

DIARY

Book 249

March 22 - 31, 1940

- A -

Afghanistan
See War Conditions

Book Page

- B -

Business Conditions

Haas memorandum on situation for week ending		
March 23, 1940.....	249	29
Freight car requirements for second quarter of 1940:		
Association of American Railroads reports -		
3/26-27/40.....		71,195
a) Copy sent to FDR.....		100
Noble (Commerce Department) memorandum on economic		
developments - 3/28/40.....		127

- C -

Canada
See War Conditions
China
See War Conditions

- F -

Federal Housing Administration
See Housing
Finland
See War Conditions

- G -

Gold
See War Conditions: Afghanistan
Great Britain
See War Conditions: Great Britain; Purchasing Mission

- H -

Housing

Federal Housing Administration project in Fort Wayne,		
Indiana, and United States Housing Administration		
projects in Vincennes, Indiana, and Mt. Hope, West Virginia:		
Lindow (Division of Research and Statistics) memorandum -		
3/30/40.....		248

- J -

Japan
See War Conditions
Johnson, Hugh (General)
See War Conditions: Airplanes - Foreign Sales, Investigation of

- K -

Kidde and Company, Walter
See War Conditions: Closing Agreements

Book Page

- P -

Procurement Division

McReynolds' report to FDR on reduction in force -
3/26/40..... 249 83

- T -

Tax Research, Division of

Report on projects during March 1940..... 284

- U -

U.S.S.R.

See War Conditions

United States Housing Administration

See Housing

United States Savings Bonds

Circular embodying changes and circular making offering
sent to HMJr for signature - 3/26/40..... 177

United States Steel

Dividend declaration discussed by HMJr and Stettinius -
3/28/40..... 158

- W -

War Conditions

Afghanistan:

Arranges to acquire gold in United States - 3/27/40.. 130

Airplanes:

Collins and General Brett tell HMJr (at Sea Island,
Georgia) Army has over 500 P-40's on order; Army
will take first 200 and release balance to Allies
provided arrangements can be made with manufacturers
to give Army something better than P-40 - 3/23/40.. 9

a) Collins memorandum..... 11,13

New York Times article: "2000 Late Planes for Allies
Approved by Defense Board" - 3/23/40..... 18

Rolls Royce engine: HMJr (in Sea Island, Georgia) asks
Cochran to inform General Arnold that arrangements
have been completed - 3/25/40..... 42

a) Two released for shipment (Collins informs HMJr
at Sea Island) - 3/25/40..... 54-B, 58-H

Brett designated as contact man between President's
Liaison Board and War Department - 3/25/40..... 45, 54-B

Congressmen visit United Aircraft Corporation;
"excellent coordinating job by Treasury" 58-A

War Conditions (Continued)

Book Page

Airplanes (Continued):

"Government Policy on Aircraft Foreign Sales":

Plan presented by War Department to Watson
and thence to FDR who made memorandum
Government policy rather than War Department
policy - 3/26/40.....

249 55

Foreign Sales, Investigation of:

Hugh Johnson's article - 3/25/40.....

63

a) Louis Johnson tells Sullivan he himself
inspired this article.....

61

b) Louis Johnson tells Sullivan he has just
learned that Woodring sent General Marshall
to Hugh Johnson attempting to persuade him
to abandon present position in support of
program.....

61,118

Woodring testimony: Schwarz memorandum -

3/27/40.....

114

No further action anticipated by Collins -

3/28/40.....

159

Meeting with representatives of aviation industry:

Collins memorandum - 3/27/40.....

123

Meeting with engine manufacturers:

Collins memorandum - 3/29/40.....

206

Canada:

Agreement between Canadian Foreign Exchange Control
and United Kingdom Control regarding sale of
Canadian securities held by United Kingdom
residents - 3/26/40.....

92,95

China:

Yunnan-Burma Railway: Proposed highway to connect
with reported on by American Consul, Rangoon -

3/30/40.....

295

Dissolution of "Provisional Government" and "United
Council" together with inauguration of "North China
Political Affairs Commission" reported by Lockhart
from Peiping - 3/31/40.....

302

Closing Agreements:

Kidde and Company, Walter: Progress report -

3/22/40.....

7,229

Exchange market resume' - 3/22/40, et cetera.....

5,16,40,97,
180,190,221,246

Finland:

Reconstruction:

Procopie tells HMMr, Bell, and Cochran of his
surprise at receiving Ryti cablegram showing
knowledge of extensive plans only one day after
conversation with FDR - 3/22/40.....

1,64,131

a) Riefler knew of plan because of Princeton's
wish to bring Ryti over for one year to be
associated with study group

b) Cochran reiterates belief in sanctity of
Stabilization Fund

Questions raised at Treasury meeting reported to HMMr
(at Sea Island, Georgia) - 3/28/40.....

170

War Conditions (Continued)	Book	Page
Great Britain:		
Dollar Sterling Rate: Significance of fall discussed in message from Chancellor of Exchequer to Secretary of Treasury - 3/30/40.....	249	230
Japan:		
Towson, Norman (staff member, Washington Loan and Trust Company, now on full duty with general staff), confers with Cochran concerning financial strength of Japan - 3/22/40.....		3
Purchasing Mission:		
Rist and Cochran confer on reaction to sentiment in United States - 3/25/40.....		18
a) Reynaud-Daladier feud discussed		
Great Britain: Sales of British-owned dollar securities under vesting order - 3/26/40.....		89
Strategic Materials:		
Oil: Iranian sales to Japan of some 120,000 tons of crude oil discussed by B. R. Jackson in letter to British Embassy - 3/28/40.....		187
Toluol: Collins discusses with State Department - 3/28/40.....		160
U.S.S.R.:		
Shipments to - 3/26/40.....		67

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 5 o'clock yesterday evening the Secretary received Minister Procope of Finland, with Under Secretary Bell and myself present. Minister Procope opened the conversation by expressing his surprise that on just the day following the Minister's recent conversation at dinner with the Secretary of the Treasury in regard to further American financial help for reconstruction of Finland, the Minister received a cablegram from Prime Minister Ryti, setting forth the latter's understanding that President Roosevelt was interested in doing something big for Finland along this line, possibly involving a loan for \$100,000,000. Procope stated that the cablegram was in Finnish, but from notes before him he listed some of the needs for funds, such as rebuilding cities, factories, etc. The Minister insisted that he had not communicated anything to Ryti after his conversation with the Secretary of the Treasury.

The Secretary stated that he had only at 2:30 yesterday afternoon mentioned the matter to the President for the first time, and had immediately called Procope to come down for a talk. He thought no one else outside of Treasury officials knew of the Secretary's plan, except Professor Riefler of Princeton. The Secretary explained that Professor Riefler had come to Washington a few days ago and had spoken to the Secretary in regard to the desire of the Princeton group, to which Riefler belongs, to invite Ryti to come to Princeton, on salary, for a year, in which time he might recuperate from the strain of the past few months, and at the same time discuss international financial and banking questions with the study group at Princeton. I confirmed that Riefler had brought up this subject with me, and that I had stopped the conversation, telling Riefler that this was a matter which he should speak of directly with the Secretary. I had at once made an appointment with the Secretary and had not given Riefler one bit of information on the subject prior to the Secretary's receiving him the next day.

The Secretary then went on to explain that he had submitted his idea to the President when he called upon him, ill in bed, yesterday afternoon, and had left with the President a written note on the subject. In answer to Procope's inquiry, the Secretary stated that the idea, which the President had immediately favored, envisaged a reconstruction loan by Congress to Finland and a gold loan, with Congressional approval, from the Stabilization Fund. It was the Secretary's idea that a Finnish commission headed by Foreign Minister Tanner should come to this country as early as possible to discuss the matter. The Secretary stated that he preferred Tanner to any other emissary, although he knew that I inclined toward Ryti. The Secretary thought that Tanner was particularly well qualified to make a favorable impression in this country because of his success in developing consumers' cooperatives in Finland. Procope agreed with the Secretary.

In answer to the Minister's inquiry as to whether any assurances could be given that something would be done for Finland if a mission arrived, the Secretary stated that he had passed his own idea on to the President and that he felt sure the President would not go further with the plan unless he felt confident that assistance could actually be extended. It was explained to Procope that the next move was up to the President. Procope was not to mention this matter to the State Department. It was presumed that, if the President desires action, he will either call in Procope or ask the State Department to communicate with Finland, either through Procope or Schoenfeld. When Procope mentioned his desire to obtain the free use of the \$20,000,000 new credit from the Export-Import Bank, the Secretary said this was a matter between Procope and Jones. When Procope brought up the subject of floating a Finnish bond issue in the United States, the Secretary said this was now "out".

After the Minister left the room, the Secretary told me to find out from Riefler whether he had communicated any information to Ryti in regard to the Secretary's plan. I told the Secretary that I was absolutely convinced that Riefler had not done this. After Riefler had talked with the Secretary the other day on this subject, he had come in to my room and had said that he fully understood why I had not permitted him to go further on the subject of a visit by Ryti. In the circumstances, he said that his group would do absolutely nothing toward extending an invitation to Ryti. The first time I see or have occasion to talk with Riefler I shall mention this matter, but I hesitate to bring it up in any way that he might interpret as a reflection upon his observation of Treasury confidences.

Before Procope was received by the Secretary, the latter remarked to Mr. Bell and myself that the Finnish Minister had not been very enthusiastic for this plan when the Secretary had presented it to him at dinner. From the conversation with Procope, with whom I have not had one word to say about this subject either before or after the interview with the Secretary, I gained the very definite impression that the Minister is not anxious for a Finnish delegation to come to this country. If there is chance for a successful credit arrangement, Procope would like to carry it through himself and get the credit. If a mission did come to this country and failed, Procope realizes that he would be blamed for making the arrangement.

I was amused at Procope's remark to me as he shook hands upon leaving the room, that is, to the effect that he did not suspect me of communicating the plan to Ryti. If Procope had known all of my objections to the plan, as set forth in my confidential memorandum to the Secretary dated March 14, he certainly should have had even less suspicion that I would be encouraging my friend Ryti to hazard a visit to this country on this proposition.

In view of the Secretary's forceful statement to the press yesterday in regard to the sanctity of the Stabilization Fund, I am more convinced than ever that it should not be used for any purpose other than monetary stabilization and that we should not adopt any new plan even toward this end with respect to any single country, such as Finland, until we may have worked out a careful pattern which could be followed in our relations with other and more important countries.



STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 10:30 this morning I received Lieutenant Norman Towson, O.R.C., presenting the attached letter of introduction from Brigadier General Strong, Assistant Chief of Staff in the War Plans Division of the War Department, who telephoned me some days ago requesting an appointment for Lieutenant Towson. The latter is a reserve officer on the staff of the Washington Loan and Trust Company, who is assigned on full duty with the General Staff to study economic and financial conditions in the Far East.

Lieutenant Towson is principally interested in determining the financial strength of Japan, such information being desired in the event that war should develop between that country and the United States. We discussed the question of Japanese gold reserves and production. The officer was quite familiar with the Treasury Bulletin, the Federal Reserve Bulletin, publications of the Commerce Department and also with diplomatic and consular reports, since these come to him directly from the Department of State. I gave the Lieutenant some idea in regard to Japanese balances with Japanese branch banks in New York and certain information, confirmed by telephone with Knoke, in regard to financing American exports to Japan. Incidentally, Lieutenant Towson let me know that he had heard that the Japanese Government is holding \$50,000,000 of United States Government bonds with the Chase Bank.

Lieutenant Towson asked my opinion as to the wisdom of setting up an inter-governmental committee to discuss the financial resources of active or potential belligerents. I told him that such a matter could only be decided by the Secretary of the Treasury. I stressed the willingness of our Department to cooperate fully with other Departments, but mentioned that the principal reporting from abroad was done by officers outside of the Treasury, whose reports the General Staff is already receiving. I added, however, that if the General Staff desired to consult with us at any time on any particular question we should be happy to be of service.



4

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
WAR PLANS DIVISION
WASHINGTON, D. C.

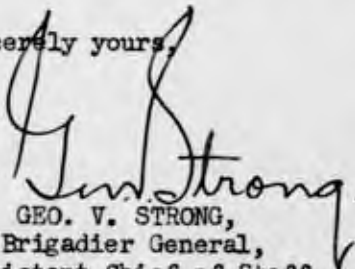
March 20, 1940.

Mr. H. Merle Cochran,
Technical Assistant to the
Secretary of the Treasury,
Washington, D. C.

My dear Mr. Cochran:

Reference our telephone conversation this morning, the bearer of this letter, Lieut. Norman Towson, O.R.C., is charged with making certain studies in connection with the revision of current War Plans dealing with the western Pacific. The War Department would very greatly appreciate your furnishing him with certain information necessary to the War Department at this time. Needless to state that this information and its use is and will be held in the secret category.

Very sincerely yours,


GEO. V. STRONG,
Brigadier General,
Assistant Chief of Staff.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Since there was a holiday in the leading markets abroad today, the New York foreign exchange session was exceedingly dull. The opening rate for sterling was 3.72-1/2. It moved within a narrow range all day and closed at 3.72-1/2.

Sales of spot sterling by the six reporting banks totaled £83,000, from the following sources:

By commercial concerns.....	£ 33,000
By foreign banks (Far East).....	£ 50,000
Total.....	£ 83,000

Purchases of spot sterling amounted to £128,000, as indicated below:

By commercial concerns.....	£ 103,000
By foreign banks (Far East).....	£ 25,000
Total.....	£ 128,000

The Guaranty Trust Company reported that it had purchased £5,000 at 4.03-1/2 from the British Control for three-months delivery. We understand that this purchase was made at the rate of 4.03-1/2 because the British Control does not allow any discount for forward sterling. The Guaranty stated that this sterling was purchased for one of its customers who intended to use it to pay for a shipment of jute. This is the first purchase of sterling from the British Control reported to us since the new regulations were announced on March 9, which require that payment for specific exports be made in certain foreign currencies or in official sterling.

The other important currencies closed as follows:

French francs	.0211
Guilders	.5310
Swiss francs	.2242-1/2
Belgas	.1703
Canadian dollars	18-11/16% discount

There were no gold transactions consummated by us today.

CONFIDENTIAL

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

\$ 4,066,000 from England, shipped by the Bank of England to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of England.
2,249,000 from England, shipped by the Bank of England to the Federal Reserve Bank of New York for account of the Swiss National Bank. The disposition of this shipment is unknown at the present time.
68,000 from Ceylon, shipped by the Eastern Bank, Ltd., Colombo, for its own account to the Guaranty Trust Company, New York, for sale to the U. S. Assay Office.
\$ 6,383,000 Total

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

\$ 2,561,000 from Japan, shipped by the Yokohama Specie Bank, Osaka, to the Yokohama Specie Bank, San Francisco, for sale to the U. S. Mint.
168,000 from Switzerland, shipped by the Banque Federale, Bern, for its own account to the National City Bank, New York, for sale to the U. S. Assay Office.
\$ 2,729,000 Total

Since there was a holiday in both Bombay and London, the silver markets were closed in those cities.

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

We made eight purchases of silver totaling 739,000 ounces under the Silver Purchase Act. Of this amount, 250,000 ounces represented a sale from inventory and 50,000 ounces were trading silver. The remaining 439,000 ounces consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL



TREASURY DEPARTMENT

WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

March 22, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Walter Kidde and Company:

On March 16, 1940, a duly reported conference was held with representatives of the Navy Department in regard to an additional certification by the Navy.

On March 18, 1940, unreported conferences of Bureau personnel were held in the forenoon and again in the afternoon.

On March 19, 1940, duly reported conferences with representatives of the contractor were held in the forenoon and the afternoon.

On March 20 and 21, 1940, conversations were held over long distance telephone with Mr. Freygang, Vice President of contractor.

Nothing further has been heard from the Navy Department in regard to an additional certification.

A letter has been drafted for the signature of the Secretary of the Treasury and is under review, requesting the Secretary of the Navy to forward an additional certification.

Mr. Freygang has gone to Florida for a short vacation. He is expected to contact the Bureau on his return on April 1, 1940.

Bridgeport Brass Company:

The contractor advises, by letter, that it failed to secure this contract and is, therefore, no longer interested in a closing agreement.


Commissioner.

IT:P:CA
CAA

March 22, 1940.

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Bridgeport Brass Company:

The contractor advises, by letter, that it failed to secure this contract and is, therefore, no longer interested in a closing agreement.

(Signed) Guy T. HAWKINS

Commissioner.

CAA/MEA



THE CLOISTER
SEA ISLAND, GEORGIA

March 23, 1940

Spoke on telephone to Capt. Collins
who said he had General Brett in
his office with him. ^{I also spoke to Brett}
Collins told me ~~Brett was~~ ^{they were} ready to
go ahead and talk to the manf.
along following lines. Namely army
had ^{for hundred} over P. 40 on order. Army would
take first 200 and release balance
to Allies provided army could
arrange with manf. to give army
something better than P. 40.

Army is ready to do this with
all of their plane contracts.

Asked if Woodring had approved
and they said yes.

I said if this arrangement were
to go thru, it would be on

a better basis than the allie
could have hoped for.

Brett pointed out that allie
would get planes this way
4 or 5 months quicker.

Collins asked me if he had
my permission to co-operate
with Brett and see the many
I gave him my approval, ^{to sound out many} ~~how~~

I told him to ^{see} General Watson
Monday P.M. at ten and

bring him up to date so that
he could ^{to make sure that the Pres. approved} pass it on to the Pres.

I told Collins I had spoken this
morning to Watson and asked
him to see Collins and he had
agreed to see him.

I told Collins to ^{keep} me posted
by mail so that I would ~~not~~
just what progress he was
making each day.

(This certainly looks like progress was
being made.)

V.M.P.

Mrs Klotz

Confidential

10



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 23, 1940

Honorable Henry Morgenthau, Jr.

The Secretary of the Treasury

My dear Mr. Secretary:

There is attached hereto copy of a memorandum prepared by General Arnold and which General Brett informed me has been approved by the Secretary of War which embodies the elements of the principle discussed with you by phone this morning concerning conditions under which releases requested may be granted. The principles appear thoroughly logical and sound. The reimbursement feature for research and development expense appears in the last paragraph of the memorandum. Upon my insistence General Brett agreed to discuss these principles with the Navy to obtain their concurrence therewith. Obviously, a unanimous agreement between the Army and Navy is essential, and until such an agreement is reached I shall take no action looking toward a meeting with the industry.

I feel that in addition to the manufacturers of those types in which Mr. Purvis expressed an interest in your office Tuesday afternoon, namely, Bell, Curtiss, Lockheed and Douglas, we should have at the proposed meeting with the manufacturers representatives of all of them having any model presently restricted in which the British and French might become interested and give each of them an opportunity to learn the policy and proposed conditions under which restricted items might be released for export. This thought is shared by General Brett.

Pending the outcome of General Brett's conference with the Navy no definite date for the meetings with representatives of the aviation industry can be determined, but it is hoped that this situation will be sufficiently clarified on Monday to permit of bringing the aircraft people to Washington on Tuesday or Wednesday. It is proposed at present to have three separate meetings; one with the aircraft manufacturers, one with the engine manufacturers, and one with the accessory manufacturers who are interested in the production of what are presently restricted items.

I shall see General Watson Monday and give him a memorandum outlining briefly the foregoing plan. Please rest assured that the Treasury Department will not get maneuvered into any position which will relieve the Army or the Navy of any of their responsibilities.

With kindest personal regards,

Sincerely yours,

March 23, 1940.

MEMORANDUM FOR - The Secretary, Clearance Committee,
Army and Navy Munitions Board

SUBJECT - Request of Anglo-French Purchasing Board for release of
certain engines and airplanes.

1. In reply to your memorandum of March 16, a careful study has been made of the attached memorandum submitted by the Anglo-French Purchasing Board. Included therein are:

- a. Items previously disapproved because of secrecy.
- b. Items not proven through actual test but still in the development stage, and
- c. Items which are the latest development of the United States Government.

2. It is recommended that the War Department reply to request include:

- a. Each item must be handled as a separate problem in itself.
- b. Through contractual arrangements and by a guarantee that the acceptance of foreign orders by American industry will not interfere with present contracts now existing between the United States Government and the industry.
- c. Assurance must be given or arranged for which will guarantee development within a reasonable time and which will give to the United States Government improved performance characteristics over that equipment being released.
- d. The Purchasing Commission, through proper governmental channels and with suitable Air Corps representation, conduct negotiations with the contractors prior to any release, during which conference the contractor will indicate his willingness, by negotiation and at no further expense, to carry out the desires of the United States Government as regards present contracts and a given program for research and development.

Incl:
Copy Memo. to C.A.C.fr.
Sec'y Clearance Committee,
A/N Munitions Bd., 3-16-40 w.2 Incls.

H. H. Arnold,
Major General, Air Corps,
Chief of the Air Corps.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

March 23, 1940

MEMORANDUM FOR THE SECRETARY

Meeting was held this morning at which were present General Brett, Assistant Chief, Army Air Corps, Major Lyons of the Army Air Corps, and the Director of Procurement.

