therefore Finnish governments since 1918 have been formed on one or the other of two plans — a coalition of the Agrarians with the Conservative parties, or a coalition of the Agrarians with the large Social Democratic party. The following table of the numerical strength of the various parties in the Diet shows how the Agrarians hold the balance.

		<u>1936</u>	<u>1939(July 5)</u>
Government Parties	(Social Democrats	83	85
	(Agrarian	53	56
	(Progressive	7	6
Opposition Parties	(Swedish party	21	18
	(Unionist Party (Concen- tration)	20	25
	(Patriotic National Movement)	14	8
	(Others	2	2

The Social Democratic Party is a party of industrial and farm workers, professional and academic people, and small farmers. Formally, the party is committed to a Socialist program. In fact, the Social Democrats are essentially conservative in outlook. They do not aspire to a dominant position in national politics, but rather regard themselves as a pressure group working for increased Social Services and better working conditions within the limits of the traditional economic and political system. They are essentially an administrative party.

The Agrarian party is a centrist party of small farmers. Its principal asset is its historical achievement — the Lex Kallio which was the legal basis of the revision of land tenure in Finland. Under the Kallio law, tenants were given a certain amount of State aid in purchasing farms. Under this law, landholding in Finland has become more general and there has been some reduction in the concentration of holdings. Compared with the situation in Poland, Italy, or even France, Finland has become a country of small holders. The Agrarian party assumes the credit for this, although the Lex Kallio was

also supported by the Social Democrats. The Agrarian party has pursued a policy of protection for Finnish agricultural products as well as extension of tenure. By this policy, Finnish agricultural production has increased to about three times the level of 1913, and the cultivated area extended by 30 percent. This achievement must be reckoned as one of the most substantial victories of the new Republic.

The Agrarian party is a practical party, little concerned with general principles of government or economics. It is not opposed to State controls of industry, but it is hostile to all forms of socialism and particularly to Communism. In contrast to the French Socialist-Radical party, the Finnish Agrarians are under a pronounced clerical influence.

The Progressives are a very small party representing certain middle class groups of Liberal-Conservative tendencies. They work in coalition with the Agrarians.

The Unionist (Concentrationist) party together with the Swedish party (and the fascists) form the Right. These parties represent the timber trade, the manufacturers, the larger landholders, the church hierarchy, and the Army. The conservative parties are the defenders of the traditional social order, the Lutheran Church, and the rights of property. They believe themselves to be the representatives of the permanent national interests and the unity of the nation. They have played the leading part in the fight against Bolshevism.

The Swedish People's party has its own peculiarities. Its program is ostensibly one of defense of Swedish language and culture, but in fact the main interest of the party is in defending the privileges of the wealthy and governing classes, a very large proportion of whom are Swedo-Finns. By coming forward as the champion of the Swedish people, the party has been able to control practically all of the Swedo-Finn vote, although the majority of Swedo-Finns are fishermen, sailors, lumber workers, and farm laborers.

The Patriotic National Movement was a clerical fascist movement centered in Lapua, which succeeded in dominating Finnish politics from 1930 to 1934. It has declined since then. In recent elections it lost half of its 14 deputies. In 1930 it was strong enough to make full preparations for a coup, which failed because of dissension in the ranks of the conservatives. Although the fascists did not succeed in their coup, they did succeed in forcing the suppression of the Communist party, the arrest of all the Communist deputies, and they were permitted to engage in a terrorist campaign of beatings, kidnappings, and intimidations against the Left parties.

The Communist party has never been allowed to exist legally in Finland since the defeat of the Bolsheviks in 1918. However, the Communists have been able partially to evade the restrictions imposed on them by organizing under other names and by working within the Socialist party and the labor unions. Under the name of the Finnish Labor party, the Communists won 27 seats in a Diet of 200 in 1922. Alarmed, the government outlawed the party, suppressed its press, and dissolved the Diet to which this dangerous number of Communists had been elected. The Communists reorganized once more, and by 1929, under the name of the Finnish Labor party, they held 23 seats in the Diet. In 1930, when the influence of the Lopus was at its height, the Finnish Labor party was once more suppressed and its Deputies arrested and imprisoned. Since 1930, the Communists have not had any recognized political party in Finland. They have probably entered the Social Democratic party, although known Communists are excluded from it.