General Brett stated that the Air Corps was desirous of doing everything that it logically could to assist the Allies in procuring up to date planes. He read from a memorandum, copy of which is attached hereto, a proposed policy which he stated he understood had been approved by Secretary Woodring.

During the meeting the Secretary called from Sea Island. I informed him in general terms of the policy contained in General Brett's memorandum. At his request General Brett was put on the phone and discussed with him, item by item, the policy as laid down in memorandum attached. I returned to the phone and after further discussion of the proposed policy the Secretary stated he thought it was all right.

After talking with the Secretary the discussion in the office was continued, and inasmuch as the memorandum attached was prepared entirely in the War Department, I suggested to General Brett the advisability of having the concurrence of the Navy in this policy before any further action was taken. I advised the Secretary of Army's desire that meetings with airplane, engine and accessory manufacturers be called by me. To this he agreed.

It had originally been proposed to have all manufacturers in Washington on Monday. Pending concurrence of the Navy in the principles laid down in the memorandum, no meetings will be called until such concurrence is obtained. It will probably be Wednesday before any of them can be undertaken. It was decided that the plane manufacturers would be called in first, engine manufacturers second, and equipment accessory manufacturers third.

The Secretary instructed me to keep General Watson posted on any developments in connection with the airplane deal. Memorandum prepared for him will be delivered on Monday.

Chairman, President's Liaison Committee

March 23, 1940.

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Army and Navy Munitions Board

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- b. Through contractual arrangements and by a guarantee that the acceptance of foreign orders by American industry will not interfere with present contracts now existing between the United States Government and the industry.
- c. Assurance must be given or arranged for which will guarantee development within a reasonable time and which will give to the United States Government improved performance characteristics over that equipment being released.
- d. The Purchasing Commission, through proper governmental channels and with suitable Air Corps representation, conduct negotiations with the contractors prior to any release, during which conference the contractor will indicate his willingness, by negotiation and at no further expense, to carry out the desires of the United States Government as regards present contracts and a given program for research and development.

Incl:
Copy Memo. to C.A.C.fr.
Sec'y Clearance Committee,
A/N Munitions Bd., 3-16-40 w.2 Incls.

H. H. Arnold,
Major General, Air Corps,
Chief of the Air Corps.

March 25, 1940

MEMORANDUM FOR GENERAL WATSON

Saturday I had a conference with General Brett, Assistant Chief of the Army Air Corps, concerning the conditions under which restricted airplanes and equipment might be released for export to foreign governments.

Briefly, the Army feels that any release should be made contingent upon arrangements with the contractors that such a release will not interfere with present contracts existing between the United States Government and industry; that assurance must be given that development within a reasonable time will be made to give the United States Government improved performance characteristics over the equipment being released; and that expenses incident to research and development will be shared by foreign purchasers.

General Brett plans to discuss with representatives of the Bureau of Aeronautics of the Navy the foregoing principles, and if the Navy concurs with this plan it is proposed to have meetings with the aviation industry as soon as possible during the present week in order that the plan may be explained to them and their reactions thereto had.

16
TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Business in the foreign exchange market was again very small as a result of the weekend holiday abroad. Sterling opened at 3.72-3/4 and eased to 3.71 in a very thin market. After returning to 3.71-3/8, it moved off to close at 3.71.

Sales of spot sterling by the six reporting banks totaled £170,000, from the following sources:

By commercial concerns.....	£ 102,000
By foreign banks (Europe).....	£ 68,000
Total.....	£ 170,000

Purchases of spot sterling amounted to £40,000, as indicated below:

By commercial concerns.....	£ 15,000
By foreign banks (Far East).....	£ 25,000
Total.....	£ 40,000

The following reporting banks sold cotton bills totaling £24,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 13,000 by the National City Bank
8,000 by the Guaranty Trust Co.
3,000 by the Irving Trust Co.
£ 24,000 Total

The Guaranty Trust Company reported the purchase of £5,000 at 4.03-1/2 from the British Control. As was the case yesterday, this sterling was bought for one of Guaranty's customers, to be used, at some future date, to pay for a shipment of jute.

The other important currencies closed as follows:

French francs	.0210-1/4
Guilders	.5310-1/2
Swiss francs	.2242-1/2
Belgas	.1703
Canadian dollars	18-11/16% discount

There were no gold transactions consummated by us today.

CONFIDENTIAL

- 2 -

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

\$3,145,000 from Canada, shipped by the Bank of Canada for its own account to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.
2,140,000 from Japan, shipped by the Yokohama Specie Bank, Osaka, to the Yokohama Specie Bank, San Francisco, for sale to the U. S. Mint.
\$5,285,000 Total

No quotation for silver was received from Bombay since there was a holiday in that center.

In a report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on March 20, such deposits totaled \$41,184,000, an increase of \$21,000 since the last report as of March 13. Of this amount, \$27,416,000 represented deposits with the Yokohama Specie Bank by its branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was \$79,279,000, an increase of \$262,000 since March 13.



CONFIDENTIAL

SUNDAY, MARCH 24, 1940.

New York Times

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NEW YORK, SATURDAY, MARCH 23, 1940.

2,000 Late Planes for the Allies Are Approved by Defense Board

Roosevelt and Morgenthau Agree to the Plan
Outlined at Conference—Value of Tests
Abroad and Plant Expansion Stressed

By FRANK L. KLUCKHOHN

Special to This New York Times

WASHINGTON, March 22—Plans were nearing completion today to make available to Great Britain and France about 2,000 of the latest type of planes ordered by the United States Army, officials said tonight.

After staff conferences at the War Department, following earlier discussions by President Roosevelt, Secretary Morgenthau and army officials, it was reported that a decision in principle had been reached that nearly \$1,000,000,000 in additional Allied plane buying would so increase United States production capacity that large plane reserves no longer would be essential.

Of nearly 5,500 planes which Congress authorized for construction by July 1, about 2,000 were intended for use as reserves. With increased production making rapid building possible, the need for these reserve planes is said to have lessened. It was decided, therefore, that many planes ordered by the army, on which it has priority, could be made available for sale to the Allies.

Some of these planes, including apparently the latest dive-bombers and high-speed pursuit craft, soon will be offered to Britain and France, defense officials said. They said that exact details had not been settled but that a stagger system might be evolved.

As President Roosevelt stated in his press conference on Tuesday, the P-40, on which the army is only beginning to get production, will be made available to the Allies and other foreign buyers. Some discussion apparently has developed whether equipment such as special superchargers should not be included on all late types for foreign sale.

When the program of expanding the air force was started in 1938 army experts, who had followed developments in Spain and China, estimated that 2,000 reserve planes would be necessary to maintain a first-line fighting force of 3,500 planes. The program authorized by Congress therefore contemplated about 5,500 planes, including reserves.

With United States aircraft and aircraft engine production tripled last year, according to the President, because of foreign buying, the need for reserve planes has been greatly reduced, it was said. Moreover, they stated, with latest planes becoming obsolete in an average of six months, they would prefer not to load up on reserve planes.

It would be better, they argued, to have planes tested under wartime conditions and improved as a result of those tests. As long as secrets are not disclosed, these officials asserted, Congress scarcely can object as long as the deadline of July 1, 1941, is met on procurement.

The French paid a premium of \$3,500 an airplane motor in order to finance expansion of two airplane engine plants. The British are understood to be willing to do the same, but only if they can get planes promptly and of a type capable of meeting the latest fast German Messerschmitt 110 and 111.

President Roosevelt has made clear his desire to aid the Allies by all means short of war.

Latest production figures received here indicate that Germany is still outbuilding Britain and France combined with regard to planes.

PLANES FOR ALLIES NOW SEEM ASSURED

Washington Agreement Opens
Way for Belligerent Buying
of Latest Army Types

SOME PROBLEMS REMAIN

By FRANK L. KLUCKHOHN

WASHINGTON, March 23—The hopes of Great Britain and France for building up and maintaining a fleet capable of defeating the German air force chiefly depend upon the ability of the Allies to obtain a large number of planes in the United States quickly. These hopes received new impetus this week when President Roosevelt indicated that later types of American planes would be made available to belligerents and official plans for making 2,000 planes ordered by the American Army available for sale to Britain and France seemed complete.

After army staff conferences, following meetings of ranking officials with President Roosevelt, a decision in principle was reached on Friday, officials said, to let the Allies buy from private manufacturers a number of the latest planes ordered by the American Army. Increased airplane plant production in the past year was held to have made less imperative the need for the 2,000 reserve planes included in the army's program of buying 5,500 planes by July 1, 1941.

As aerial warfare between Great Britain and Germany assumed greater proportions during the past weeks, latest production reports here, while differing as to degree, indicate that Germany still is producing planes at a considerably faster rate than England and France combined.

Difficulties in Way

Before the President spoke, British plans for large-scale plane buying were delayed by a squabble between certain groups in the War Department who wanted to withhold later types from export sale, and Secretary Morgenthau, who, as coordinator of foreign buying, favored sale of up-to-the-minute planes. Isolationists at the Capitol also threw a spoke in the wheels.

The Allies started to purchase American planes in quantity long before the European war started and 1,280 military planes valued at \$65,552,383 were exported in 1939, the great proportion going to Britain and France or their dominions and colonies. In addition, 1,825 airplane engines valued at \$11,306,611 were exported on a similar basis.

As of Jan. 1, foreign orders had been placed for 6,000 more military planes and 15,000 engines. Of these about 40 per cent were expected to go to France, and about 20 per cent to the British Empire. Since then, relatively large new orders have

A BRITISH VIEW OF CASH-AND-CARRY



"Now Adolf! Even if you had the cash you couldn't carry."

been placed by the British for Douglas and Lockheed planes.

Included in these figures are about six thousand airplane motors which France ordered as soon as the war started, principally from two major producing companies. The French paid a premium of \$3,500 a motor for each of these engines in order to provide for expansion at the Pratt-Whitney and Curtiss-Wright plants. When it is considered that the larger airplane engines cost \$12,000 to \$15,000 the size of the premium the French paid in order to overcome engine "bottleneck" in plane production may be appreciated.

January Plane Exports

In January 227 planes valued at \$17,600,461 were exported, mostly for the Allies, in addition to 343 motors valued at \$3,394,161.

The two chief problems in connection with additional Allied buying to meet the competition provided by Germany's estimated plane production capacity of 3,000 monthly have been interrelated.

One was whether from a national viewpoint it was advisable for the United States to release what for

practical purposes, since experimental planes were not in production, were its latest military models. The second was whether a certain number of planes being produced for the army should be sold to the Allies.

President Roosevelt denies that such military secrets as instruments, guns, superchargers and bomb-sights would be turned over to the Allies and other foreign buyers with the planes. It is persistently rumored, nevertheless, that some elements in the Administration argue on political grounds that in order to enable the Allies to win, such implements should be made available for export.

Officials say that increased production makes the need for reserve planes less urgent. That being true, why not slow up the rate of airplane deliveries to the army for the time being, letting the Allies obtain and pay for some of the planes ordered? After these planes are tested by the Allies under war conditions, improved models can be manufactured for our army rapidly to get under the 1941 deadline. This plan, officials say, has the advantage of giving all aid short of war to Britain and France and, coincidentally, improving our own standards of production.

Morgenthau Ruling

Secretary Morgenthau has ruled, in effect, that for the present money advanced by the Allies to industrialists for expansion of productive facilities in this country would be considered as a contribution and, therefore, not immediately taxable. Army circles claim that this ruling does not guarantee against taxes later and places plane manufacturers in a position where they may have to pay taxes on properties after they are no longer producing. This, it is claimed, tends to raise plane prices for the Allies and to play a part in British delay in placing new plane orders.

To all odds down to this, apparently. The Allies need great numbers of planes from the United States and, according to every present indication, they will get them.

PURCHASING PLANES



From Trade News.

J. F. Bloch-Laine, French member of the Allied buying mission.

Regraded Unclassified

STRICTLY CONFIDENTIAL

19

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At the insistent invitation of Professor Charles Rist, I dined alone with him in his apartment at the Mayflower Hotel Saturday night, March 23. Professor Rist had spent the first part of the week in New York where he had talked at length with Mr. Purvis, and had been in touch with the State Department since his return. He plans to go to New York again this week and later visit Ottawa.

Professor Rist said that the discussions which he and his British colleague had been carrying on with the State Department had developed to such a point that a State Department communiqué reporting results would be drafted this week, probably on Tuesday. It is not yet certain when the communiqué will be released. Rist thought that it might be desirable for it to appear almost immediately, with the idea that it might help toward the extension of the American legislation for reciprocal trade agreements. He said the State Department was apparently in no such haste, but hoped that the communiqué could be gotten out when the two experts actually quit Washington for New York and Europe. (They may remain in New York a few days before sailing, so the date of departure from Washington would probably be the date for the communiqué to be made public.) Professor Rist said they had made progress on most of the points which had been raised. He hopes that most shipping difficulties can be overcome by the establishing of an Allied Control Base on this side of the Atlantic, at Halifax or some other Canadian port yet to be determined. He said that the British were expecting to make some concession toward purchasing American tobacco. In regard to interception of American mails for Germany, Rist stated that while the Allied policy was against our treaties and against law, they could not give up this practice and would not yield to our protests. He insisted that this checking of mail to Germany was most useful to the Allies, yielding actual funds, industrial diamonds and other valuables, as well as information. If the Allies are not willing to change this last policy, I can understand hesitancy on the part of the State Department to release the communiqué, since both Congress and the public have been perhaps more perturbed over the interference with our mail than with any other acts of the Allies.

Professor Rist emphasized, as had Mr. Purvis in one of his conversations with the Secretary, the fact that our neutrality legislation saves us from direct contact with Germany, so that all of the complaints which we have as a result of the war come from Allied action, and give rise to ill will on our part toward the Allies.

The Professor has obviously been surprised and disappointed by certain sentiment which he has found in this country. He stated that for months before the outbreak of hostilities, the United States through its highest officials

- 2 -

at home and abroad, as well as through the Press, had been encouraging the western democracies to do away with Hitler and everything the dictators stand for. Now that the Allies have entered a war toward this end, no assistance from the United States is forthcoming, and sharp criticism arises when any Allied acts inconvenience our country. Rist stated that we apparently were determined to stay out of the war, even though the sympathies of ninety percent of our people might be with the Allies, and that with this determination having been established, we arrange all our plans accordingly and interpret everything toward that end.

In answer to my question as to whether the visit of Mr. Welles to Europe had any effect upon the Daladier Government, Professor Rist replied in the negative. He stated that there was an element in France which hoped for peace and was quick to seize Mr. Welles' visit as holding out some chance for the United States achieving a peace plan in Europe. To this extent his visit might conceivably embarrass the French Government, determined on pursuing the war. Rist denied, however, that Mr. Welles' visit had contributed to Daladier's fall as Premier. Rist explained quite frankly that there had been a growing jealousy between Reynaud and Daladier for some time. Daladier had been annoyed at some of Reynaud's recent speeches in which Daladier thought Reynaud was speaking more in the fashion of a Prime Minister of France than in his role of Minister of Finance. On the other hand, Reynaud has remarked about Daladier being Prime Minister several times while under sixty years of age and that most of the other Prime Ministers of France have reached this post before sixty. Reynaud now being sixty-one or sixty-two just could not wait any longer to achieve his great ambition to head the Government. Rist stated that before he left Europe the feeling between the two men had become so strong that the top man in the Foreign Office, which Daladier actually headed, asked Rist to intervene with Reynaud toward establishing better relations.

Rist thinks the Reynaud Government may survive for some time. If it should fall, he expects Daladier to return as Premier. So long as the Reynaud Government holds on, he is convinced that Daladier will continue as War Minister therein. Rist does not look for any drastic change in war plans on the part of France. Just as he belittled the idea of Welles' visit causing Daladier's downfall, so did he deny that the Finnish catastrophe had been responsible therefor. The cause of Daladier's fall was, therefore, one of internal politics, rather than international policy or military tactics.

Professor Rist told me that Assistant Secretary Grady of the Department of State had let him know that he, Grady, was the Chairman of a committee which dealt with moral embargo questions. Rist consequently intends to talk with Grady in regard to his problems. He stated that he did not desire to bother Secretary Morgenthau with these detailed matters. Rist still showed some of the disappointment which he displayed in my office after his meeting with the Secretary when the two Ambassadors presented the two Allied experts. He had undoubtedly come to this country with the conviction that all he had to do was to make known his requests to the Secretary of the Treasury, and the necessary would be done. I emphasized to Professor Rist the extent to which Secretary Morgenthau has been of real assistance to Purvis and his willingness to continue along the

the lines where genuine service can be accomplished. I told Rist that Purvis should continue to have contact with the Treasury Department, and should not take up matters directly with the State Department, even though Rist may discuss strategic materials with Grady during his present visit. I added that Rist should report to Purvis any such conversations, so that Purvis will have the complete picture. Rist thought that the United States might render much greater help through a policy of buying up strategic materials. He mentioned copper particularly. I told him that there would seem to be no possibility of our considering copper a material of which we might be short, in view of our tremendous copper resources and production capacity. When he goes to Ottawa later, Professor Rist will discuss nickel exports. He seemed anxious that we be convinced that Canada is now doing the necessary toward keeping nickel from Germany and Russia. I asked that Purvis pass on to Secretary Morgenthau anything new on nickel, since this subject was of special interest to the Secretary.

Professor Rist more than once expressed his annoyance that in spite of the big increase of French imports from the United States, Government officials in this country expect France to go ahead and purchase all of the commodities from America which she obtained here before her program of war purchases started. He emphasized the difficulty for the Allies of obtaining necessities alone on this market in the face of our closing credit facilities to them. He contrasted the present situation with that which obtained during the World War. While he said he did not want to take the occasion to "propagandize" me, Rist stated that before the war is over the United States in its own interest would come to giving financial assistance to the Allies. I made no response, except to admit that I realized that the war was being carried on at an appalling cost, even in its present state.

After the war, Rist expects the franc to be devalued to such an extent that France will not be able to purchase much on the American market, but should attract tourists and capital to that country. He hopes for a return to an international gold standard, and believes that the United States will have to assume the predominate role in effecting this return, through granting loans in dollars and gold at a very low rate of interest. He ridiculed the idea of gold loans during hostilities. Rist still seems to favor a gold standard handled through central banks rather than through stabilization funds.

Rist thought that economic and financial arrangements between France and Great Britain were working smoothly. He deprecated the possibility of England dumping manufactured goods abroad through a depreciation of sterling. With English labor so tied up in armament industries and with the high cost of imported materials, freight and insurance, he saw little likelihood of Great Britain expanding her exports. He was surprised at American anxiety over this, and over the post-war threat of an Anglo-French cooperation which would be to the detriment of American trade and economy. Rist could not refrain from some rather caustic remarks about Governor Montagu Norman of the Bank of England, who is his pet aversion. He blamed Norman for the Anglo-American war debt settlement on impossible terms, which obliged France likewise to agree to an impossible arrangement, paving the way for the defaults which now have closed our capital market to the Allies in this time of great need.

B. M. F.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 25, 1940

TO Secretary Morgenthau
FROM Mr. Haag *HA*
Subject: Railroad freight movement for export.

Export freight receipts slightly higher

Receipts of freight for export at North Atlantic ports increased slightly during the third week of March. (See Chart 1 and table, attached). Receipts for export at New York remained about unchanged, while those at 9 other North Atlantic ports increased further to a new high for recent months.

Lighterage freight in storage down slightly

The volume of lighterage freight (largely for export) in storage and on hand for unloading in New York Harbor declined slightly further during the week ended March 16. (See Chart 2). While this marks the third successive weekly decline, the total has been reduced only moderately from the peak reached in February.

The volume of freight actually exported from New York has declined for the second successive week, but the average for the three weeks of March remains somewhat above the February average. (See Chart 3).

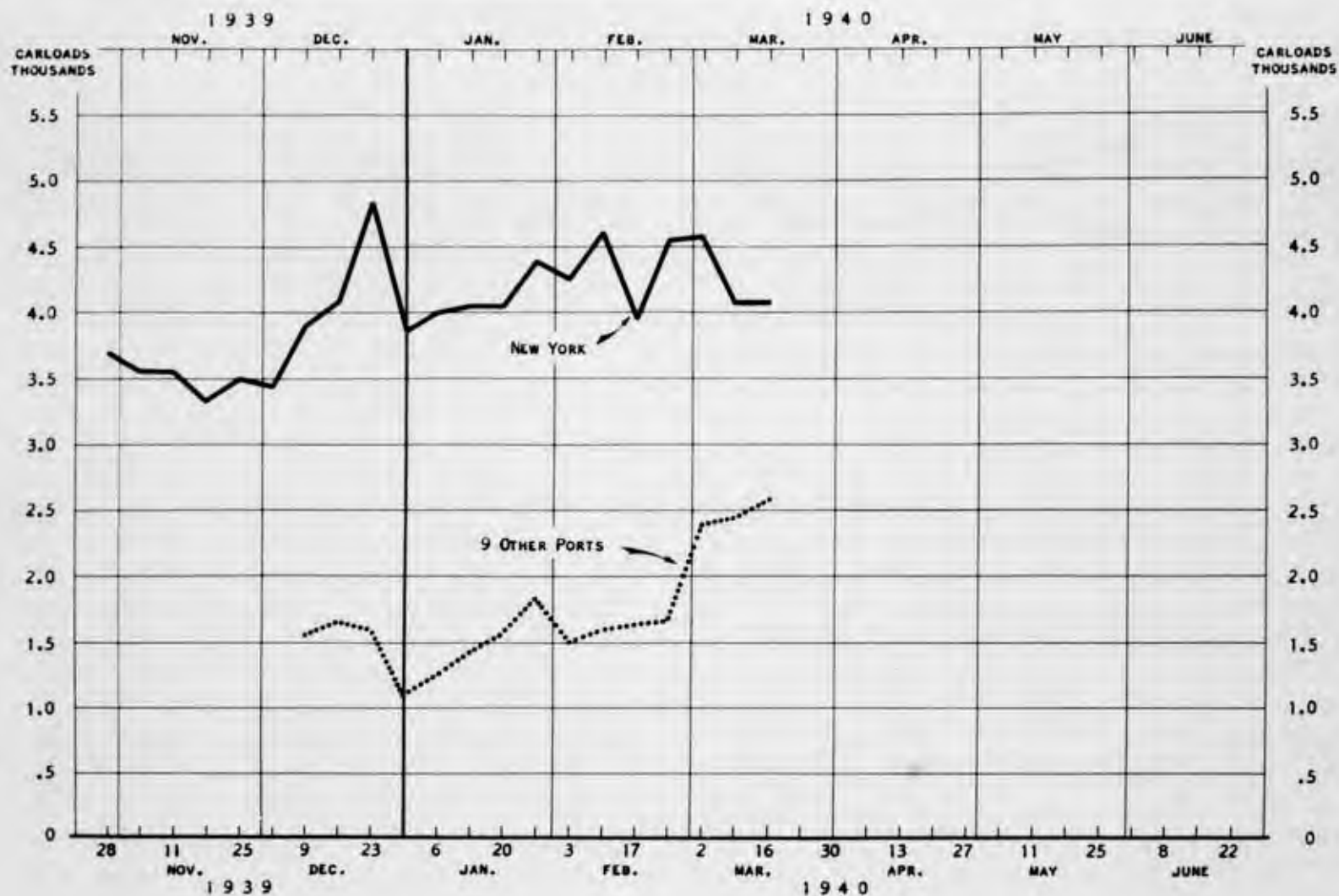
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT NINE OTHER NORTH ATLANTIC PORTS

Week ended 1939-40	New York <u>1/</u> (In carloads)	Nine other North Atlantic ports <u>2/</u>
October 28	3,707	
November 4	3,562	
November 11	3,547	
November 18	3,334	
November 25	3,497	
December 2	3,435	
December 9	3,922	1,548
December 16	4,088	1,658
December 23	4,848	1,602
December 30	3,856	1,104
January 6	4,000	1,251
January 13	4,056	1,433
January 20	4,060	1,557
January 27	4,389	1,825
February 3	4,274	1,498
February 10	4,617	1,590
February 17	3,974	1,637
February 24	4,550	1,667
March 2	4,577	2,388
March 9	4,059	2,448
March 16	4,072	2,577

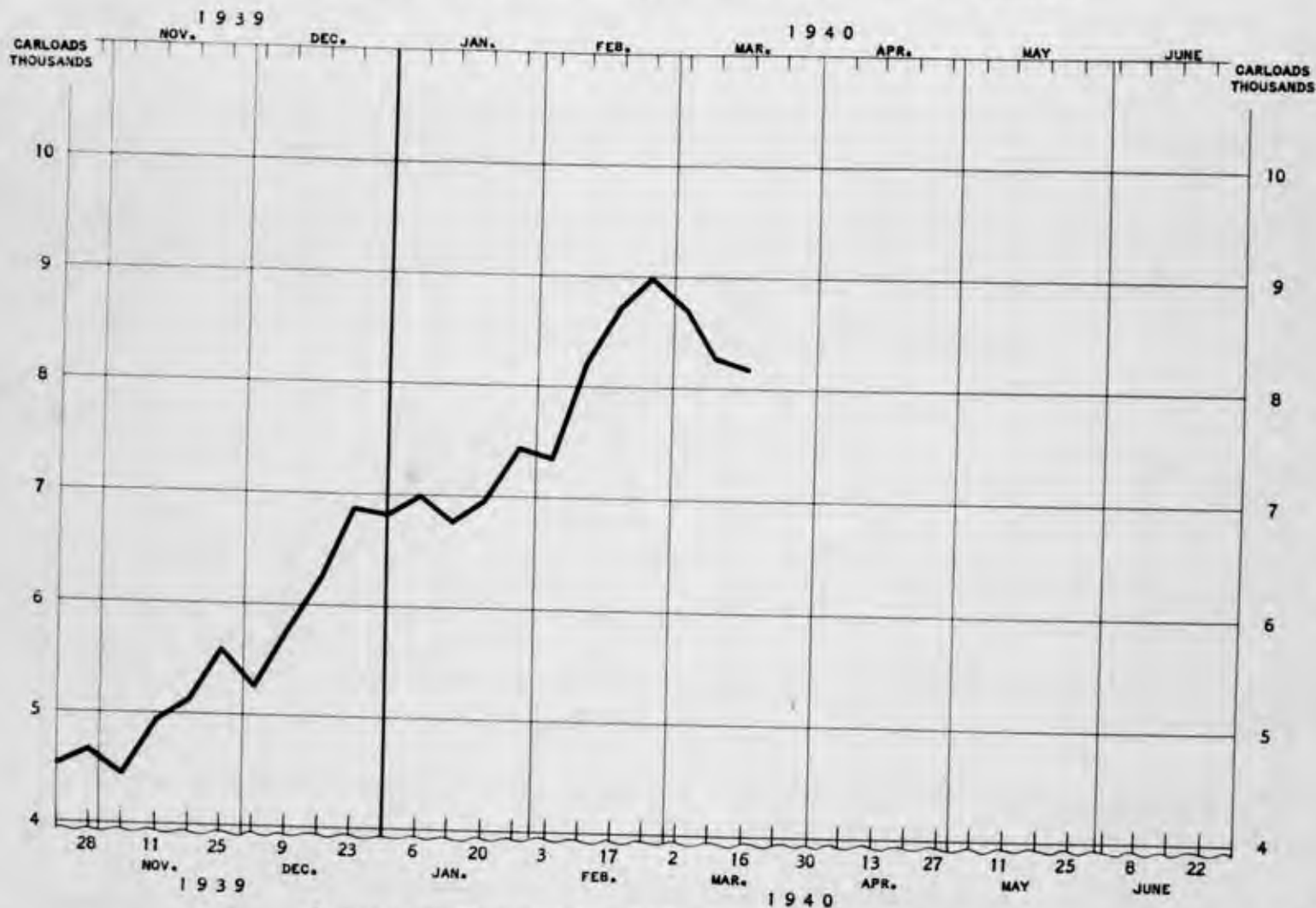
1/ Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

2/ Source: Association of American Railroads, Car Service Division, Report of Carload Freight for Export and Coastal Vessel Movement.

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK AND AT 9 OTHER NORTH ATLANTIC PORTS



LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR *



* LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.

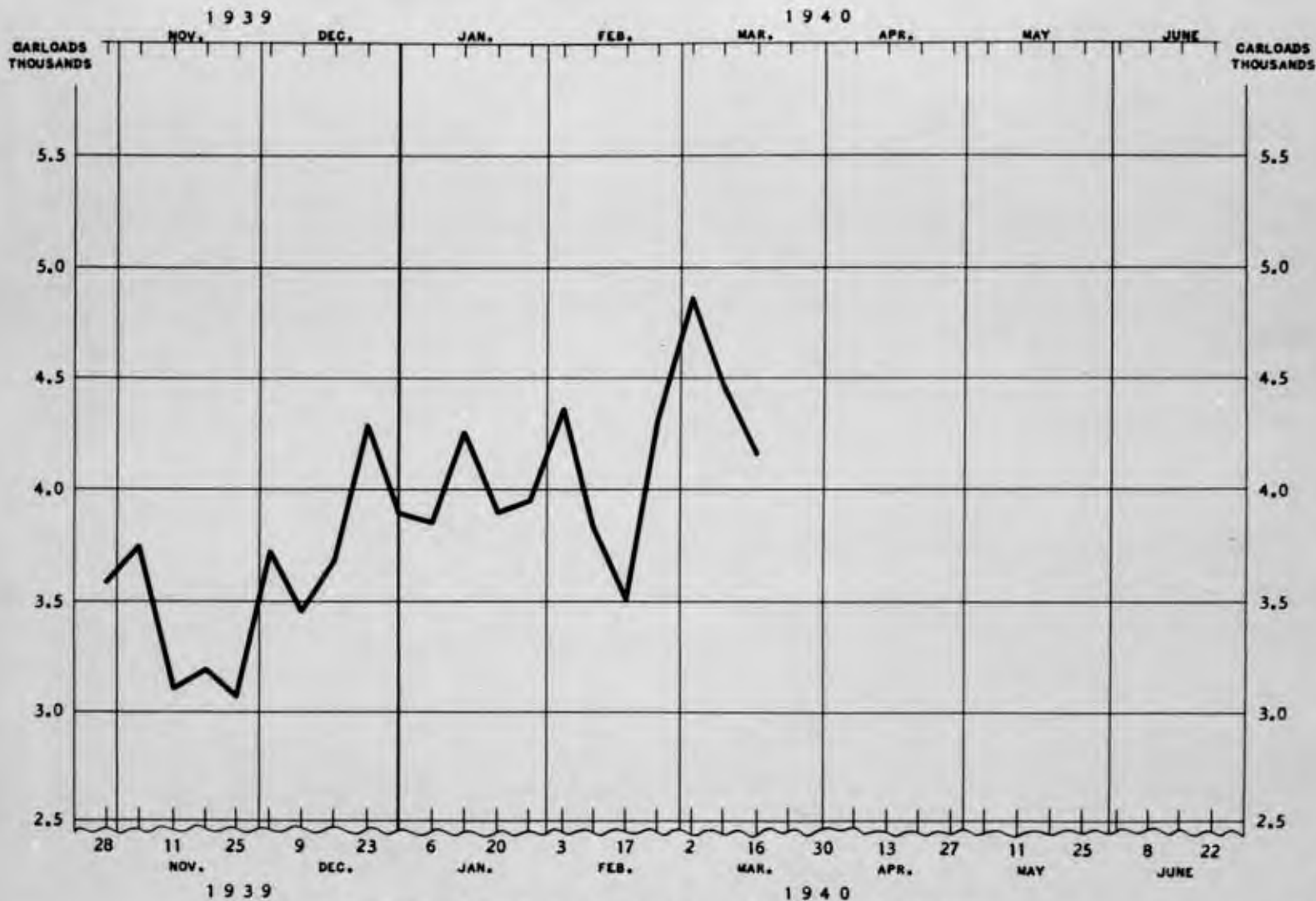
Office of the Secretary of the Treasury
Division of Research and Statistics

C - 303

Regraded Unclassified

Chart 2

CARLOADS OF FREIGHT EXPORTED FROM NEW YORK *



* AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.

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

Chart 3
25
C - 308

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro
NO.: 123
DATE: March 25, 1940

Reference is made to my telegrams no. 119 and 120 of March 19 and 20, respectively.

I am informed by the Director of Exchange that he is arranging today, pursuant to instructions from the Minister of Finance, for the distribution of foreign exchange for the payments on the Brazilian foreign debt which are to be made in April.

CAFFERY

EA:EB

JI

GRAY

Rio de Janeiro

Dated March 25, 1940

Rec'd 3:50 p.m.

Secretary of State

Washington

126, March 25, 5 p.m.

My 117, March 19, 2 p.m.

I sent Aranha the Council's question in writing and he replied today in writing as follows:
"In reply to your letter of the nineteenth of this month I have the honor to inform Your Excellency that the Brazilian Government will inform the bondholders whenever it avails itself of the provisions of article 1 (6) of decree No. 23,829 of February 5, 1934, which authorizes it to acquire bonds in the market".

CAFFERY

CSB

TREASURY DEPARTMENT

29

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 25, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending March 23, 1940.

Conclusions

(1) The business situation continues to present about the same picture as in recent weeks, characterized by (a) a gradual further easing in industrial activity, following sharp declines in January and February; (b) various indications that the decline is levelling out, although some unfavorable influences persist; (c) no clear signs as to the time of the next upswing.

(2) Our basic business indices for February, which are now available, indicate that production in that month dropped below the level of basic demand, and much below the level of offtake for manufactured goods. This quick correction is in marked contrast to the situation in 1937, when production continued high for half a year after demand fell off, piling up excessive finished-goods inventories.

(3) An encouraging development of the past week has been an upturn in steel orders, as reported by the U.S. Steel Corporation. Trade reports do not indicate that any large increase in the volume of new steel business has yet occurred, though an improving tendency is noted.

- - - - -

Production being rapidly adjusted

The rapidity of the adjustment which industry has made in the first two months of this year, following a moderate excess in production late in 1939, is indicated by our basic business indices for February. The FRB index (preliminary) dropped 1 point below our index of basic demand, which declined slightly further to 110. (See Chart 1, upper section). The downturn in the basic demand index over the past several months has been very similar to that in the same period of 1936-37, but the trend of production has been markedly different. In contrast to the rapid adjustment made this year, production in 1937 continued high through August, resulting in a serious accumulation of finished-goods inventories.

Our index of sales (lower section of chart) continued high in February, holding at the January figure of 122 in terms of the FRB index. The marked contrast here with the situation in 1937 is also noticeable. The offtake of manufactured goods weakened in the early months of 1937, partly because of steep mark-ups in prices resulting from increased raw material and labor costs. Due to its depressing effect on consumer buying, this price and wage maladjustment was partly responsible for the piling up of inventories in 1937.

Steel orders improve

An upturn in steel orders last week added an encouraging note to the business picture, which otherwise remains about unchanged from that of recent weeks. New orders reported by the U. S. Steel Corporation for the week ended March 14 rose to the equivalent of 53 per cent of capacity from 36 per cent the previous week. (See Chart 2) This is but slightly below the present 56 per cent production rate of the Corporation (lower section of chart).

It will be noted that the U. S. Steel Corporation has reduced its production rate rather sharply in the last two weeks, apparently to prevent further inventory accumulation. Shipments are now reported to be slightly above the rate of production, indicating that the company is no longer building up stocks at mills. The independent steel companies are operating at a higher rate, and have not reduced their production in the past two weeks.

Trade reports do not indicate any large increase in steel orders for the industry as a whole, although some signs of improvement are seen. Reports in the press last Saturday from the Youngstown and Birmingham districts indicate a slightly better volume of new business, with a further increase expected when spring activity in the automobile and construction industries gets well under way. The Iron Age mentions that export sales continue to expand, and that steel exports so far in March are running ahead of the February totals.

It is worth notice that the improvement in steel buying is occurring without the benefit of rising commodity and security prices, which frequently are the impelling factors in increased buying. This suggests (1) that the current buying

Secretary Morgenthau - 3

is of a fairly urgent nature, and (2) that any strong upturn in the commodity and stock markets under present conditions would likely bring out a heavy volume of new orders for steel. A noticeable increase is reported in the number of new orders, as contrasted with the total tonnage, which is taken in the trade to indicate that an increasing number of consumers are running short of steel.

New orders index higher

The improvement in steel orders has been largely responsible for an upturn in our weekly index of new orders (see Chart 3) although textile orders were also slightly higher. Orders for products other than steel and textiles remained unchanged for the week, following some improvement during the latter part of February.

Our monthly index of new orders, which covers a broader field than our weekly index, declined somewhat more than usual in February (see Chart 4), reaching a level equivalent to an FRB index of 98 (unadjusted). The actual FRB unadjusted index for February (preliminary) was 110. This does not necessarily mean that production will decline to the 98 level, since unfilled orders continue to be an important sustaining factor. It does show the need for an improvement in orders rather soon, if a further decline in production is to be avoided.

Our estimate of unfilled orders at the end of February (lower section of chart) shows them still materially above the average level of recent years. Since the upturn in orders in late 1939 was heavily concentrated in the capital goods industries, the present unfilled orders are represented in part by work in process on such things as machine tools, ships, locomotives and freight cars, and airplanes.

Year-end inventories reflect work in process

In view of the fact that our estimated index of unfilled orders at the end of December was not far from its peak, and approximately equal to the highest level of 1937, the published year-end inventory figures of industrial corporations were doubtless expanded at that time by raw materials bought for filling these orders, by semi-finished goods, and by finished goods not yet delivered. This type of inventory expansion, of course, is of little or no significance as a business factor, since it does not represent goods that are still to be sold. Such inventories vanish when the orders are finally filled.

Some additional light is thrown on the year-end inventory situation by data from corporation reports compiled by Dun and Bradstreet in the March issue of Dun's Review, shown separately for the retailing, wholesaling, and manufacturing groups, in comparison with the 1939 volume of sales by these groups. The summary figures (preliminary) are given in the following table:

Comparison with previous year (per cent)		
	Sales, 1939 total	Inventories, Dec. 31
Retailing	+7	+3 1/2
Wholesaling ^{2/}	+7	+11
Manufacturing	+18	+9

^{1/} Based on experience of independent retailers only.

^{2/} Based on Department of Commerce estimates.

It will be noted that the inventory increases at the end of 1939, as shown by this compilation, were relatively modest in comparison with the increase in total sales for the year. In the wholesaling group, however, for which the dollar volume covered by the sample is smaller than for either of the two other groups, an 11 per cent increase in inventories compares with a 7 per cent increase in sales. On the other hand, the total sales for the year may not be a fair basis of comparison, since they are held down by the relatively low sales during the first 8 months of the year.

Prices of industrial materials lower

The prices of industrial raw materials declined last week, after holding relatively steady during the previous week, while prices of foodstuffs recovered somewhat from their earlier sharp decline. (See Chart 5) It will be noted (at the left of chart) that the index of industrial raw material prices has followed the general movements of the New York Times index since early September, whereas the index of foodstuff prices has moved independently.

Lard and cottonseed oil futures have improved noticeably after their recent substantial drop. Soap manufacturers are reported to have been heavy buyers of lard on the decline.

Secretary Morgenthau - 5

Loose lard actually sold for less than tallow, the chief ingredient in the manufacture of soap, so that lard is competing with the lower-priced inedible fats and oils rather than with the higher-priced edible fats and oils.

Sensitive commodity price indices, both in this country and in England, continued to be influenced by peace news during the early part of last week (see Chart 6) but recovered later when rumors of a general peace movement were shown to have been unfounded.

The decline in Reuter's index last week carried it to the lowest figure since December 8, 1939. The general level of commodity prices in Great Britain, on the other hand, continued upward during February, as indicated by a rise of 3.0 points in the Board of Trade price index for 150 commodities. This represents a gain of 31 per cent since last August, which compares with a gain of 5 per cent in the BLS all-commodities index for the United States.