The Cooperative Movement in Finland

The Finnish people combine an extremely tough kind of individualism with a highly developed tradition of cooperation. The independent small holders who form the backbone of the country's agriculture are no less devoted to cooperation than the city workers. Over half the adult male population of Finland belongs to some form of cooperative. The most important of these organizations are the two consumer cooperatives, organized on the Rochdale pattern. They are both affiliated with the Scandinavian Cooperative Union.

The two great consumer coops have a remarkable record in the provision of goods and services to their members at reduced costs. The coops have furthermore been a strong influence for the improvement of quality in merchandise in general.

The principle of cooperation in Finland has been developed in every branch of economic life. Cooperative farm banks, cooperative production and marketing societies are well developed. The coops have gone into manufacturing on a considerable scale.

The Finnish cooperatives are organized on a thoroughly democratic basis. The entrance costs are very small, and the direction of the affairs of the cooperative are subject to the full control and criticism of the membership on an equal basis. Furthermore, the cooperatives have a well developed literature of their own and an ambitious educational program. Thus the problems of the consumers and the operations of the management are continually subject to the discussion, study, and criticism of the whole body of consumers.

Of the two principal organizations, the Progressive Cooperative Society, while it has refused affiliation with the Social Democratic party, draws most of its strength from the working class, and it is generally pro-labor in outlook. The Neutral Cooperative Society, on the other hand, is a farmer's cooperative and it has not been friendly with organized labor. It refuses to bargain collectively with its employees.

In its larger social aim of substituting the cooperative attitude in public life for the attitude of class rivalry, the cooperatives have not been entirely successful. The relations of the two principal consumer coops have been bitter. They have frequently engaged in cut-throat competition. In 1930, the Neutral Cooperative helped finance the Lapuan Fascist movement, probably with the idea that by this means the Progressive coops might be suppressed.

Social Security in Finland

In its program of social security, Finland lags behind the nations of western Europe. Unemployment insurance does not exist. An old-age pension scheme was supposed to come into effect in 1940. Finland has, however, a public health administration which is well supported. Unfortunately, most of its resources are absorbed by the fight against tuberculosis, which is particularly prevalent in Finland.

Most of the housing development in Finland has been undertaken by the large companies. Many of these projects are modern and well planned; but Finland has not escaped a serious housing shortage. In Helsinki the average number of inhabitants per room was 1.5 in 1930. In Helsinki rents absorb about one-third of the income of unskilled workers. Housing conditions in the rural areas of Finland (as in most countries) are even worse than they are in the cities.

The security of Finnish workers is moreover impaired by the absence of a powerful trade union movement capable of advancing the interests of the workers. The weakness of the unions is the more surprising in view of the great numerical strength of the Social Democrats. At one time Finland had a powerful labor movement; that was before 1918, when the unions had 160,000 members.

With the triumph of the Conservatives in 1918, the trades unions, most of which were under Bolshevik influence, were crushed. After peace was restored, the unions slowly regained their strength, until in 1930 they numbered about 100,000 members. But in 1930, the unions were suppressed again by the Svinhufvud government during the high tide of the Lapuan movement.

From the blow of 1930, the labor movement has never fully recovered. In 1939 the Finnish trades union federation had only 87,000 workers. The workers have not been strong enough to bargain collectively in the timber or other big industries; in printing and some of the smaller trades, however, they have been successful in obtaining collective contracts.

As a result of the weakness of the labor unions, wages in Finland's important industries have remained low. From 1930 to 1932 wages dropped heavily; after that they rose slowly until by 1937 they were (in real terms) about 13 percent above the level of 1929. The low level of wages from 1930 to 1935 made it possible for Finland to accumulate capital, modernize her industrial plant, and reduce her foreign debt.