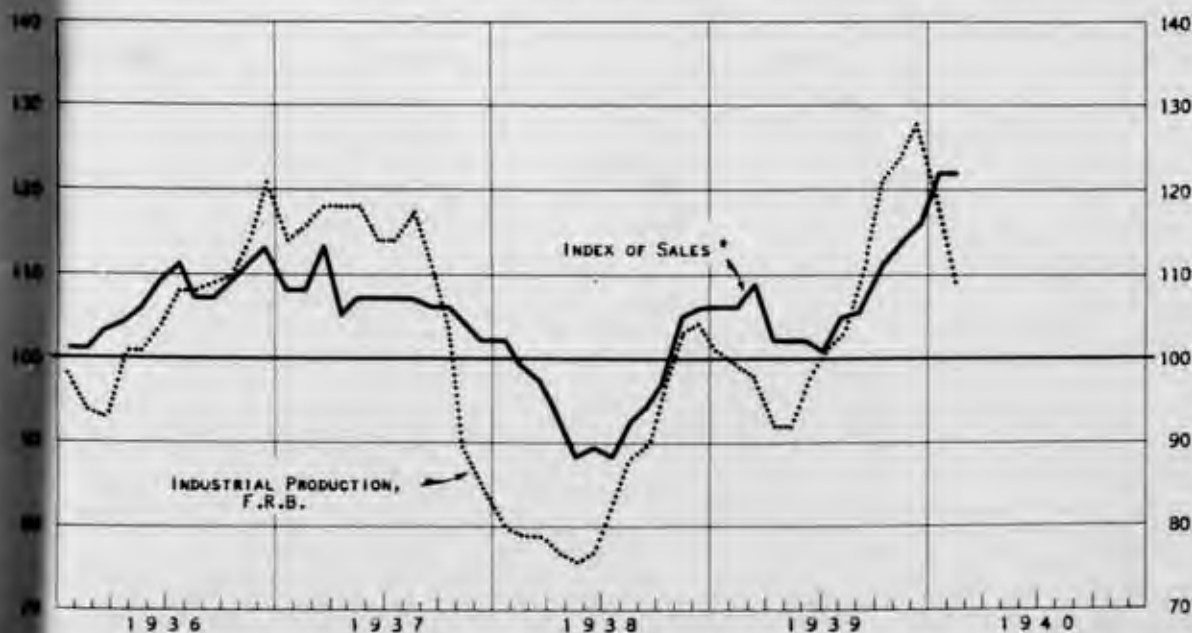
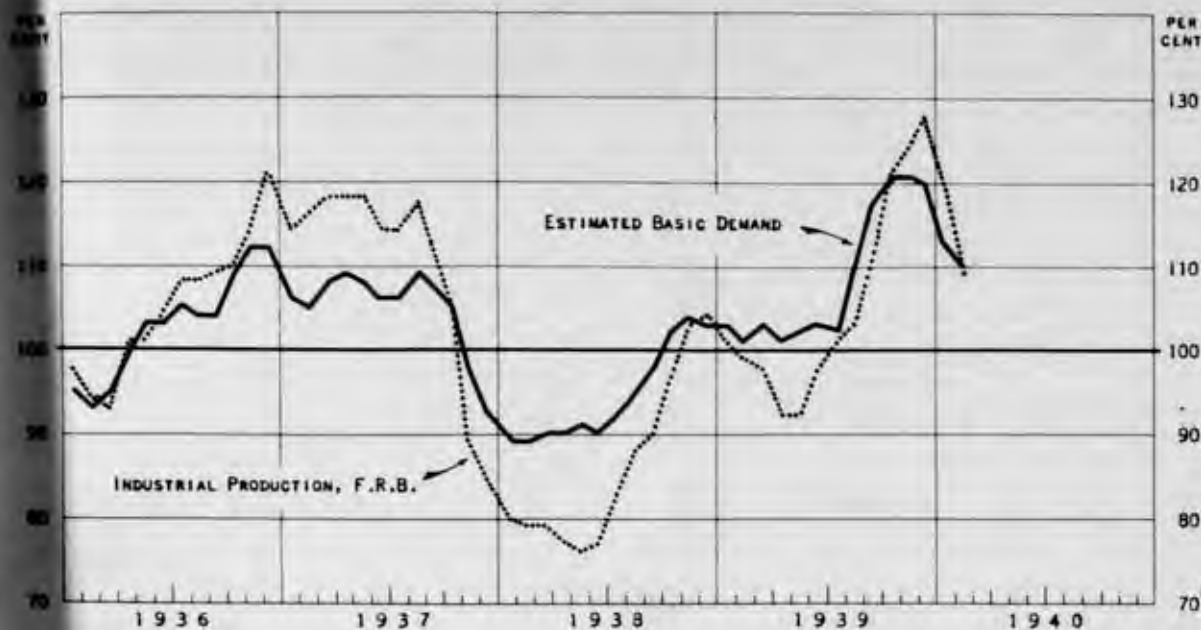
Business indices slightly down

Both the New York Times index and Barron's index showed fractional declines during the week ended March 16. Barron's index (adjusted) declined .2 point to 103.8. The New York Times adjusted index (shown in Chart 5) declined .8 point to 95.2, with the indices of automobile production and miscellaneous carloadings showing the largest downturns. Preliminary data for the following week show some further declines in the automobile and steel indices. Automobile production was reduced to 103,395 units from 105,720 the previous week, owing to a shutdown at one plant over the Good Friday holiday.

Steel output for the current week, as estimated by the American Iron and Steel Institute, is scheduled at 60.7 per cent of industry capacity, down 1.7 points from last week's rate.

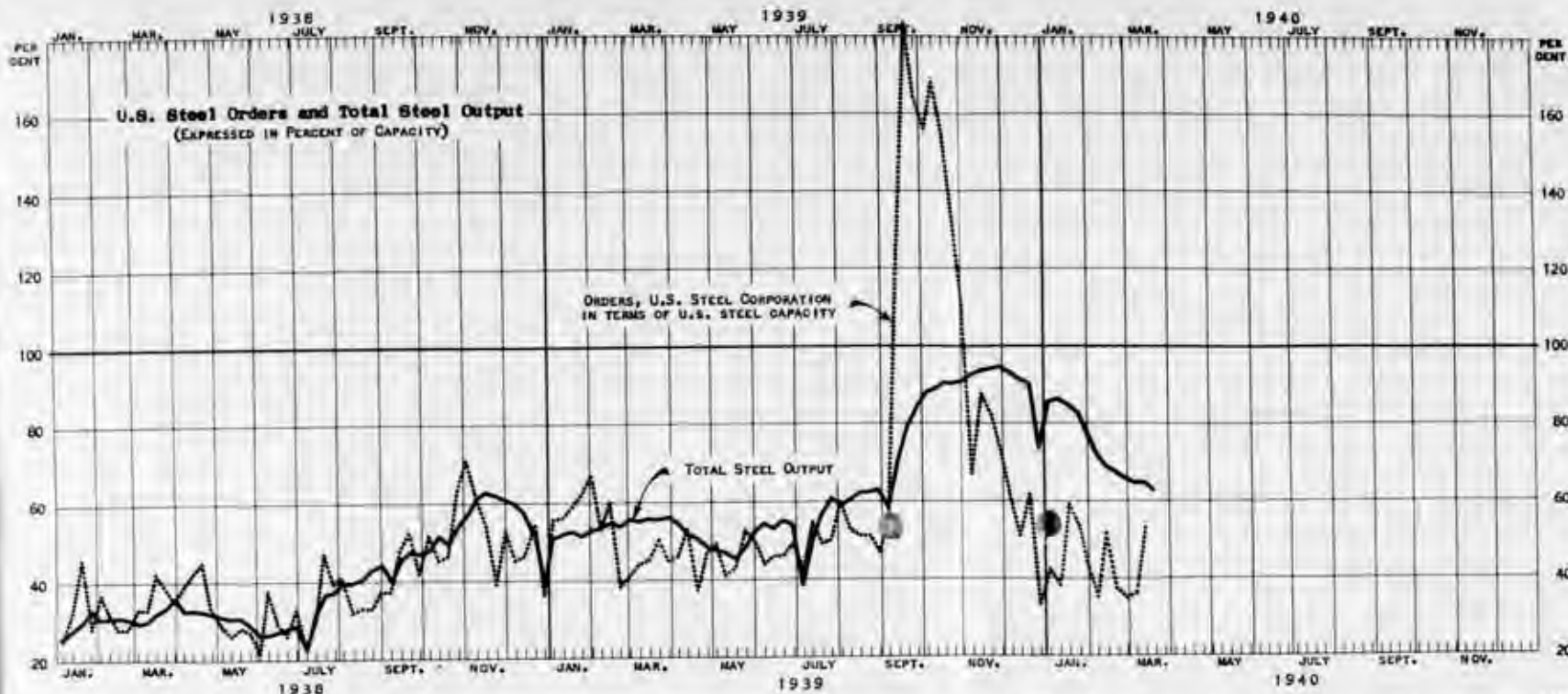
INDICES OF BASIC BUSINESS TRENDS COMPARED WITH INDUSTRIAL PRODUCTION

1923 - '25 = 100, SEASONALLY ADJUSTED

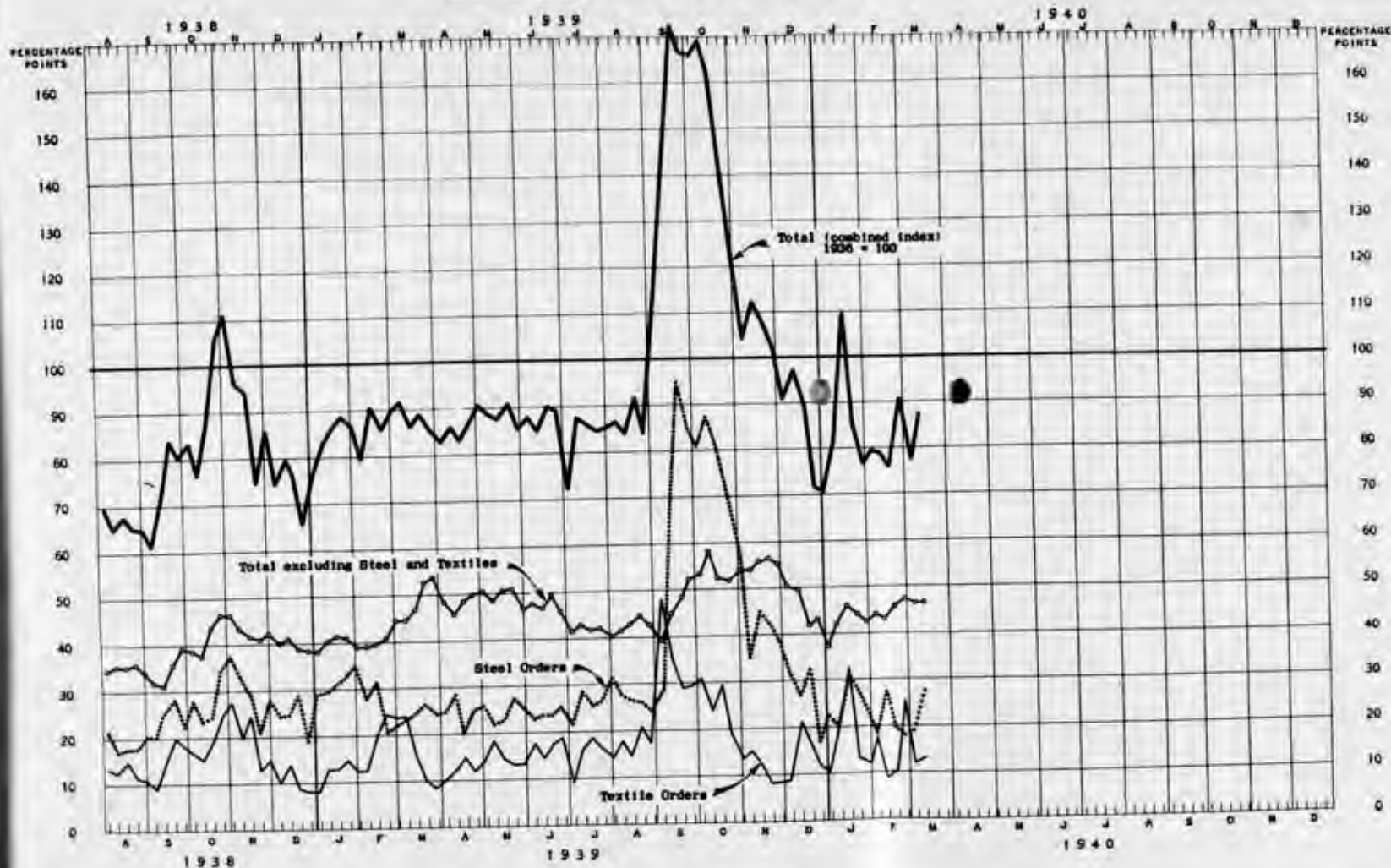


* REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

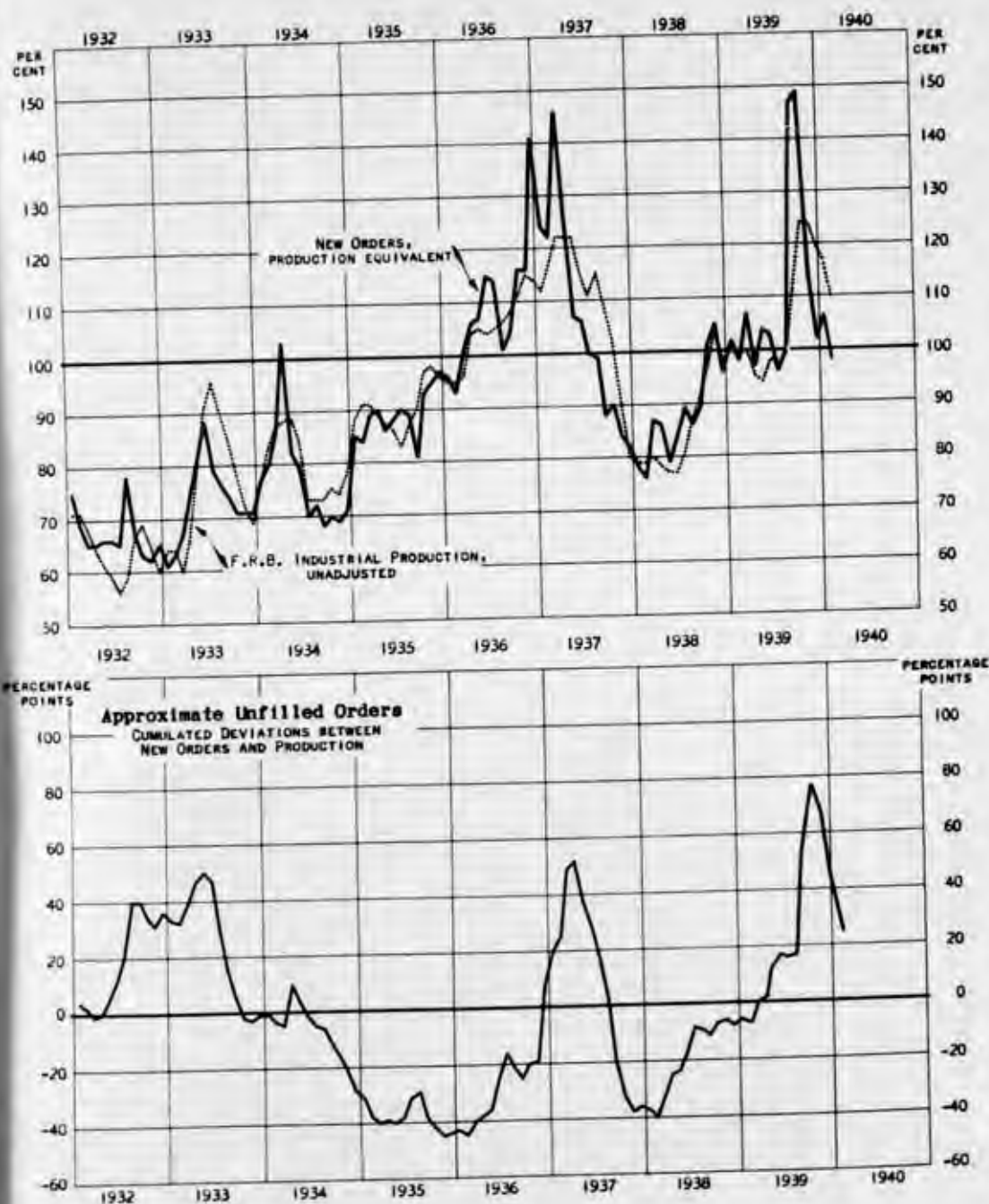
STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS



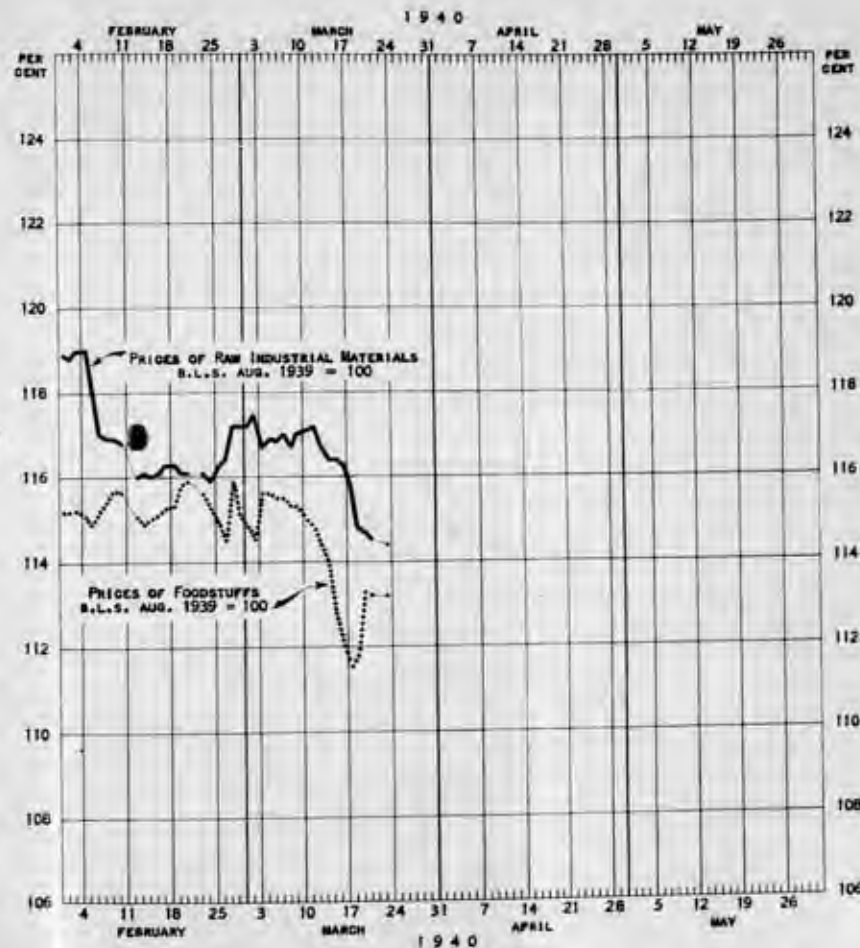
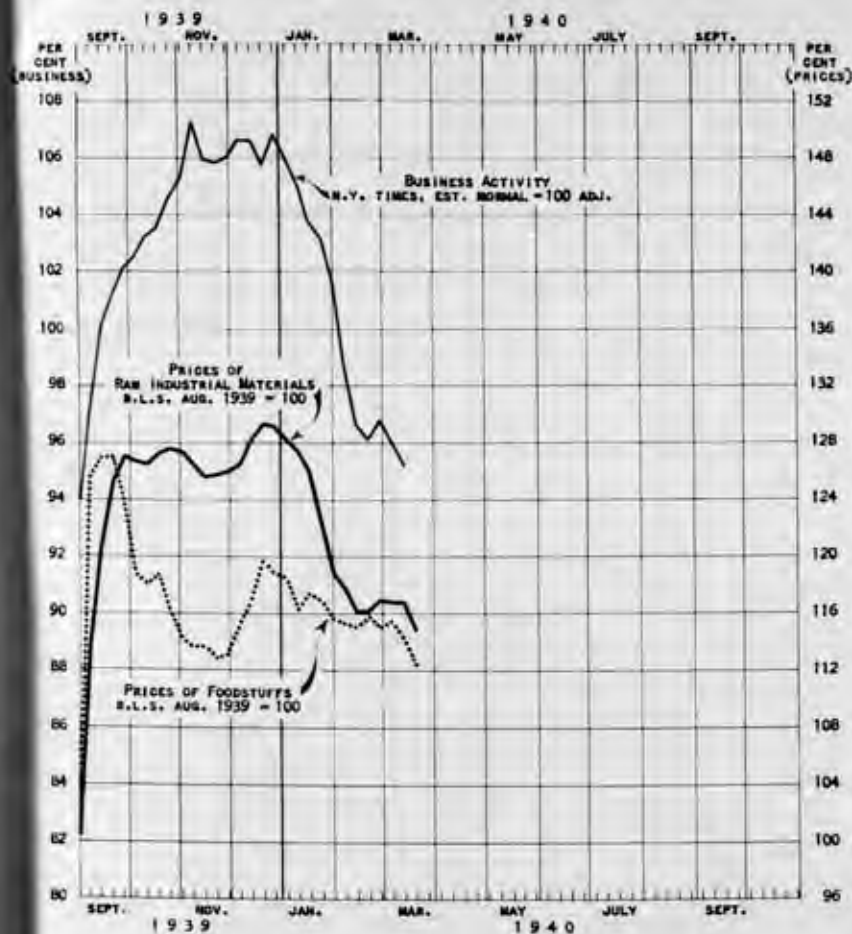
INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