The general standard of living in Finland falls considerably below that of the other Scandinavian countries; however, it is undoubtedly higher than in Poland, Italy or the Balkan countries.

Culture and Education in Finland

German culture was the inspiration and the model for the well-to-do and educated Finn throughout the 19th and on into the 20th century. The Finns bought a third of their imports from Germany; they took a third of their ideas from there. The first Finnish secondary schools were modeled on the German Lyceums. Many of the conceptions embodied in the Finnish constitution were derived from Weimar. Helsinki's first public buildings were the work of a German architect, Engel, and the best of Finnish graduates went to German universities to complete their studies. This cultural liaison was weakened by the rise of Hitler and the closer trade relations developed with England after 1933. English ideas are now taking the place of German. Finns are wearing English clothes, operating English machines, dealing with English salesmen and working with English technicians. A Finnish-British society flourishes in Helsinki and a similar society was organized in Turku in the winter of 1937-1938.

In Finland, all children are compelled to attend elementary school between the age of seven and thirteen, after which 60 percent attend vocational schools until fifteen and 40 percent go on to secondary schools where they prepare for the civil service, teachers' training colleges or the University. Tuition is free at the state supported institutions except for a nominal fee paid by the children of the well-to-do. Besides Helsinki University, which has an enrollment of 6,600 students, half of whom are women, the state maintains a Technical High School and a High School of Pedagogy with a combined enrollment of about 1,000. There are two small privately endowed universities at Tuusula, one Swedish-speaking and one Finnish-speaking. They each have 300 students.

APPENDIXNotes on Finnish Leaders

Vilho Tanner, Foreign Minister of Finland, head of the Social Democratic party, leader of the Finnish and the international cooperative movements. Born in Helsinki to working-class parents. In 1910 he became a member of the Central Committee of the International Cooperative League. He joined the Social Democratic party, where he belonged to the more conservative wing.

Tanner refused to associate himself with the Bolshevik majority of his party in the Revolution of 1918. He remained aloof from the Red insurrection. However, when von der Goltz' troops occupied Helsinki, Tanner was arrested because of his association with the Social Democrats. He was soon released, however, when it was established that he had not been in any way connected with the uprising of the Social Democrats. This episode has given rise to erroneous stories linking Tanner with the Finnish revolution.

After the defeat of the Finnish Bolsheviks, the Tanner group assumed leadership of the Social Democratic party. Tanner was one of the Finnish delegates who signed the Treaty of Dorpat with the Soviets in 1920. Tanner has worked to eliminate the radical and communistic wing from the Social Democratic party; he has pursued a policy of cooperating with the center parties.

Tanner has continued to be an active official of Elanto, a leading cooperative organization, and in 1927 he was elected president of the International Cooperative Alliance.

In 1926 Tanner became Premier in a Social Democratic Cabinet. The following year he received the salute of the Civic Guard (often called the White Guard) an act which caused bitter controversy within the Social Democratic Party because of the reactionary associations of the Civic Guard. However, Tanner's act was in line with the policy of reconciliation with the conservative forces which he has consistently followed.

Tanner has also served as Finance Minister, in which position he made his reputation as a cautious, conservative financier. Tanner is well liked by business and banking groups; in fact throughout the civil war period he was able to maintain valuable friendships with the conservative groups.

Risto Ryti, banker and statesman, at present Premier of Finland, for many years Governor of the Bank of Finland. Ryti was Finance Minister in the early years of the Republic.

Ryti studied law in England, and has many associations with English life. He has been decorated as Knight Commander of the Victorian Order. Ryti has frequently represented his country at international conferences on economic and financial questions.