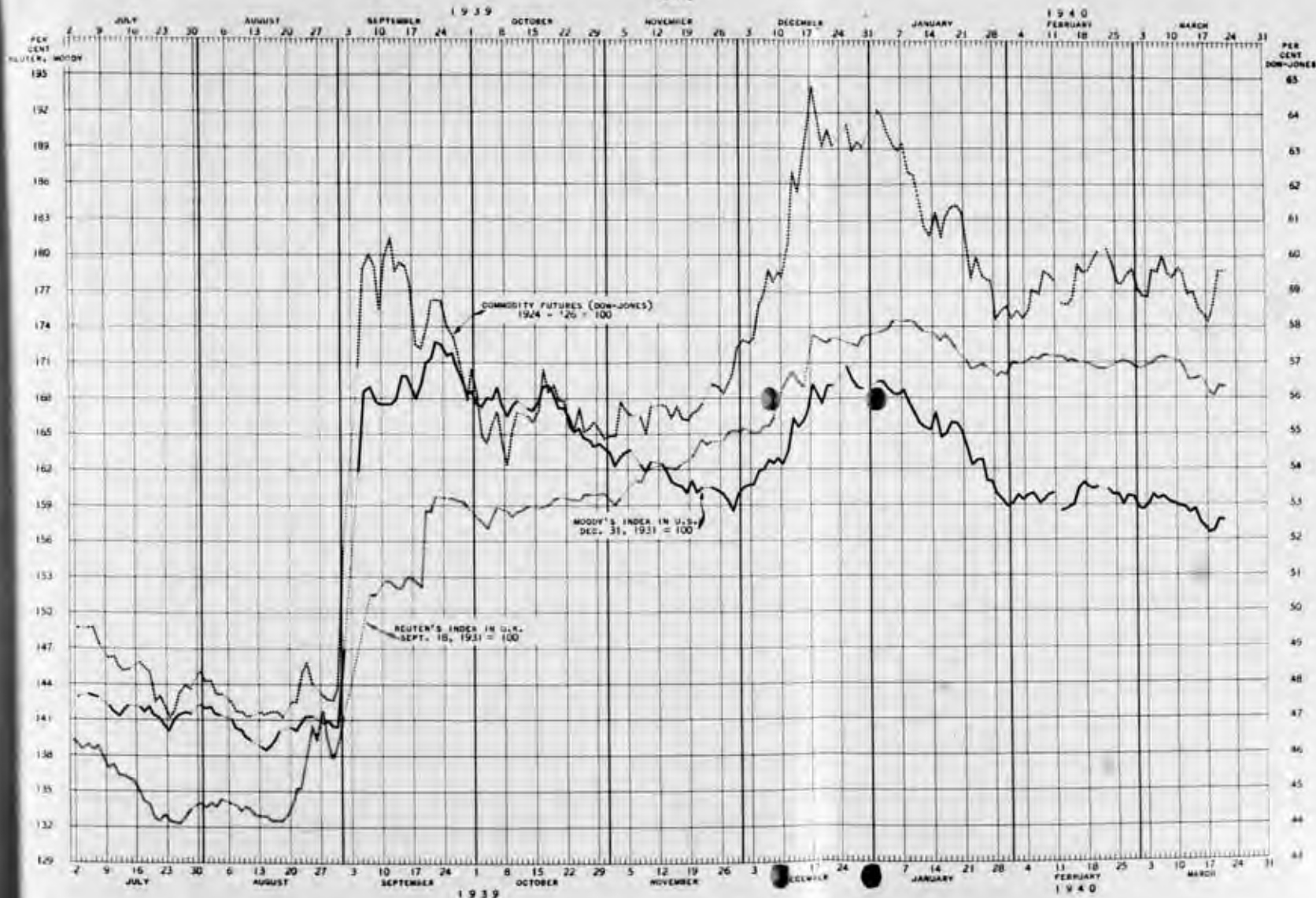
INDICES OF NEW ORDERS AND INDUSTRIAL PRODUCTION SHOWING APPROXIMATE UNFILLED ORDERS 1923 - '25 = 100



BUSINESS ACTIVITY AND PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS



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



TREASURY DEPARTMENT

40

INTER-OFFICE COMMUNICATION

DATE March 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The New York foreign exchange market today was still under the influence of the Easter holiday prevailing in the principal markets abroad, and the attempted execution of foreign bank orders to sell sterling forced the quotation for that currency downward to a new seven-year low. After opening at 3.71-1/8, sterling moved off to 3.68-1/2 by noontime. Some commercial demand came into the market during the early afternoon and the rate returned to 3.69-1/2. It then declined steadily to touch a low of 3.68-1/4 just before the close. The final quotation was 3.68-1/2.

Sales of spot sterling by the six reporting banks totaled £408,000, from the following sources:

By commercial concerns.....	£ 118,000
By foreign banks (Europe, Far East and South America)....	£ 290,000
Total.....	£ 408,000

Purchases of spot sterling amounted to £261,000, as indicated below:

By commercial concerns.....	£ 243,000
By foreign banks (South America).....	£ 18,000
Total.....	£ 261,000

The following reporting banks sold cotton bills totaling £14,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 11,000 by the Chase National Bank
3,000 by the National City Bank
£ 14,000 Total

The rate for the French franc followed the course of the sterling quotation and reached a low of .0208-3/4 at the close.

The other important currencies closed as follows:

Guilders	.5310-1/2
Swiss francs	.2242-1/2
Belgas	.1704-1/2
Canadian dollars	19% discount

We purchased \$10,000,000 in gold from the earmarked account of the Bank of France.

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

\$ 4,916,000	from Switzerland, shipped by the Swiss Bank Corporation, Zurich, to the Swiss Bank Corporation, New York.
536,000	from the Netherlands, shipped by the Twentsche Bank, Amsterdam, for account of the Guaranty Trust Co., London, to the Guaranty Trust Co., New York.
<u>\$ 5,452,000</u>	Total

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

Since there was a holiday in both Bombay and London, the silver markets in those cities were closed.

Hendy 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 558,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

B. M. F.

CONFIDENTIAL

March 25, 1940.
10:15 a.m.

H. Verle Cochran: No sir, things are pretty quiet here. Stocks are a little irregular but quiet. Government opened unchanged. Sterling is pretty weak.

H.M.Jr: Well I have nothing.

C: Well I'm not sending you down anything unless it's urgent. I've sent nothing so far. I take it you don't want any cables or summaries or anything of the sort.

H.M.Jr: That's right.

C: Fine.

H.M.Jr: O.K.

C: All right sir.

H.M.Jr: Thank you.

C: Goodbye.

Operator: Hello.

H.M.Jr: Yes.

C: Mr. Bell was in a meeting of the Budget.

H.M.Jr: Oh!

C: I have Captain Collins.

H.M.Jr: O.K.

C: Go ahead.

Captain Collins: Hello.

H.M.Jr: Hello Harry?

C: Good morning sir, how are you?

H.M.Jr: Fine. I got your letter. I'm delighted about the message - about the Rolls Royce engine.

C: Yes sir.

- 2 -

H.M.Jr: Now there's no swap on that?

C: No, that's a sale.

H.M.Jr: What?

C: That is a sale.

H.M.Jr: Well then what I'd like you to do would be personally to call up General Arnold. Hello.

C: Yes sir, I'm listening.

H.M.Jr: And tell General Arnold that I directed you to call him.

C: Yes sir.

H.M.Jr: And tell him this.

C: Yes sir.

H.M.Jr: Because I told him that I'd get it for him.

C: Yes sir.

H.M.Jr: Hello.

C: Yes sir.

H.M.Jr: Because there's only two things he wanted. He wanted those air attaches in London.

C: Yes sir.

H.M.Jr: And these two engines.

C: And he has both of them now.

H.M.Jr: Yes but I want him to know that and I want him to know that I'm asking you to tell him direct.

C: Yes sir I'll do that at once.

H.M.Jr: See?

C: Yes sir.

H.M.Jr: It may help especially, they're going up today.

C: Yes sir.

H.M.Jr: I'd get it to him right away.

C: Well I'll do that at once.

H.M.Jr: Are they testifying today?

C: I think tomorrow.

H.M.Jr: Well I'd get it to him today then.

C: Well I'll get it to him as soon as we finish talking. Now I've had a meeting, the last hour, with Brett, he was in this morning at nine and I'm sending that down in the pouch this afternoon.

H.M.Jr: With who?

C: General Brett.

H.M.Jr: Oh yes.

C: And he came in with a draft of a presentation of policy.

H.M.Jr: Yes.

C: And that is to be presented to the manufacturers tomorrow at a meeting here at two p.m.

H.M.Jr: Yes.

C: And I'm to get in touch with the different ones during the day, most of them are here as a matter of fact.

H.M.Jr: Yes.

C: And they apparently want to play ball. There's only one clearance to be had still and that's with the Munitions Board which I don't think amounts to anything at all because this has been designated as the policy that they're to follow in the future.

H.M.Jr: I see.

- 4 -

C: And Brett incidentally has been designated as the contact between the President's Board and the War Department on all matters pertaining to aeronautics.

H.M.Jr: Wonderful.

C: Which is all right because it puts him in a place he should have been all the time.

H.M.Jr: Yes.

C: And the procedure, I'm sending it along in the pouch today, and as you will see it follows right along the lines of what the President contemplated when he set this Board up.

H.M.Jr: Yes.

C: And they're coming to the Board first to bar contacts -

H.M.Jr: Which Board?

C: Our Board.

H.M.Jr: Yes.

C: **Liasion** Board; **Liasion** committee, the - Brett in turn contacts the manufacturer for a discussion of the conditions under which your release will be made. He in turn informs me and I take it right back to the foreigners and advise them that the manufacture concern is now in a position to deal with them.

H.M.Jr: Wonderful.

C: They've overboarded this old idea they had of negotiating contracts which meant nothing because if they negotiated them they couldn't go any further after they had negotiated them.

H.M.Jr: No.

C: So that's just about the crop to date sir.

H.M.Jr: Well now, I wish you'd again get that to

General Watson today.

C: Well I shall.

H.M.Jr: I'd see him today and give him that.

C: I shall. I've given him - I'm giving a memoranda - did you get the copy of my memorandum?

H.M.Jr: I got yours this morning.

C: Is that all right, that's - ?

H.M.Jr: It's perfect.

C: All right, good. Well then I'll keep that up daily as long as this thing is boiling and I talked with him yesterday, as I told you in the letter and he's very much pleased with it, and as I told you also, he kicked it over to the President who was still in his room yesterday.

H.M.Jr: Well I'd do it again this forenoon. I'd go over and do the same thing.

C: Aye aye sir. I shall.

H.M.Jr: And I'll tell the office that until this plane thing is settled to send me a pouch every night.

C: Aye aye sir. Well I'll have a report every day as long as it's hanging fire.

H.M.Jr: Yes.

C: Now tomorrow I may miss the pouch at four o'clock, inasmuch as we can't get these people here until two in the afternoon.

H.M.Jr: Well there's no reason why the pouch has to close at four.

C: Yes sir.

H.M.Jr: The train doesn't leave until six-ten.

C: Yes sir.

H.M.Jr: You tell them at the office that I don't see why they couldn't get it at five-thirty and still get it down.

- 6 -

C: Well that's all right, I'll have it there just the earliest practical moment.

H.M.Jr: Somebody's putting a squeeze on you.

C: Sir?

H.M.Jr: Somebody is putting a squeeze on you.

C: Yes but they tell me I'm getting an hour's break on everybody else.

H.M.Jr: Well there's no reason why it should close before five-thirty.

C: Aye aye sir. Well I'll have it over there surely by that time.

H.M.Jr: Right. And the other thing, I was very much amused in Sunday's Times to see that Louis Johnson gave out a great story about aluminum.

C: Oh yes.

H.M.Jr: Did you see that?

C: I saw that.

H.M.Jr: Well I haven't seen anything about the price reduction.

C: Well he gave that out in a release last night..

H.M.Jr: What's that?

C: He gave that out in a release last night. It appeared in the Star.

H.M.Jr: What, the price re- ?

C: About the reduction. He was just 'mouthing again in last night's Star and he dragged that in.

H.M.Jr: But I thought the aluminum company, you told me in strictest confidence, was to have done it on the 25th.

C: That's right and they did. They broke it yesterday and so did he.

H.M.Jr: I see. He was so afraid I might get the credit.

C: That's right.

H.M.Jr: I got a good laugh out of it.

C: Well that's one good thing about this you know, if it wasn't for that boy there and the laughs, why I don't know what we'd do with it.

H.M.Jr: No. Well, you get the word, I have nothing else.

C: All right sir.

H.M.Jr: It ought to kind of clear up this week, oughtn't it?

C: Well I should think so. I'll be out of circulation pretty much on Thursday by virtue of going up before the Appropriations Committee on emergency appropriation hearings.

H.M.Jr: Yes.

C: But we'll push right through with it day and night. I don't see why we can't get it washed up.

H.M.Jr: When you see the Pratt and Whitney people ask them whether they work on Saturdays and whether they work at night, will you?

C: Yes sir, I shall.

H.M.Jr: Whether they work on Saturdays and whether they work at night.

C: Yes sir, I'll do that.

H.M.Jr: Please. All right, good work Collins.

C: All right sir.

H.M.Jr: I'm very much pleased.

C: All right sir. Thank you very much. Do you want to laugh a little?

H.M.Jr: Love to laugh.

- 8 -

G: All right. Well one of the boys was in yesterday afternoon, he's got a new nickname for Louis. They call him - the press boys call him, quietly over there, Leaky Louis.

H.M.Jr: Leaky Louis.

G: Leaky Louis.

H.M.Jr: That's wonderful.

G: And I think that's the best one yet.

H.M.Jr: Wonderful. All right.

G: Well thank you very much Mr. Secretary.

H.M.Jr: Right.

G: Good morning sir.

Operator: Hello.

H.M.Jr: Yes.

G: I have Mr. Haas. Go ahead.

H.M.Jr: Hello.

George Haas: Hello.

H.M.Jr: George?

H: Yes Mr. Secretary.

H.M.Jr: On your study on the twenty-five hundred dollar house and under, I wish you'd contact all of the housing agencies in Washington and find out what they have, see?

H: Yes.

H.M.Jr: And including the Department of Commerce and all of it.

H: Yes, - now

H.M.Jr: Wait a minute. And I understand that Lowell Wellett

- 9 -

is chairman of the central housing committee.

H: Yes. There - I know there's one around.
Lindell, a member of a research committee of that or - of that central committee.

H.M.Jr: Well will you contact them and find out what branches of the industry are doing any research.

H: On the - I can get you approximate -

H.M.Jr: Twenty-five hundred dollar house or under.

H: Twenty-five hundred you say?

H.M.Jr: Two thousand five hundred.

H: Two thousand five hundred. Fine. I'll do that.

H.M.Jr: But I mean contact both - all Government agencies and all private industry.

H: All private industries.

H.M.Jr: Yes.

H: Do you want me to contact private industry. I'll find out what private industry these different groups are contacting.

H.M.Jr: Well do a bang up job. I don't care how you do it. I want all the information available.

H: Fine. Fine.

H.M.Jr: I want all the information available.

H: Fine. All right and I'll get right on that.

H.M.Jr: Did Lindell go out west?

H: Yes. He's visited several places and he's going up to Allentown this week. Allentown, Pennsylvania there's

H.M.Jr: Yes. Well what did he find out at Fort Wayne?

H: Well at Fort Wayne. I haven't read his complete report. He said it was a long story and he's working it up, but he said you couldn't put

- 10 -

your finger through any of those houses out there, you know I asked him to -

H.M.Jr: You could not.

H: No he went out with Watson.

H.M.Jr: Oh good.

H: And Watson went along with them and he said there's a lot of, I mean there's several difficulties arising and jealousy between, you know, people sponsoring different ideas, and he mentioned one thing to me. I haven't read it completely but he mentioned one thing. The Plaster Union objects very strenuously, he put up a house that doesn't have a plastering job on it.

H.M.Jr: I see.

H: And there's a lot of those difficulties.

H.M.Jr: Well whenever the report is ready or partly finished, send it down to me.

H: All right I'll do that. What kind of weather are you having down there?

H.M.Jr: Cold but clear.

H: Oh is that so? It's cold up here.

H.M.Jr: Anything new on steel?

H: No, no, the latest thing we've got is what you've got.

H.M.Jr: Well George as you get reports on individual businesses on new orders send me down the sheets, will you?

H: All right I'll do that Mr. Secretary.

H.M.Jr: Please.

H: I'll do that.

H.M.Jr: That's all.

H: All right, goodbye.

Operator: There's nothing else here. I just talked to Helen at the house and she says there's nothing there. Everything is going along fine.

H.M.Jr: Good. I won't do this again because I don't hear well enough.

O: I see.

H.M.Jr: Is Miss Chauncey on?

Miss Chauncey: Yes sir, here I am.

H.M.Jr: I won't do this again, it hurts - I can't hear.

O: I imagine there's too much interference.

H.M.Jr: Look into the pouch situation, why they tell them they have to close at four.

O: Well I learned about that yesterday and they had set the deadline for three o'clock.

H.M.Jr: Yes.

O: And I told them that Collins couldn't get his stuff over that early. We'd have to make it at least four for him, so there isn't any reason why it couldn't be five or five-thirty at the latest.

H.M.Jr: Yes.

O: And I'll arrange for that today sir.

H.M.Jr: Well the day that Collins has things - we'll send the pouch down until we get it cleared up.

O: Yes, I see.

H.M.Jr: Now he said he won't be - if he doesn't do anything on Thursday there's no sense in sending it down.

O: No.

H.M.Jr: We can get the aeroplane thing, and when he has something I want a pouch.

O: All right sir.

H.M.Jr: See?

C: All right, I'll handle that.

H.M.Jr: I want Collins back again.

C: All right sir, I'll tell her.

Operator: All right.

C: Mr. Secretary?

H.M.Jr: Yes.

C: Davies, over at the State Department wanted to have you for lunch tomorrow.

H.M.Jr: Well I don't think it's worth coming up for.

C: I don't either. That's priceless. Well I thought you'd be interested. Awfully cold here and I hear it's cold down there. Well she's getting Collins.

C: Here's Captain Collins. Go ahead.

H.M.Jr: Hello.

Captain Collins: Yes sir.

H.M.Jr: Two things.

C: Yes sir.

H.M.Jr: I wish you'd call up Mr. Purvis and tell him I'm very much pleased about the engine.

C: Yes sir.

H.M.Jr: And tell him that now I feel my job is safe again. Hello.

C: Yes sir, I'll tell him that.

H.M.Jr: And tell him the other thing I want to ask you, do you remember the last time we saw him there was something that they brought up and they wanted a moral embargo on it, and I'll be darned if I can remember what it was. Hello?

- 13 -

C: Yes sir, I'm trying to think.

H.M.Jr: It was some item and I told Cochran to take it up with the State Department.

C: Oh, it was that **tolnol** wasn't it?

H.M.Jr: That was what it was.

C: Yes.

H.M.Jr: Well I wonder what happened?

C: Well I got Jo Green on that and myself also because you told me, you threw it into my lap at the last and I told Green to look into it and he's going after it now to find out what the total manufacture is and what the total exports are.

H.M.Jr: Well give him a tickle on it.

C: Yes sir, I'll do that.

H.M.Jr: O.K.

C: I haven't heard from him and that's been four days.

H.M.Jr: Well give him a tickle.

C: Yes sir.

H.M.Jr: All right. That's all.

C: All right, thank you sir. Goodbye.

Operator: Hello.

H.M.Jr: That's all thank you.

C: All right.

H.M.Jr: Goodbye.

C: Goodbye.



OF THE DIRECTOR

54-A

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 25, 1940 (see his memo
dated 3-23 which was
att to this, which tells
of a meeting with Brett,
Maj Lyons & Collins)

My dear Mr. Secretary:

Supplementing my note to you of Saturday, there is attached a memorandum concerning the meeting on that day. Similar memoranda will be forwarded in the future on the days on which any meetings occur.

There is attached also copy of the memorandum which I am delivering to General Watson this morning.

With kindest personal regards,

Sincerely yours,

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Cottage No. 47
Sea Island, Georgia



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

March 25, 1940

My dear Mr. Secretary:

This afternoon Mr. Purvis called me and asked that I inform you at once that the two Rolls Royce engines have been released for shipment. He further requested that I contact the proper persons in the War Department to arrange for shipping instructions but that I not take any action until you have been informed of the release. Therefore, I will not contact the Army on this matter until tomorrow afternoon.

General Brett phoned me at noon and stated that he hoped to be able to sit down with me late today in connection with the development of the policy discussed with you by phone Saturday. Up until noon he had not talked with the Navy but hoped to clear their proposed plans with them this afternoon.

This morning I saw General Watson and left with him the memorandum, copy of which I forwarded in my airmail letter. While with him he dictated a memorandum for the President, simply transmitting my memorandum. He said he is most appreciative of your thought in keeping him advised as to this development.

This is being written for the pouch, but should anything develop later I will send you further report tonight.

With kindest personal regards,

Sincerely yours,

Honorable Henry Morgenthau, Jr.

The Secretary of the Treasury

*P. S. Rolls Royce engines are to
be paid for by Army*



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 25, 1940

MEMORANDUM

Mr. E. E. Wilson, Executive Vice President of United Aircraft Corporation, Hartford, Connecticut, informed me this morning that late Thursday afternoon Congressmen Dow W. Harter (D) of Ohio, J. J. Smith (D) of Connecticut, F. A. Harness (R) of Indiana, all members of the House Military Affairs Committee, and Congressman William J. Miller (R) of Connecticut arrived in Hartford, dined with the officials of the Pratt & Whitney Company, and spent Friday morning inspecting the plant.

Mr. Wilson stated that it was the unanimous opinion of those who visited the plant that a most excellent job had been done by the Treasury in coordinating airplane purchases in this country. The Congressmen further stated that they felt their visit to the plant had been productive of results which could not otherwise have been obtained, and Mr. Wilson was of the opinion that they were thoroughly convinced of the logic of not only selling planes to foreign governments, but in the cases on which we are working of allowing the export of the latest types and models.