Ryti is extremely influential among all business and commercial groups in Finland. He is highly respected in international financial circles. Ryti is thought to be the principal initiator of Finland's economic policies since he became Governor of the Bank in 1923. He has favored the rigorous policy by which, at the cost of great sacrifice on the part of wage earners, Finland has been able to reduce her foreign debt and build up her capital since 1930. Ryti is also said to have been one of the leading sponsors of the program of agricultural expansion and industrial development since the war.

Ryti is a staunch defender of the idea that the Bank of Finland should be independent of government control.

Baron Carl Mannerheim, born to a noble Swedo-Finn family near Abo, educated at the St. Petersburg cavalry school. Mannerheim soon rose to the command of the Tsar's bodyguard. He fought in Manchuria during the Russo-Japanese War and was promoted to the rank of Major General. After the Russo-Japanese war he was stationed at Warsaw as commandant of the Imperial Russian cavalry.

During the World War Mannerheim was stationed on the Roumanian front. After the Finnish declaration of independence he returned to Finland where he took an active part in organizing the White Guard.

After the Red coup of January 1918 Mannerheim was placed in supreme command of the White Guard, and became in effect the supreme leader of the conservative forces. He depended largely on German aid in overthrowing the revolutionary Red government in Helsinki. The American Minister to Sweden, Morris, cabled to Secretary of State Lansing on April 2, 1918, strongly urging that no food should be sent to General Mannerheim's government in view of the pro-German

leanings of the Finnish conservatives. Morris' opinion was strengthened by the report of an Allied mission which had visited Mannerheim's headquarters, and which stated that "as far as they can see, the White Party of Finland is entirely under German influence" and that "they personally were insulted by Finnish officers with pro-German sympathies, although travelling with General Mannerheim's special passport".

By May, however, General Mannerheim had dramatically changed his orientation. He had quarreled with the authorities in Helsinki on the issue of German influence in the army, had resigned his position and had retired to Sweden. Svinhufvud, the pro-German conservative, became the leading figure in Finnish politics.