Mr. Wilson further said that Harter seemed particularly interested in learning whether or not, when material sums of money had been expended in development and research, the benefits thereof were passed on to foreign governments without reimbursement to the United States. In Mr. Wilson's case the answer was "no" inasmuch as development expense is to a large extent distributed through overhead, and therefore, any foreign orders would not only bear their share but the existence of foreign orders would permit of reductions being made to military services in the prices at which engines were contracted for.

I believe that this situation has also happened at the Wright plant, but I do not believe the same situation applies to the plane manufacturers.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 26, 1940

MEMORANDUM FOR THE SECRETARY

There is attached hereto copy of a memorandum received this afternoon from General Watson, together with copies of the enclosures transmitted therewith.

General Watson informed me that the Secretary of War, the Assistant Secretary of War, and the Chief of Staff yesterday presented to him a memorandum embodying the War Department policy on aircraft foreign sales. This General Watson presented to the President, and the President changed the memorandum to make it a Government policy as is indicated on the memorandum forwarded by General Watson and attached hereto. This statement of policy on aircraft foreign sales was not signed by the President but a copy of it was delivered by General Watson to the Secretary of War, and as is indicated in the attached correspondence, a copy was forwarded to the Secretary of the Navy by memorandum.

The draft of policy which will be discussed at tomorrow's meeting with the manufacturers, forwarded with memorandum pertaining to the meeting with General Brett, is based on the statement of Government policy approved by the President.

56 C O P Y

THE WHITE HOUSE
WASHINGTON

March 25, 1940.

MEMORANDUM FOR:

Captain H. E. Collins,
Director, Procurement Division,
Treasury Department.

Dear Captain Collins:

For your information, I am sending you herewith
copy of letter and statement regarding governmental
policy on aircraft sales and release of design.

Very sincerely yours,

/s/

EDWIN M. WATSON
Secretary to the President.

Inclosure

March 25, 1940.

MEMORANDUM FOR:

The Honorable,
The Secretary of the Navy.

My dear Mr. Secretary:

I am attaching herewith a statement of
Governmental policy on aircraft sales and release of design.
This statement has been approved by the President.
I am,

Very sincerely yours,

EDWIN M. WATSON
Secretary to the President.

Inclosure.

CONFIDENTIAL

58 C O P Y

GOVERNMENT POLICY ON AIRCRAFT FOREIGN SALES

The War Department now has a great many planes under contract for delivery to the Air Corps, but because we are acquiring an increasing productive capacity, the necessity for early delivery of other than operating equipment is no longer so pressing. Therefore, we are adjusting the Government foreign sales policy to conform to the following:

When it is to the advantage of the national defense the War Department will negotiate for deferred deliveries on contract planes. If manufacturers take advantage of foreign orders, then prior to release for sale abroad, manufacturers shall agree to accept change orders on existing War Department contracts. The Government must be fully protected and any authorized delays must not interfere with the delivery of equipment for units immediately necessary for our defense needs.

The release policy for foreign sale of our most modern designs will be liberalized to accomplish the foregoing, to further stimulate productive capacity and to insure improved types of planes for our forces. Each such case must be decided on its merits. Prior to the release of any of our designs for sale abroad, the manufacturer must negotiate with the War Department for such changes in those models which are under contract for the United States Army in order to insure that improved types of airplanes are delivered to the War Department.

No military secret will be divulged or released to any foreign purchaser of military airplanes.

Neither designs owned by the War Department nor manufacturer-owned designs over which the War Department has control, will be released for manufacture or detailed assembly abroad.

Foreign governments must agree to furnish us full and complete information on the design, equipment, and combat performance of American-made planes.

March 25, 1940



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

58-A

March 26, 1940

My dear Mr. Secretary:

There are enclosed herewith memoranda pertaining to the meeting had with General Brett this morning, together with the attachments discussed therein, memorandum concerning one I received from General Watson this afternoon with attachments thereto and which ties in with the meeting with General Brett this morning, and memorandum concerning our telephonic conversation.

Since the enclosures were prepared all of the airplane manufacturers indicated on the list of manufacturers attached to my memorandum concerning my meeting with General Brett have been contacted and will have representatives in Washington tomorrow for the 2 o'clock meeting which bids fair to be a sizeable one.

The meeting with the engine manufacturers and accessory people will be held later on in the week, probably beginning Friday as I am scheduled to appear before the Appropriations Committee on Emergency Appropriations on Thursday.

In informing General Arnold of the release of the Rolls Royce motors he asked me to express to you his appreciation of having accomplished something that the War Department had been unable to do.

If the 2 o'clock meeting tomorrow adjourns in time to catch the pouch I will have a report for you; otherwise, it will be forthcoming Thursday.

With kindest personal regards,

Sincerely yours,

Honorable Henry Morgenthau, Jr.

The Secretary of the Treasury



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

58-B

March 26, 1940.

MEMORANDUM FOR THE SECRETARY

This morning at 9:00 A.M. General Brett and Major Lyons of the Army Air Corps called upon me with reference to the meeting with the aviation industry to be held tomorrow.

There is attached hereto a copy of a memorandum left by General Brett, together with a draft of a statement of policy to the aircraft industry on release of aircraft, aircraft engines and items of aircraft equipment and accessories for export which is self-explanatory. There is also attached a list enclosed with General Brett's memorandum of the manufacturers, each of which has been invited to send a representative to the meeting tomorrow which is to be held at 2:00 P.M. General Brett advised me that he is today discussing the statement of policy (Enclosure I) with the Aeronautical Board, with Colonel Hines, Secretary of the Army and Navy Munitions Board, and with Admiral Towers, Chief of the Bureau of Aeronautics, Navy Department.

At the meeting tomorrow the draft (Enclosure I) will be presented to the manufacturers and any questions raised by them will be explained by General Brett. He informed me this morning that he had been designated as the contact in the War Department with the President's Liaison Committee on all matters pertaining to aviation. The Navy will similarly designate a liaison on aviation with my Committee.

This afternoon General Brett called me by phone and stated that the question of policy had been discussed and cleared with the Munitions Board, as well as the Aeronautical Board, and that he has an appointment for late this afternoon with Admiral Towers to discuss any questions that might arise with reference to the new Government policy. Admiral Towers has been requested to have a representative present at tomorrow's meeting. He expects to attend personally.

H. J. L.

C O N F I D E N T I A L

58-C^OP^Y

WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON

March 26, 1940.

MEMORANDUM FOR - Captain Collins.

SUBJECT - Release of Aircraft for Export.

1. Pursuant to our conversation of March 23, 1940, there is attached hereto a draft of notes for use in discussing with all concerned a procedure for executing an adjusted foreign sale policy.
2. These notes are based upon a liberalization of the release policy for foreign sale approved by the Secretary of War.
3. There is also attached a list of manufacturers who have current contracts with the War and Navy Departments and whose products are pertinent to the proposed discussion.

/s/

Geo. H. Brett,
Brigadier General, Air Corps
Chief, Materiel Division

2 incls:
Draft of Notes.
List of Manufacturers.

SECRET
(For oral presentation only)

STATEMENT OF POLICY TO THE AIRCRAFT INDUSTRY

ON

RELEASE OF AIRCRAFT, AIRCRAFT ENGINES, AND ITEMS
OF AIRCRAFT EQUIPMENT AND ACCESSORIES FOR EXPORT

C O P Y
50-1

I.

Statement of Policy:

1. The policy governing the release of aircraft and its components heretofore promulgated by the War and Navy Departments is now liberalized to permit the foreign sale of our most modern designs in order to further stimulate productive capacity of new types and models of aircraft and to insure improved types of airplanes for our forces. The considerations governing future releases that are of great importance to the National Defense are as follows:

First: No military secret will be divulged or released to any foreign purchaser of military airplanes.

Second: Foreign governments must agree to furnish the Army and Navy full and complete information on the design, equipment, and combat performance of American made airplanes.

Third: Neither designs owned by the War or Navy Departments nor manufacturers' own designs over which the Departments have control, will be released for manufacture or detailed assembly abroad.

Fourth: Contracts with the Army and the Navy which are modified to provide for deferred deliveries must provide for fully protecting the Government against interference with the delivery of equipment for units immediately necessary for our defense needs.

Fifth: Each case must be decided individually on its merits from the point of view of National Defense and the assurance that improved types of airplanes are delivered to the War and Navy Departments in the event of deferred deliveries of any airplane or its component on contract to the Government.

Incl. #1 to Memo to
Captain Collins, 3/26/40.

Enclosure I

II. Procedure for Foreign Release:

Predicated upon the adjusted foreign sale policy, the following procedure shall govern the release of aircraft and its components as well as other items of aeronautical equipment:

First: Authority to negotiate with foreign purchasers will be requested strictly in accordance with the present procedure.

Second: Prior to action on such requests by the War and Navy Departments, the manufacturers will be required to negotiate with authorized representatives of the War and Navy Departments for change orders on existing contracts as follows:

- a. To provide for deferment in deliveries on contract airplanes if desired.
- b. To provide for such changes in those models of equipment upon which release is requested that will insure that improved types of airplanes are delivered to the Department concerned.
- c. To provide for suitable guarantees which will assure the Department concerned that there will be no interference with the delivery of equipment immediately necessary for our defense needs.
- d. To provide for the changes in improvements in design, performance and installation, at no additional cost to the Government.

Third: If the manufacturer takes advantage of foreign orders after negotiating with the War and Navy Department authorized representatives on changes in contracts as heretofore enumerated, then, prior to the release of the specification in accordance with the present procedure, the manufacturer shall agree in writing to the following:

- a. To accept change orders on existing War and Navy Department contracts for the improvements agreed upon by negotiation.
- b. To cause to be inserted in foreign contracts a suitable clause that will preclude the

manufacture of the item released by a foreign manufacturer or the detailed assembly of the item abroad.

- c. To cause to be inserted in contracts with foreign purchasers conditions that will fully protect any interference with the delivery of equipment for units immediately necessary for our own defense needs as specified by the War and Navy Department representatives.
- d. To cause to be inserted in contracts with foreign purchasers means for manufacturers' representatives obtaining full and complete information on changes in design equipment and performance of the particular airplane, based upon the experience of actual combat or use under service condition by the foreign purchaser, all of which information shall be transmitted to the Department concerned for use as it may deem essential to the National Defense.

Fourth: Upon release of the detailed specification by the Department concerned, application for license for export will be requested in accordance with present procedure.

III. Responsibility for Negotiations:

Brigadier General George H. Brett, A.C., Chief of the Materiel Division, has been designated as the authorized representative of the War Department for the conduct of negotiations relating to the release of aircraft, aircraft engines, and items of aircraft equipment and accessories for export. Likewise, the Navy Department has authorized _____ to represent the Bureau of Aeronautics in negotiations with aircraft manufacturers for the release of aircraft and aircraft accessories over which the Chief of the Bureau of Aeronautics exercises control. The release of the special items of aircraft equipment and accessories for installation on export aircraft, such as guns, signal apparatus, etc., will be referred to the Chiefs of the Arms or Bureaus concerned by the authorized representatives of the War Department and the Navy Department, through such channels as the Department concerned may direct.

MANUFACTURERS

58-G

Airplanes

Ball	P-39
Curtiss	P-40
Martin	B-26
Douglas	A-20A
Consolidated	B-24
Boeing	B-17
Vought	Navy
Brewster	Navy
Gruman	Navy (Army)
North American	B-25
Vultee	Liaison O-49 Pursuit
Lockheed	P-38
Republic	P-43 & P-44

Engines

Allison	V-1710
Pratt & Whitney	2800
Curtiss Wright	2600
Lycoming	Flat E.
Continental	Flat E.

Accessories

General Electric	(Turbo)
Bendix	(Miscellaneous Instruments)
Sperry	(Automatic Pilot)
Curtiss	(Prop. Div.)
Hamilton Standard	
Pioneer	
Kollsman	

(Note: Current Contracts between the Army and Navy with the foregoing Manufacturers are pertinent to modifications of foreign sale policy.)

Incl. #2 to Memo to
Captain Collins, 3/26/40



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 26, 1940

MEMORANDUM

This morning the Secretary called me at 10:25 concerning a statement in memorandum forwarded him yesterday covering the release of 2 Rolls Royce engines and instructed me to inform General Arnold that he had directed me to tell him of this release.

I talked with General Arnold, carried out the Secretary's instructions, and asked him to take the necessary steps looking toward the issuance of a purchase order for these two engines. He requested me to get from Mr. Purvis the necessary information concerning types, etc., in order that the purchase order might be prepared.

I contacted Mr. Purvis by long distance, and he stated that this information was not readily available but he, in turn, asked me to learn to what destination the engines should be shipped as they desired to have them started for this country immediately. Mr. Purvis stated that the question of the purchase order could be arranged at some future date when the information General Arnold wants is available and that, inasmuch as the price, conditions, etc., would have to be satisfactory to the American Government, he saw no harm that could be done by shipping the engines in advance of the receipt of a purchase order.

I further contacted General Arnold, told him of this arrangement to which he agreed, and then informed Mr. Purvis that the engines are to be forwarded to the Chief of the Materiel Division, Wright Field, Dayton, Ohio.

Gallus

MEMORANDUM FOR THE SECRETARY:Shipping SituationMARCH 26th, 1940.

There is perceptible a pronounced softness in the export cargo situation.

The Port of New York Authority in their current bulletin "New York Port and Shipping" say:

"A survey indicates there is plenty of space available at this time, more than sufficient to meet present requirements to those countries. As a matter of fact, there has been a considerable easing up in the traffic, particularly to Great Britain, and there is not the feverish rush to book space that prevailed a few weeks ago."

The British priority list of cargo for April will be accommodated by the ships under the direction of the British Ministry of Shipping, without recourse to any non-British vessels.

Having virtually completed the movement of trucks, the French Maritime Commission activities are slowing down and they likewise will not avail themselves of any tonnage other than that under their direct control.

Great Britain has decreed that all food stuffs, other than those shipped from point of origin prior to March 20th, will require import licenses. This is expected to curtail the movement even of starch, concerning which there is reported to be a dispute between the Ministry of Food and the Ministry of Supply, as to whether starch is basically a food stuff or an industrial product (used in the manufacture of textiles.)

Time charter and net form rates remain strong, with few fixtures being arranged. American-flag ships for general trading are in active demand.

Carloadings continue to decline although still running ahead of last year and two years ago. For the week ending March 16th the carloadings were 97% of the average for the ten preceding years. Deductions in the number of cars loaded were shown in all categories with the exception of Grain, Coal and Coke.

Railroad activities incident to the handling of export freight through the Port of New York show no appreciable change. The number of cars lightered for export; cars awaiting lighterage; export freight in storage and railroad facilities and the railroad lighters on demurrage all are about the same as reported on March 15th.

Grain in railroad cars, elevators and boats at New York holds around 2,000,000 bushels.

As a result of the end of the Finnish-Russian war and of rumors that a general peace was probable, the export grain market slowed down to almost a standstill and in the absence of any demand from the other side the rate on parcels of heavy grain, New York to Antwerp, receded to 70¢ per 100 lbs.

This is regarded as the bottom and the next move is expected to be in the direction of higher levels.

Basil Harris.

MEMORANDUM

March 26, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

I am most reluctant to bother you while you are on your vacation, but after discussing this matter with Mr. Bell it was our conclusion that I should write you this memorandum to keep you informed of the development of an unusual situation.

As I was leaving the luncheon of the Post Mortem Club this noon, Assistant Secretary of War Johnson called me away from the group to tell me that he had just then learned that the Secretary of War was "sniping again". Louis Johnson stated that he himself had personally inspired the article by Hugh S. Johnson in the Washington News of March 25th which I am enclosing, and which Louis Johnson believed to be extremely helpful. Louis Johnson then stated that he had just learned that last night the Secretary of War sent General Marshall to see Mr. Hugh S. Johnson to attempt to persuade him to change his present position in support of this program. Louis Johnson was very much disturbed because he felt that this was sufficient evidence to justify his suspicion that the Secretary of War although giving lip service to the plan agreed upon by the President would do everything in his power to under-cut the program on the Hill. There is to be a hearing of the full committee tomorrow morning at 10 o'clock and a statement has been prepared by Louis Johnson and Colonel Burns to be read by the Secretary of War. Louis Johnson believed that the Secretary would read this statement but that he was still hostile to the program.

At 2:40 this afternoon over the telephone, I asked Mr. Louis Johnson if he had advised the President of this situation and he told me that he had first heard of it only a minute or two before speaking to me at the Club. He said that his informant was urging him to call again on Mr. Hugh S. Johnson in an effort to persuade the latter to stand fast by the opinion expressed in his article of March 25th. Mr. Louis Johnson expressed the opinion that he should not return to see Mr. Hugh S. Johnson.

- 2 -

Neither Mr. Bell nor Mr. Schwarz nor I have any suggestions to make in this matter, but we all felt that you should be kept informed.

T L S

You certainly escaped some very disagreeable weather in Washington and we all hope you are thoroughly enjoying your vacation. I understand that your boys are with you, but I bet they don't keep you up nights like my boy kept me up last night.

One Man's Opinion Washington News FILE COPY by Hugh S. Johnson

THE policy of the President to permit the Allies to use our most advanced type of military and naval planes is 100 per cent correct. A principal problem in our preparation for defense is productive capacity. Time is "of the essence" in war. Napoleon used to say: "I may lose a battle



Gen. Johnson

but I will never lose a minute—and hence few wars." We have the best industrial plant in the world. But in our modern system of manufacture, the best plant in the world can't get into production without first going thru a slow and complicated effort called "tooling-up."

This means the arrangement of buildings and machine tools to provide a continuous flow from one operation to another without backtracking or lost motion. It means the making of the working points of those tools to insure absolute uniformity in all the thousands of separate parts that go into the assembly of any such complex and wonderful thing as a modern war plane. It means the making of patterns and gauges to insure accuracy beyond the split fraction of a mouse hair—microscopic accuracy in some cases.

This requires the highest mechanical skill that is demanded of any workmen. The scarcity, due to the depression, of sufficiently skilled pattern and toolmakers is one of the great "bottlenecks" retarding production. Once the original tooling is done, fewer of those experts are needed.

EVERYBODY who is old enough will remember that preparation to build the radically different successor to the old Model T tin lizzie, paralyzed the production of even the great Ford plants for the better part of two years. It is believed in the motor industry that a single last

minute change in arrangement and design cost the Ford company millions of dollars and months of time. When this great preparation work is done, increase in speed and reduction in cost are very great.

To put the American airplane industry on this kind of mass production basis would give us something that hasn't existed and, under conservative plans for our own equipment, might never have been completely attained. But a billion dollars worth of Allied business coupled with our own requirements, on basic designs identical with our own, will do exactly that. This result of giving the Allies our most advanced designs is the most fortunate thing that could happen to us from the angle of our own defense.

AS FOR "military secrets," we have some gadgets that lead the world—for example, our pursuit plane supercharger that has increased speed of one model by 40 miles an hour. But how long will they remain secret? As the automotive industry learned long ago about standard equipment in common use, constantly superior research and invention are the only dependable methods of beating competition and neither secrecy nor even patent protection will serve.

For undisclosable reasons, our marvelously accurate bomb-sight is in a slightly different class but, as to standard plane and engine types, we would be short-sighted not to give the Allies the best we have for quantity production, even if it somewhat delays our own program. If war threatens us, we will take all this newly developed factory capacity for our own use—exactly as we did in 1917. The President's policy will speed our essential production, put us in the vanguard of invention and design and greatly lower our costs.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

64

INTER OFFICE COMMUNICATION

DATE March 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The Finnish Minister dropped in on me this afternoon at 3 o'clock. He stated that he had endeavored two or three times to see the President since his conversation with Secretary Morgenthau last week, but had been unable to obtain an appointment because of the President's illness. On his last approach to the White House, Minister Procope has now been advised by General Watson to see Secretary of State Hull and state his business to the latter. In view of Mr. Morgenthau's advice that Minister Procope should not talk to the State Department about the matter of a reconstruction loan for Finland until the President might so direct him, Procope now hesitates to call on Mr. Hull. That is, Procope is not sure that the President has told Mr. Hull what the proposition is, and he does not desire to discuss Secretary Morgenthau's plan with Secretary Hull in such circumstances.

Minister Procope is planning to go to New York tomorrow afternoon. He asked, therefore, if he could telephone Secretary Morgenthau, or if I would telephone the Secretary, for advice. I excused myself at this point, and went into Under Secretary Bell's office to discuss the question. Mr. Bell telephoned the White House, but learned that General Watson had left the building and would not return until tomorrow morning. Neither Mr. Bell nor I was willing to call the Secretary this afternoon.