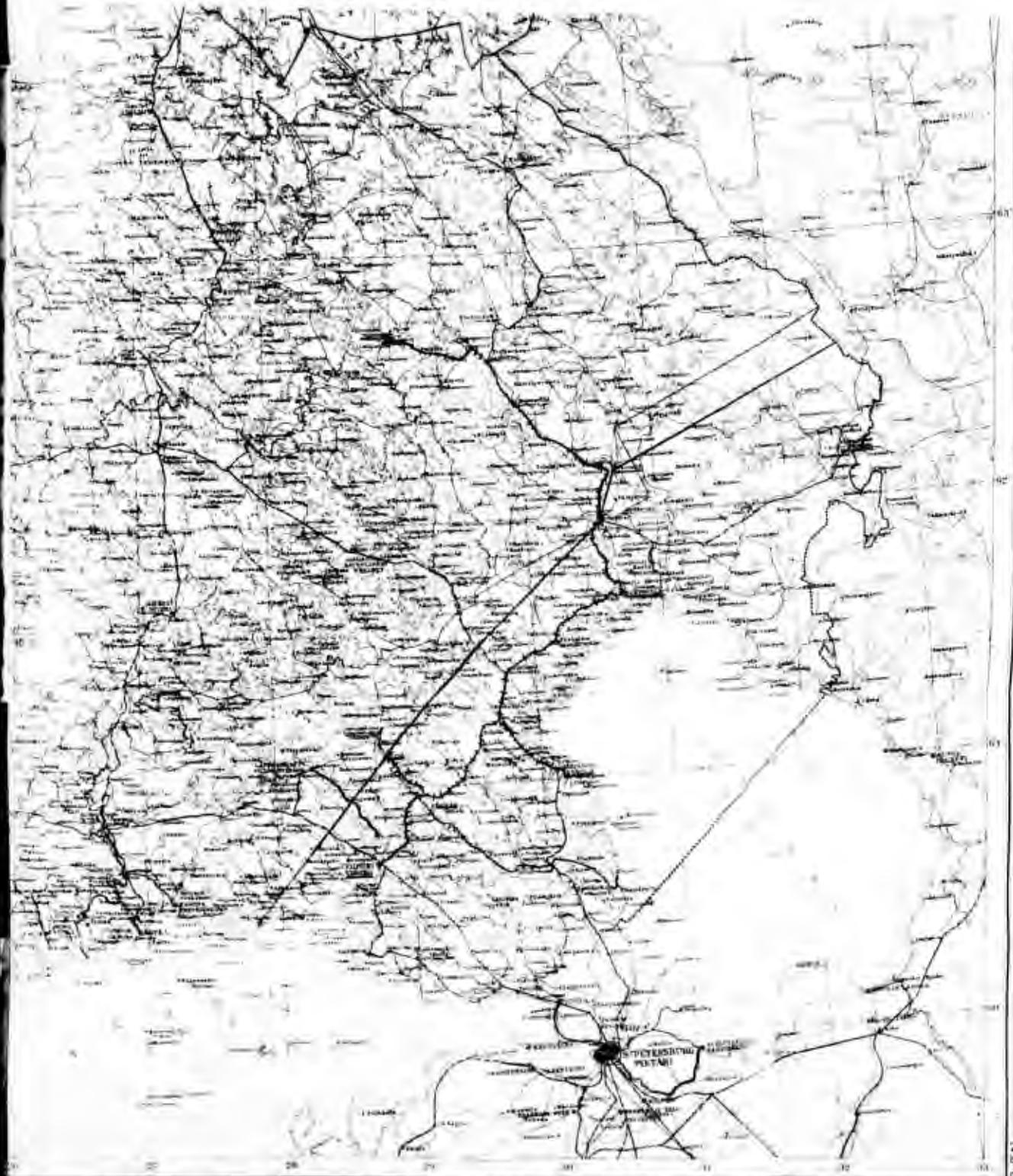
With the collapse of the German Empire, the return of Mannerheim was made possible, for he had succeeded in a few months, from May to November, in winning the confidence of the Allied diplomats. Accordingly, Mannerheim took over the Regency which Svinhufvud was forced to resign when the Germans withdrew. He held this position until the installation of the new constitution in 1919.

In 1920, Mannerheim attempted to organize an intervention against the Soviets with British aid. When this plan fell through, he led an independent assault on the town of Petrozavodsk on the Leningrad-Murmansk railway. This attempt was beaten back, and in the same year peace was concluded with the Soviets.

Mannerheim has remained a powerful figure in Finnish politics. He has been venerated by all the conservative groups, and hated by the radicals. He has been the strongest opponent of communism and of any policy of rapprochement with the U.S.S.R. On the other hand, he has many close friends and associations in Britain, and has been made Knight Grand Cross of the British Empire.

Map





No. 9

March 20, 1940

My dear Mr. President:

Since Finland and Russia have made peace, I have been giving considerable thought to what the future of Finland may be. It seems to me that the United States has a great opportunity to demonstrate, at this time, what we are willing to do for a country like Finland.

There is a real reconstruction job to be done for Finland. The thought that I have in mind is that you invite Finland to send a commission to this country, at once, to explain to us what their needs are, headed by someone like Mr. Tanner who, before entering their Government, was the head of their consumer cooperative movement; that we, in turn, be prepared to help them do not only a physical reconstruction job, but help them recreate a strong financial set-up.

By helping Finland do a complete reconstruction job, we can actually demonstrate to the rest of the world what we are prepared to do if and when peace should come in Europe or Asia.

Yours sincerely,

The President,
The White House.

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The White House.

first dictated draft

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My dear Mr. President:

Since Finland and Russia have made peace, I have been giving considerable thought to what the future of Finland may be. It seems to me that the United States has ^{a great} ~~an~~ opportunity, ~~now~~ ^{at this time} ¹ to demonstrate what we are willing to do for a country like Finland, ~~that has put up such a magnificent fight to defend itself against aggression and has made an honorable peace.~~

There is a ^{real} ~~great~~ reconstruction job to be done for Finland. The thought that I have in mind is that you invite Finland to send a commission to this country at once, ¹ headed by someone like Mr. Tanner who, before entering the Government, was the head of their consumer cooperative movement, to explain to us what their needs are. That we be prepared to help them do not only a physical reconstruction job, but help them recreate a strong financial set-up.