Upon returning to my office, I told Minister Procope that we had been unable to get in touch with General Watson. I promised that we would learn from General Watson as early as possible in the morning whether the President has actually passed on to Secretary Hull some instructions in regard to the plan which Secretary Morgenthau submitted, and whether the President desires that Minister Procope now discuss the subject directly with Secretary Hull. If an affirmative reply is received I shall promptly inform Minister Procope that he should go ahead. If the reply is negative, either Mr. Bell or I will seek the Secretary's advice in the premises as soon as one of us has contact with him, and then telephone Minister Procope. Procope would like to hear from us by noon, so that he might even see Mr. Hull before he leaves for New York tomorrow afternoon. While the Minister is anxious to get the matter under way as quickly as possible, he does not want to suggest that his Government send a commission to this country before he may have definite assurances that the mission will be successful.

In this connection, the Minister stated that in his last conversation with Mr. Jesse Jones in regard to freedom of use of the additional \$20,000,000 credit, Mr. Jones asked why Finland did not request of him that an additional credit be granted. When the Minister asked what amount Mr. Jones could suggest, the latter mentioned \$10,000,000. Minister Procope hesitated to go further with the conversation, lest there might be some complication if the plan of the Secretary of the Treasury can be put into effect.



TELEPHONE LEXINGTON 2-8500

65



J. FEINSTEIN

TRANSPORTATION DEPT.

AMTORG TRADING CORP.
261 FIFTH AVENUE
NEW YORK

AGENCIA COMERCIAL Y MARITIMA

HEYMEN, EVERSBUCH Y CIA., S. DE R. L.

AGENTES DE LAS COMPAÑIAS DE VAPORES

66

HAMBURG AMERIKA LINE Y NÖRDDEUTSCHER LLOYD

GULF PACIFIC MAIL LINE - THE ISBRANDTSEN-MOLLER CO.

COMISIONISTAS.

VERACRUZ, VER.
APARTADO 6

MEXICO. D. F.
APARTADO 870

TAMPICO, TAMPS.
APARTADO 42

REPRESENTADA POR

Paul Rubach
Hauze Wilb



IN REPLY REFER TO:

HMD:hs

67

TREASURY DEPARTMENT

UNITED STATES CUSTOMS SERVICE

NEW YORK, N. Y.

OFFICE OF THE COLLECTOR
DISTRICT NO. 10

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

March 26, 1940.

STRICTLY PERSONAL:

Hon. Basil Harris, *B.H.*
Commissioner of Customs,
Treasury Department,
Washington, D. C.

Dear Basil:

For your information I am enclosing herewith two memoranda from Inspector Fitzgerald dated March 25th, and relating to cargo shipped to Manzanilla, Mexico, destined for Vladivostok, Russia. Also enclosed are two cards indicating the parties interested in this cargo.

Sincerely yours,

Harry

Harry M. Durning,
Collector.

Encls:

Two memoranda (originals)
Two cards (originals)

March 26, 1940.

STRICTLY PERSONAL:

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Commissioner of Customs,
Treasury Department,
Washington, D. C.

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Two cards (originals)



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

IN REPLY REFER TO:

JGCF:ks

69

TREASURY DEPARTMENT

UNITED STATES CUSTOMS SERVICE

NEW YORK, N. Y.

March 25, 1940.

MEMORANDUM FOR THE ASSISTANT COLLECTOR:

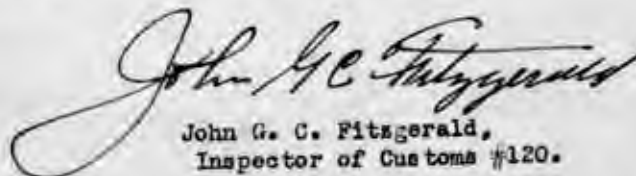
Reference is made to the American SS BUENAVENTURA which cleared from this port on January 4, 1940 for Manzanillo, Mexico, with a cargo of copper destined for Vladivostok, Russia.

The writer on this day interviewed Mr. Fred Velez, Captain of the American SS BUENAVENTURA moored at the State Barge Canal foot of Columbia Street, Brooklyn. He states that he did not contact any vessels on the trip. Also that when he arrived at Manzanillo, Mexico, there was a rumor that he had machine guns on board which was not true. He further states that 1500 tons of copper were unloaded from his vessel to the Russian SS MAYAKORSKY at Manzanillo, Mexico. The balance, 2000 tons, were unloaded on to lighters and then placed on the wharf. Also, he does not know what became of this cargo as he was only therefor a few days. He also informed the writer that the German SS HAVELAND is anchored at Manzanillo, Mexico.

Attached are two cards -- one card is J. Feinstein, a representative of Amtorg Trading Company who arrived by airplane from New York to supervise this cargo at Manzanillo, Mexico. The other card is Agencia Comercial Y Maritima -- stevedores who came from Mexico City to Manzanillo especially to discharge the cargoes of the SS GUYAQUIL, SS BUENVENTURA & AND SS HARPOON.

The Captain further states that once the cargo reaches Vladivostok they would not have any trouble getting to Germany.

The Captain requests that this information be kept confidential.


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



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

IN REPLY REFER TO:
JGCF:ks

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

70

March 25, 1940.

MEMORANDUM FOR THE ASSISTANT COLLECTOR:

Reference is made to cargo which arrived at Manzanillo, Mexico, destined for Vladivostok, Russia.

The writer has been informed there are 3800 tons of copper now at Manzanillo, Mexico. Part of this cargo is from the American SS GUAYAQUIL and part from the American SS HARPOON. Also there are 3000 tons of lead there which originated at Monterey, Mexico.

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

ASSOCIATION OF AMERICAN RAILROADS
TRANSPORTATION BUILDING
WASHINGTON, D. C.

71

J. J. PELLEY
PRESIDENT

March 26, 1940.

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

My dear Mr. Secretary:

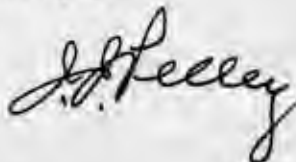
In accordance with our conversation of several weeks ago, I am pleased to enclose herewith advance statements of the National Forecast of the Regional Shippers' Advisory Boards covering quarterly freight car requirements of 29 principal commodities for the second quarter of 1940.

Statement "A", attached, shows the estimate by districts compared with actual in 1939 and statement "B", attached, shows the detail commodities which go into these estimates. As a matter of information, a considerable part of the estimated increase for the second quarter is made up largely of coal and coke. During the first six weeks of the second quarter of 1939 a coal strike was in effect, so the heavy estimated increase in coal for the second quarter of 1940 is comparative with a period in 1939 of greatly reduced production and distribution. Eliminating the coal and coke, it is our judgment that the total of the second quarter increase will be about 8.1% over last year.

At our previous meeting, I left with you a printed copy of the estimate for the first quarter. For convenient reference, an additional copy is attached. You will note on the second page that the estimated increase in that quarter was 12.1%; the actual increase for the first eleven weeks of the quarter, and covering the latest available figures we have, shows a 12.5% increase in the loading of the commodities listed. For all the car loadings, which include l.c.l. commodities not covered by the forecast, for the first eleven weeks of 1940 the increase is 9% over a similar period of 1939.

As soon as we have car loading figures complete for the first three months of this year, which will be early in April, I will be very glad to send you, in accordance with your request, our estimate as to what the total car loadings will be for the year.

Sincerely yours,



2nd Quarter 1940

District No.		Actual 1939	Estimated 1940	% Increase	% Decrease
6	Southeast	544,983	592,210	6.7	
7	Southwest	314,513	300,667		4.4
12	New England	101,296	106,167	4.8	
8	Atlantic Sts.	597,791	600,946	0.5	
9	Allegheny	488,200	766,460	57.0	
2	Great Lakes	342,052	376,678	10.1	
4	Ohio Valley	430,815	753,706	74.9	
1	Mid-West	623,567	660,116	5.9	
3	Northwest	298,240	377,064	26.4	
5	T-M-K	270,332	279,536	3.4	
10	Central West	157,479	162,279	3.0	
11	Pac. Coast	231,739	266,232	14.9	
14	Pac. N.W.	187,501	187,713	0.1	
Total		4,598,508	5,429,774	18.1	

For release in newspaper
by Sunday, March 31, 1940

ADVISORY BOARD CLASSIFICATION		TOTAL ALL REPORTING DISTRICTS			
ITEM NO.	COMMODITY	CARLOADINGS		ESTMTD. PERCENT	
		ACTUAL 1939	ESTIMATED 1940	INCREASE %	DECREASE %
1	Grain, All	227165	224043		1.4
2	Flour, Meal & Other Mill Products	191349	196991	2.9	
3	Hay, Straw and Alfalfa	11956	13031	9.0	
4	Cotton	19711	25460	29.2	
5	Cotton Seed & Products, Except Oil	7678	8174	6.5	
6	Citrus Fruits	42750	38984		8.8
7	Other Fresh Fruits	48877	51579	5.5	
8	Potatoes	65109	64771		0.5
9	Other Fresh Vegetables	77976	71759		8.0
10	Live Stock	142397	148630	4.4	
11	Poultry and Dairy Products	31164	31292	0.4	
12	Coal and Coke	1124782	1673214	48.8	
13	Ore and Concentrates	344419	436410	26.7	
14	Gravel, Sand and Stone	295746	295989	0.1	
15	Salt	23774	24679	3.8	
16	Lumber and Forest Products	404227	430544	6.5	
17	Petroleum and Petroleum Products	494441	517050	4.6	
18	Sugar, Syrup and Molasses	40019	40761	1.9	
19	Iron and Steel	314210	357078	13.6	
20	Machinery and Boilers	24778	28877	16.5	
21	Cement	156803	167764	7.0	
22	Brick and Clay Products	61630	63740	3.4	
23	Lime and Plaster	37433	39687	6.0	
24	Agric. Implements & Vehicles, Other than Automobiles	19685	22761	15.6	
25	Automobiles, Trucks and Parts	131582	173039	31.5	
26	Fertilizers, All Kinds	97109	106715	9.9	
27	Paper, Paper Bd. & Prepared Roofing	90596	98834	9.1	
28	Chemicals and Explosives	28589	32856	14.9	
29	Canned Goods - All Canned Food Products, (Includes Catsup, Jams, Jellies, Olives, Pickles, Preserves, etc.)	42553	45062	5.9	
TOTAL ALL COMMODITIES LISTED		4598508	5429774	18.1	

NATIONAL FORECAST

of the

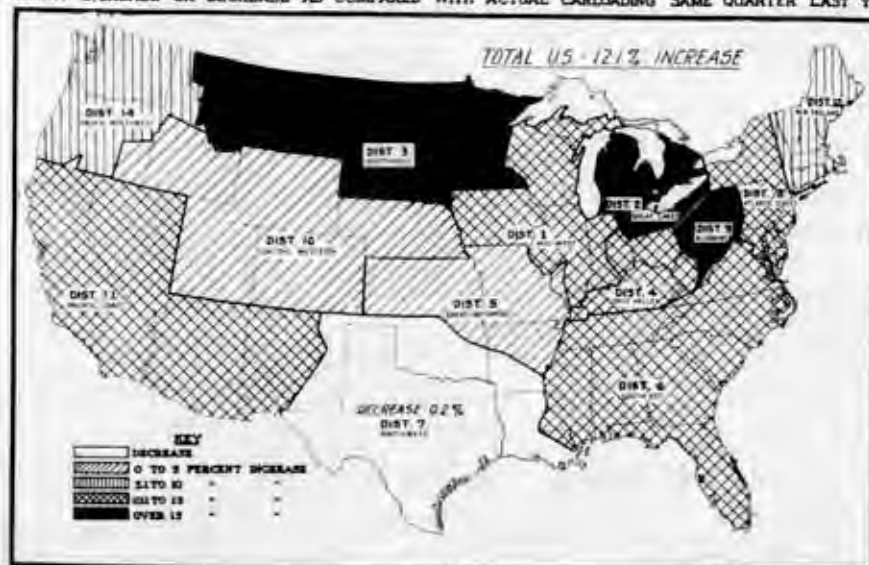
Regional Shippers' Advisory Boards

covering

QUARTERLY FREIGHT CAR REQUIREMENTS OF
29 PRINCIPAL COMMODITIES AS FURNISHED
TO THE CAR SERVICE DIVISION OF THE
ASSOCIATION OF AMERICAN RAILROADS

1st QUARTER 1940

PERCENT INCREASE OR DECREASE AS COMPARED WITH ACTUAL CARLOADING SAME QUARTER LAST YEAR.



ADVISORY BOARD CLASSIFICATION		TOTAL ALL REPORTING DISTRICTS			
ITEM NO.	COMMODITY	CARLOADINGS		ESTMTD. PERCENT INCREASE	
		ACTUAL 1939	ESTIMATED 1940	INCREASE	DECREASE
1	Grain, All	198,465	222,114	11.9	
2	Flour, Meal & Other Mill Products	189,801	200,555	5.7	
3	Hay, Straw and Alfalfa	13,480	14,667	8.8	
4	Cotton	27,235	47,347	73.8	
5	Cotton Seed & Products, Except Oil	14,133	15,398	9.0	
6	Citrus Fruits	47,195	47,385	.4	
7	Other Fresh Fruits	34,130	35,009	2.6	
8	Potatoes	55,672	58,505	5.1	
9	Other Fresh Vegetables	71,559	73,662	2.9	
10	Live Stock	141,233	143,995	2.0	
11	Poultry and Dairy Products	24,080	25,544	6.1	
12	Coal and Coke	1,726,870	1,889,244	9.4	
13	Ore and Concentrates	95,222	134,039	40.8	
14	Gravel, Sand and Stone	161,787	178,299	10.2	
15	Salt	23,966	24,545	2.4	
16	Lumber and Forest Products	146,968	181,091	9.8	
17	Petroleum and Petroleum Products	455,507	473,459	3.9	
18	Sugar, Syrup and Molasses	34,096	34,964	2.5	
19	Iron and Steel	307,914	447,293	45.3	
20	Machinery and Boilers	21,575	26,931	24.8	
21	Cement	83,652	88,971	6.4	
22	Brick and Clay Products	48,305	51,877	7.4	
23	Lime and Plaster	28,917	32,296	11.7	
24	Agric. Implements & Vehicles, Other than Automobiles	21,294	25,855	21.4	
25	Automobiles, Trucks and Parts	168,690	193,238	14.8	
26	Fertilizers, All kinds	64,045	88,614	5.4	
27	Paper, Paper Bd. & Prepared Roofing	82,139	94,937	15.6	
28	Chemicals and Explosives	23,191	25,596	10.4	
29	Canned Goods - All Canned Food Products, (Includes Catsup, Jam, Jelly, etc., Pickles, Preserves, etc.)	45,351	47,797	5.4	
TOTAL ALL COMMODITIES LISTED		4,570,472	5,123,227	12.1	

NEW ENGLAND BOARD TERRITORY DIST. NO. 12				ATLANTIC STATES BOARD TERRITORY DIST. NO. 8				ALLEGHENY BOARD TERRITORY DIST. NO. 7				ITEM NO.
CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		
ACTUAL	ESTMTD.	INCR.	DECR.	ACTUAL	ESTMTD.	INCR.	DECR.	ACTUAL	ESTMTD.	INCR.	DECR.	
1939	1940	%	%	1939	1940	%	%	1939	1940	%	%	
3550	3050	2.0		3919	3919	-	-	505	600	12.8		1
3160	3160	-	-	8580	10725	25.0		618	800	25.4		2
156	159	1.9		3091	2472		20.0	85	60		30.2	3
766	766	-	-	-	-			-	-			4
6	6	-	-	-	-			-	-			5
2632	2633	-	-	-	-			-	-			6
924	924	-	-	5919	6866	16.0		219	300	37.0		7
1247	18447	-	-	730	584		20.0	41	70	70.7		8
196	196	-	-	3094	3032		2.0	16	20	25.0		9
373	373	-	-	-	-			183	201	9.8		10
259	246		5.0	681	681	-	-	-	-			11
18741	19678	5.0		250414	275455	10.0		437177	476223	9.0		12
217	326	50.2		26072	29461	13.0		-	-			13
159	1693	10.0		19948	18751		6.0	16916	24528	45.0		14
24	24	-	-	6883	6883	-	-	-	-			15
13959	15355	10.0		8913	8199		8.0	1562	1918	10.0		16
19447	19836	2.0		47945	51301	7.0		18241	19689	8.5		17
1314	1380	5.0		6441	6312		2.0	-	-			18
2432	3040	25.0		12411	16107	38.0		135833	205108	51.0		19
2091	2718	30.0		5024	7355	47.0		2793	3431	30.0		20
652	750	15.0		20365	23012	13.0		4501	6041	12.0		21
336	386	18.9		3230	3295	2.0		15394	17349	12.7		22
1387	1595	15.0		4125	4455	8.0		2507	3109	24.0		23
57	57	-	-	-	-			53	53	-	-	24
546	695	30.0		10451	9750		6.7	154	681	50.0		25
1372	1372	-	-	6486	6810	5.0		3708	4264	15.0		26
24968	16465	10.0		12748	14532	14.0		3586	4119	14.9		27
277	305	10.1		5772	6406	11.0		4032	4596	14.0		28
1011	1011	-	-	8441	9285	10.0		1693	1716	1.3		29
10280	118606	5.7		602663	556848	10.6		652738	776378	18.9		TOTAL

ITEM NO.	COMMODITY	GREAT LAKES BOARD TERRITORY DIST. NO. 2				OHIO VALLEY BOARD TERRITORY DIST. NO. 4			
		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED	
		ACTUAL 1939	ESTM'D. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTM'D. 1940	INCR. %	DECR. %
1	Grain, All	11314	14339	7.7		13048	11743		
2	Flour, Meal & Other Mill Products	34491	34491	-	-	7966	7831		
3	Hay, Straw and Alfalfa	2607	3804	45.9		1752	1927	9.9	
4	Cotton	-	-			12	12	-	-
5	Cotton Seed & Products, Except Oil	-	-			352	352	-	-
6	Citrus Fruits	-	-			-	-		
7	Other Fresh Fruits	400	440	10.0		44	44	-	-
8	Potatoes	2145	1609		25.0	16	16	-	-
9	Other Fresh Vegetables	2829	3112	10.0		41	41	-	-
10	Live Stock	7672	8049	4.9		7165	6448		10.0
11	Poultry and Dairy Products	-	-			562	562	-	-
12	Coal and Coke	4633	9000	4.3		487316	545794	12.0	
13	Oil and Concentrates	4761	25000	425.1		208	208	-	-
14	Gravel, Sand and Stone	5689	5474	13.8		13944	16524	18.5	
15	Salt	6061	6170	1.8		216	216	-	-
16	Lumber and Forest Products	2075	2782	34.1		6707	7572	12.9	
17	Petroleum and Petroleum Products	30892	33889	9.7		15652	16951	8.3	
18	Sugar, Syrup and Molasses	743	743	-	-	154	154	-	-
19	Iron and Steel	14244	43524	27.1		13678	18110	38.4	
20	Machinery and Boilers	3111	4035	29.7		2374	2740	15.4	
21	Cement	2003	2105	5.1		4905	5102	4.0	
22	Brick and Clay Products	3169	2770		12.6	3621	4494	24.1	
23	Lime & Plaster	6848	7640	11.4		485	643	32.6	
24	Agric. Implements & Vehicles, Other than Automobiles	877	1400	59.6		773	746		3.6
25	Automobiles, Trucks and Parts	49986	123063	23.1		5179	5697	10.0	
26	Fertilizers, All kinds	2100	2344	11.6		2413	2447	1.4	
27	Paper, Paper Bd. & Prepared Roofing	7045	7414	5.2		6752	8555	25.7	
28	Chemicals and Explosives	2144	2152	.4		1517	1792	10.0	
29	Canned Goods - All Canned Food Products, (includes Catsup, Jam, Jellies, Olives, Pickles, Preserves, etc.)	3723	4009	7.7		2150	2256	5.0	
TOTAL ALL COMMODITIES LISTED		287575	340378	21.8		599103	668079	11.7	