By helping Finland do ^{a complete} ~~a real~~ reconstruction job, we ^{can actually demonstrate} ~~are serving notice on the rest of the world~~ ^{do} what we are prepared to ~~do~~ if and when peace should come in Europe or Asia.

Yours sincerely,

March 20, 1940

My dear Cordell:

I am sending you herewith a copy of a confidential letter I have today written the President. I thought you might be interested in reading it.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.

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Secretary of State.

March 20, 1940.
9:21 a. m.

Operator: Go ahead.
Congressman Snyder: Hello.
H.M.Jr: Good morning.
S: Good morning. Congressman Snyder.
H.M.Jr: How do you do?
S: All right. The result of your visit up here was just fine.
H.M.Jr: Well I'm glad to hear that.
S: Yes. I had a little chat afterwards you know and they were all very well pleased and thought that your procedure was all right.
H.M.Jr: Well I appreciate your having me up there.
S: Well that's the way we have to handle it.
H.M.Jr: Yes.
S: Did you get that Cavalcante matter?
H.M.Jr: Yes, I did.
S: Well that's what I want before Easter. I've got to go back there before Easter.
H.M.Jr: Well here's the situation. I have this right before me. The Court of Common Pleas expressed its views as follows: "We are of the opinion that there was fraud in this transaction and that the conduct of Anthony Cavalcante was unethical, unprofessional, reprehensible and he should be disciplined."
S: I can't hear you quite.
H.M.Jr: Well this is what the Court of Common Pleas has to say about -
S: When was this dated?
H.M.Jr: When was this?

- 2 -

- S: Yes.
- H.M.Jr: Let me just see - just a minute - 1932.
- S: Yes, that's it exactly. That was that old Republican Court back there, all Republican and they did that back in '32. He's elected State Senator twice since that time, and he's a reputable fellow, he's a wonderful fellow. He bolted the Republican State machine under Penrose, who - and went with the Independents with Pinchot in '32. You understand?
- H.M.Jr: I understand.
- S: And that's just what they did. They kicked him out because he went out and made speeches for Pinchot.
- H.M.Jr: Well I've got the facts of why they did it. I'd be glad to send them up to you. I mean if you want them. I mean, the reason back of the Court's action.
- S: Well why would they reinstate him then later on, right away?
- H.M.Jr: I don't know, but -
- S: Within six months.
- H.M.Jr: But I've got the facts and then also his record with the State Banking Department of Pennsylvania.
- S: Isn't that good?
- H.M.Jr: No, it's not. No it's not, and that's dated August '37.
- S: Well that might have some weight with me but the others have no weight no matter what was on it.
- H.M.Jr: Well, for your confidential perusal I will send up his record.
- S: All right.
- H.M.Jr: And I do hope that you could find somebody else in your district that I could take.

- 3 -

S: I see.

H.M.Jr: I'd be glad to take anybody else.

S: I see.

H.M.Jr: All I want is somebody that has - well hasn't got this kind of a record, and if you're going back I'm sure you could find somebody else.

S: Well you send that up and let me see it, that - I knew all about the first.

H.M.Jr: Well let me send the whole thing up for your confidential information.

S: Thanks.

H.M.Jr: And if, after you've read it, if you decide - the way I have it, I think it's almost an impossible appointment. I'd be glad to take anybody else out of your district.

S: Huhhuh.

H.M.Jr: We'll make no appointment until I hear from you anyway.

S: All right.

H.M.Jr: Thank you.

S: All right, thank you. You'll send it up?

H.M.Jr: I'll send it by messenger.

S: Thank you.