MID-WEST BOARD TERRITORY DIST. NO. 1					NORTHWEST BOARD TERRITORY DIST. NO. 3					TRANS-MISSOURI-KANSAS BOARD TERRITORY DIST. NO. 5					ITEM NO.
CARLOADINGS		ESTIMATED			CARLOADINGS		ESTIMATED			CARLOADINGS		ESTIMATED			
ACTUAL 1939	ESTM'D. 1940	INCR. %	DECR. %		ACTUAL 1939	ESTM'D. 1940	INCR. %	DECR. %		ACTUAL 1939	ESTM'D. 1940	INCR. %	DECR. %		
57500	68125	15.0			29109	55000	88.9			30577	27000		11.7	1	
30600	33050	8.0			20215	22216	10.5			36915	38539	4.4		2	
1300	1300	-	-		333	400	20.1			934	1167	24.9		3	
-	-				-	-				-	-			4	
-	-				-	-				-	-			5	
-	-				-	-				-	-			6	
334	250		25.1		17	25	47.1			112	100		10.7	7	
2090	2200	8.9			10133	11500	13.5			42	40		4.8	8	
1782	2000	12.2			431	450	4.4			232	200		13.8	9	
41400	46180	12.0			11839	15445	11.6			13185	9889		25.0	10	
11400	12084	6.0			4122	4300	4.3			3074	3269	6.3		11	
308000	338600	10.0			23825	23825	-	-		48674	52567	8.0		12	
398	500	27.6			1395	2800	100.7			3888	4910	26.3		13	
15750	15750	5.0			1166	1282	9.9			10257	11283	10.0		14	
25544.4	25544.4				-	-				3219	3219	-		15	
29803	31580	15.0			8669	11100	28.0			14466	15913	10.0		16	
58003	62000	5.1			10742	11000	2.4			54487	56122	3.0		17	
1350	4225	7.0			843	800		5.1		1753	1795	2.4		18	
44003	74560	60.0			701	2000	185.3			4410	7025	59.3		19	
4300	4515	5.0			229	200		12.7		263	288	9.5		20	
8000	7840		2.0		861	861	-	-		9250	9713	5.0		21	
4900	5190	10.0			491	540	10.0			4274	4975	16.4		22	
3140	3390	8.0			356	356	-	-		4199	4829	15.0		23	
14000	20200	20.0			740	1545	108.8			660	573		13.2	24	
17250	19540		10.0		1159	1080		6.8		13112	17200	31.2		25	
1500	3340	10.0			125	150	19.0			-	-			26	
10895	11374	5.0			3315	3415	3.0			-	-			27	
2700	3100	15.0			27	30	11.1			-	-			28	
300	1345	10.0			-	-				-	-			29	
502308	781713	18.9			133465	171290	28.0			259016	271701	4.9		TOTAL	

ADVISORY BOARD CLASSIFICATION		SOUTHEAST BOARD TERRITORY DIST. NO. 6				SOUTHWEST BOARD TERRITORY DIST. NO. 7				CENTRAL WESTERN BOARD TERRITORY DIST. NO. 10				PACIFIC COAST BOARD TERRITORY DIST. NO. 11				PACIFIC NORTHWEST BOARD TERRITORY DIST. NO. 14				ITEM NO.
		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		
ITEM NO.	COMMODITY	ACTUAL 1939	ESTM'D. 1940	INCH. %	DECR. %	ACTUAL 1939	ESTM'D. 1940	INCH. %	DECR. %	ACTUAL 1939	ESTM'D. 1940	INCH. %	DECR. %	ACTUAL 1939	ESTM'D. 1940	INCH. %	DECR. %	ACTUAL 1939	ESTM'D. 1940	INCH. %	DECR. %	ITEM NO.
1	Grain, All	2188	2400	10.0		14912	8947			14958	13500		9.7	2458	2496	1.6		12993	12993	-	-	1
2	Flour, Meal & Other Mill Products	11606	12656	10.0		15687	16471	5.0		10128	10500	1.7		3372	3747	11.1		6349	6349	-	-	2
3	Hay, Straw and Alfalfa	485	967	9.9		553	608	1.9		543	675	24.3		480	528	10.0		1220	1100		9.8	3
4	Cotton	17147	14294	100.0		5384	6710	25.0		-	-			3926	5545	41.2		-	-			4
5	Cotton Seed & Products, Except Oil	8771	8573	-	-	4542	5450	20.0		-	-			860	1217	41.5		-	-			5
6	Citrus Fruits	20650	20650	-	-	8607	7486	15.0		-	-			15105	16616	10.0		-	-			6
7	Other Fresh Fruits	11138	12245	10.0		2129	1810	15.0		797	820	2.9		775	579		25.3	11328	10606		6.4	7
8	Potatoes	2025	2238	10.0		468	481	10.0		16128	18150	12.5		1106	1327	20.0		2361	1903		19.4	8
9	Other Fresh Vegetables	14520	16280	10.0		16300	13855	15.0		1786	1900	6.4		28842	31487	9.2		1210	1089		10.0	9
10	Live Stock	7247	7972	10.0		15478	15478	-	-	25507	24160		5.3	7143	7310	2.3		2041	2290	12.2		10
11	Poultry and Dairy Products	335	333	-	-	610	700	15.1		2257	2450	8.6		36	42	16.7		546	675	23.6		11
12	Coal and Coke	74236	78461	3.0		8814	8814	-	-	52445	53130	1.3		3586	3445		3.9	5009	5750	14.8		12
13	Ore and Concentrates	13724	18645	40.0		1108	1108	-	-	15013	16395	26.0		27807	31505	13.3		3036	3171	4.4		13
14	Gravel, Sand and Stone	54056	74054	-	-	21473	23600	10.0		451	3365	2.9		14490	15661	8.1		3688	5394	37.7		14
15	Salt	157	157	-	-	5341	5048	2.0		451	440	4.6		1559	1833	17.6		-	-			15
16	Lumber and Forest Products	110184	142117	9.0		74505	76230	5.0		2232	2940	3.8		14445	17016	17.8		77252	84369	9.2		16
17	Petroleum and Petroleum Products	50007	52407	5.0		98622	98622	-	-	16524	16895	1.9		26774	27925	4.3		6514	6722	3.2		17
18	Sugar, Syrup and Molasses	4878	5024	3.0		8481	8909	5.0		2827	2300		9.0	2589	2876	11.1		493	450	6.4		18
19	Iron and Steel	23791	31307	40.0		5860	4053	5.0		4313	4815	11.6		3915	4558	24.1		726	786	8.3		19
20	Machinery and Engines	680	715	10.0		470	470	-	-	166	155		6.6	-	-	-		124	109		12.1	20
21	Cement	13954	15234	10.0		9785	8807	15.0		2108	2200	4.4		4119	4524	9.8		3198	3722	16.4		21
22	Brick and Clay Products	7864	7664	-	-	3619	3257	10.0		637	685	7.5		571	629	10.2		199	243	22.1		22
23	Lime & Plaster	1582	3874	10.0		1841	1841	-	-	264	308	16.7		-	-	-		233	256	10.0		23
24	Agric. Implements & Vehicles, Other than Automobiles	546	661	10.1		329	280	14.0		324	275		15.1	-	-	-		35	45	28.6		24
25	Automobiles, Trucks and Parts	5993	7072	16.0		415	428	5.0		177	120		12.4	7996	11918	49.0		-	-			25
26	Fertilizers, All Kinds	50940	59787	5.0		6725	6860	3.0		166	380	3.8		-	-	-		309	350	13.3		26
27	Paper, Paper Bd. & Prepared Roofing	14901	19436	15.0		2640	5332	102.0		81	75		7.4	1234	1302	5.5		2031	2917	43.6		27
28	Chemicals and Explosives	2661	1237	70.0		311	448	11.9		319	270		15.4	2678	2755	2.9		633	620		2.1	28
29	Canned Goods - All Canned Food Products (Includes Catup, Jams, Jellies, Olives, Pickles, Preserves, etc.)	2236	2462	15.0		7542	1675	6.0		1846	980		32.2	5889	6377	8.3		2915	2552		12.5	29
TOTAL ALL COMMODITIES LISTED		577400	670914	11.6		294751	294071			173744	177843	2.4		181756	203580	12.0		144573	154421	6.8		TOTAL

LIST OF SHIPPERS' ADVISORY BOARDS

<u>DIST NO.</u>	<u>NAME OF BOARD</u>	<u>GENERAL CHAIRMAN</u>	<u>ADDRESS</u>
9	ALLEGHENY	L.G. HULTS	ROOM 1103 - PENNSYLVANIA STA., PITTSBURGH, PA.
8	ATLANTIC STATES	GEO. F. HICHBORN	" 1502 - 30 VESEY ST., NEW YORK, N.Y.
10	CENTRAL WESTERN	A.M. HAYS	" 402 - UNION PACIFIC BLDG., OMAHA, NEBR.
2	GREAT LAKES	HARRY CARROLL	" 5A - MICH. CENT. TERMINAL, DETROIT, MICH.
1	MID-WEST	W. Y. WILDMAN	" 2205 - 59 EAST VAN BUREN ST., CHICAGO, ILL.
12	NEW ENGLAND	W.F. GARCELON	" 421 - SOUTH STA., BOSTON, MASS.
3	NORTHWEST	C.H. CONAWAY	" 620 - HODGSON BLDG., MINNEAPOLIS, MINN.
4	OHIO VALLEY	H.S. MALONE	" N-203 - UNION STA., CINCINNATI, OHIO
11	PACIFIC COAST	P.S. ARMSTRONG	" 516 - WELLS FARGO BLDG., SAN FRAN., CALIF.
14	PACIFIC NORTHWEST	W.G. PERROW	" 404 - GREAT NORTHERN BLDG., SEATTLE, WASH.
6	SOUTHEAST	A.W. VOGTLE	" 211 - 110 CENTRAL AVE., S.W., ATLANTA, GA.
7	SOUTHWEST	E.P. BYARS	" 1413 - SANTA FE BLDG., DALLAS, TEXAS
5	TRANS-MO.-KANSAS	CARL GIESSOW	" 254 - UNION STA. BLDG., ST. LOUIS, MO.



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No. 67

82

AMERICAN CONSULATE GENERAL
American Foreign Service, Hanoi, Indochina,
March 26, 1940.

Subject: Wood Oil Shipments.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to my telegram of March 23, 1940, 2 p.m., in regard to restrictions on the export of wood oil from Indochina. Reference is also made to my despatches nos. 48 and 62, dated January 28 and March 7, 1940, in regard to the movement of wood oil across Indochina.

The question of restriction of exports of wood oil of Chinese origin has been discussed a number of times with officials of the Government General of Indochina. Both the Director of the Economic Section and the Under Director of Customs have stated that, until some positive arrangement is made with the Chinese Government as to Indochina permitting only the export of Chinese wood oil covered by a Chinese export permit, there is no reason why Indochina should act as a "policeman" for the Chinese Government. In other words, up to the present, the Indochina Government does not feel obligated to do something the Chinese Government should do, namely, prevent wood oil from Kwangsi not covered by a Chinese export permit from entering Indochina.

Port officials of the two British steamship services calling regularly at Haiphong state that Indochina permits to export Chinese wood oil not handled by the Foo Shing Trading Corporation are being obtained, but in many cases after some delay and with considerable difficulty. They admit, however, that conditions vary from time to time and that, during certain periods, the Indochina permit is relatively easily obtainable.

The Indochina Customs is understood to have suggested to both the Indochina-Yunnan Railway and the Foo Shing Trading Corporation that tank cars be obtained for the transport of wood oil, the oil to be pumped directly from the tank cars to ships' tanks. A survey of the facilities at Haiphong is said to be under way, to determine the best location for the terminal pumping station at that port. The inauguration of this tank system will assist the Indochina Customs materially, as a check on the usual wood oil containers (drums, tins and tubs) is increasingly difficult, in view of the fact that mobilization has reduced the Customs staff to a barely workable minimum.

Respectfully yours,

For the Consul at Saigon,

CHARLES S. REED II.

American Consul.

In duplicate to the Department (Original by air mail)

Copies to the Embassy, Chungking and Peiping

Copies to Consulates General, Hongkong and Shanghai

Copies to Consulates, Kunming and Saigon

569/800

CER:csr

(Copy)

Regraded Uclassified

March 26, 1940.

MEMORANDUM FOR THE PRESIDENT:

On the basis of a request of Secretary Morgenthau, which he told me had your approval, I am making this report of the facts, as I have found them to be, relating to the reduction in force now being made in the Procurement Division of the Treasury Department.

For the last five years, the Washington office of the Procurement Division has operated as one unit, although administering the regular procurement activities as well as the purchasing functions of the emergency program. The reason for this, as then explained to me by Admiral Peoples, was the fact it did not seem desirable to build a separate supervisory staff for the emergency activities which would, to a large extent, duplicate the same functions performed for permanent activities. Such increases in the staff as the Division considered necessary were made by the appointment of employees on the emergency roll. Budget estimates on this basis were made from year to year and included in the emergency appropriation.

In view of the reduction in emergency activities, it seemed to the Department this year that a careful analysis should be made of procurement activities for the purpose of reducing the contribution from emergency funds as nearly as

- 2 -

possible to conform to the proportion which that activity bears to the regular procurement work of the Division.

In pursuance of this purpose, the Secretary directed Mr. Harold N. Graves to make the necessary investigation and report. Mr. Graves was provided with necessary staff assistance for this purpose. A very careful and thorough analysis of all the work performed by the Division disclosed that emergency activities being currently performed would justify the employment of scarcely more than 200 employees, although there were then being carried on the emergency rolls and assigned to the work of the Division something more than 700 employees.

In preparing estimates for appropriations for next year, the Department included a request for funds on the regular roll which would have permitted them to take over from the emergency group a considerable portion of the employees already so engaged, although paid from emergency funds. After careful review in the Bureau of the Budget, the Department's request was reduced substantially so that the Budget actually included only 232 such positions. Congress reduced that estimate finally to a net of 137. The Department, therefore, found itself in a position where it could not after next July 1 ethically retain more emergency employees than were actually used for that activity (200), and with funds provided on regular rolls for only an additional 137, the total number of positions

- 3 -

available would be only 337, whereas the current comparable group on the emergency roll was more than 700. It, therefore, proceeded forthwith to reduce the emergency force systematically with a view to meeting that limitation.

The Department determined to reduce this force on the basis of a rating to be made of all emergency employees in the Division; those to be dropped being the ones with the lowest rating. This rating was arrived at in the following manner:

A weight of 55 points was assigned to the efficiency factor; the efficiency ratings being the average of the ratings given each employee over a period of the last three years.

A weight of 30 points was allowed on account of the dependency factor; this allowance in full being given where the employee had an outside income of less than \$200 and had five or more dependents. 5 points were deducted from this allowance where the number of dependents was only four and with each reduction of one in the number of dependents, the allowance was similarly reduced. In the case of employees having outside income of between \$200 and \$1,000, the dependence allowance was only 20 points where there were five or more dependents, and the allowance was similarly reduced in proportion to the number of dependents. Where the outside income was between \$1,000 and \$2,000, the maximum allowance granted was 15 points. Where outside income was between \$2,000 and \$3,000, the maximum allowance given was 10 points, and where the outside income was \$3,000 or more, no dependence allowance was granted.

- 4 -

For length of service, a maximum credit of 15 points was allowed, based on an allowance of 5 points for each year of service up to three.

No other factors than these were given consideration. The lists were prepared in such a way as to put in competition only the employees in the same general classes. For instance, supervisory employees in the higher grades were in competition with each other only. Stenographers and stenographic clerks were not required to compete with groups where the work was in a different classification. The number of reductions necessary in each classification was arrived at by careful survey of the volume of work prior to the preparation of separation ratings and no consideration was given in that connection as to what individuals might be dropped.

Great care was taken to see that the rules laid down were scrupulously adhered to in all cases, and the Director of Personnel of the Treasury Department, Mr. E. R. Ballinger, was charged with the duty of reviewing the lists and handling all complaints to see that no favoritism of any character had been permitted. The only exception that I have discovered in the application of the prescribed rules was in the case of one or two employees suffering some physical disability and they were retained at the direction of the Secretary, although they would have been dropped had the rules been applied in their cases.

only one
7-1

- 5 -

At the direction of Secretary Morgenthau, all employees to be dropped were given full thirty days notice, in addition to being granted accumulated leave to which they were entitled.

(Signed) Wm. H. McReynolds

Wm. H. McReynolds
Administrative Assistant
to the President

(COPY:EAS)

No. 67

AMERICAN CONSULATE GENERAL

American Foreign Service, Hanoi, Indochina,
March 26, 1940.

Subject: Wood Oil Shipments.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to restrictions on the export of wood oil from Indochina. Reference is also made to my despatch No. 7610 and 62, dated March 7, 1940, in regard to the movement of wood oil across Indochina.

The question of restriction of exports of wood oil of Chinese origin has been discussed a number of times with officials of the Government General of Indochina. Both the Director of the Economic Section and the Under Director of Customs have stated that, until some positive arrangement is made with the Chinese Government as to Indochina permitting only the export of Chinese wood oil covered by a Chinese export permit, there is no reason why Indochina should act as a "policeman" for the Chinese Government. In other words, up to the present, the Indochina Government does not feel obligated to do something the Chinese Government should do, namely, prevent wood oil from Kwangsi not covered by a Chinese export permit from entering Indochina.

Port officials of the two British steamship services calling regularly at Haiphong state that Indochina permits to export Chinese wood oil not handled by the Foo Shing Trading Corporation are being obtained, but in many cases after some delay and with considerable difficulty. They admit, however, that conditions vary from time to time and that, during certain periods, the Indochina permit is relatively easily obtainable.

The Indochina Customs is understood to have suggested to both the Indochina-Yunnan Railway and the Foo Shing Trading Corporation that tank cars be obtained for the transport of wood oil, the oil to be pumped directly from the tank cars to ships' tanks. A survey of the facilities at Haiphong is said to be under way, to determine the best location for the terminal pumping station at that port. The inauguration of this tank system will assist the Indochina Customs materially, as a check on the usual wood oil containers (drums, tins and tubs) is increasingly difficult, in view of the fact that mobilization has reduced the Customs staff to a barely workable minimum.

Respectfully yours,
For the Consul at Saigon,
CHARLES S. REED II,
American Consul.

In duplicate to the Department,
(Original by air mail)

Copies to the Embassy, Chungking and Peiping - Copies to Consulates General
Copies to Consulates, Kunming and Saigon - Hongkong and Shanghai.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Official sales of British owned dollar securities under the vesting order effective February 19:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
March				
18	4,900	164,753	N11	N11
19	12,300	589,193	N11	N11
20	12,200	649,553	N11	N11
21	8,900	423,387	N11	N11
22	N11	N11	N11	N11
23	14,318	470,724	N11	N11
 TOTAL FOR WEEK	 52,618	 2,297,610	 N11	 N11
 Sales from February 22 to March 16, incl.	 241,190	 9,293,327	 N11	 N11
 TOTAL FEBRUARY 22 to MARCH 23, INCL.	 293,808	 11,590,937	 N11	 N11

Mr. Pinsent stated that Mr. Gifford had reported that sales of non-vested securities for the week ended March 16 totaled \$4,900,000. The question of issuing a second vesting order has been discussed further, but Gifford thinks that it would be too early to take such a step at the end of March or on the tentatively suggested date of April 13. Gifford favors a fairly long interval between vesting orders, with a goodly amount of securities to be involved each time. He desires to keep the vesting well ahead of sales, but it is realized that there is no urgency now, considering the small extent to which the securities taken over at the first vesting have been liquidated to date. Gifford continues to divide his business somewhat, so as not to give the impression that one concern in New York has a monopoly thereof. He expects an assistant to arrive from England in the near future.

There is attached a clipping from the New York Herald Tribune of March 26 which indicates that the New York market is still not aware of British official sales of securities.

- 2 -

In accordance with the plan arrived at by an exchange of correspondence between Secretary Morgenthau and Chairman Frank of the Securities and Exchange Commission, I began on March 21 to give Mr. Purcell of the Securities and Exchange Commission the daily figures as received from Mr. Pinsent. On March 22, I sent Mr. Purcell a statement showing all of such sales from February 22 to March 19, inclusive. The figures are now being telephoned daily as received.



NEW YORK HERALD TRIBUNE

March 26, 1940.

Mobilized Stocks

The sixty American dollar stocks sequestered by the British authorities from their nationals have not yet found their way to the American market, as well as can be learned. Word from London indicates a strong feeling among well informed brokers that the British may sell the issues for some time. Based on the assumption that the war will be a long one, they reason that the continuing income realized from holding the securities may be a considerably greater benefit than early sale. Particularly high grade securities and regular dividend paying common stock are expected to be held for income. Speculative issues may be sold on a market rise, but not at current levels, according to London gossip.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 842.5151/130

March 26, 1940.

My dear Mr. Secretary:

In accordance with the request of the Canadian Minister, I herewith transmit to you a copy of a communication just received from him with regard to the prospective announcement of an agreement reached between the Canadian Foreign Exchange Control and the United Kingdom Control in respect to arrangements for the sale of Canadian securities held by United Kingdom residents.

Sincerely yours,

For the Secretary of State:

Henry F. Grady
Assistant Secretary

Enclosure:
From Canadian
Minister,
March 26, 1940.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

CANADIAN LEGATION

WASHINGTON

March 26th, 1940.

My dear Mr. Secretary:

The Canadian Foreign Exchange Control Board are about to announce an agreement they have reached with the United Kingdom Control regarding arrangements for the sale of Canadian securities held by United Kingdom residents. I am informed by my Department in Ottawa that the Minister of Finance there has suggested that the Secretary of the Treasury here be informed about the matter before the announcement is made in the press.

When foreign exchange control was instituted in Canada, it was provided that Canadian residents must obtain permits to make payments in Canadian dollars to non-residents. Since the end of September, such permits have not been granted when the payments represented the purchase of Canadian securities owned by non-residents.

For a time, complaints were received from United States holders of Canadian securities, who found it difficult or impossible to sell. In recent months, however, this situation has greatly improved, partly by reason of the fact that the Foreign Exchange Control Board has authorized purchases by Canadians in cases where the amounts involved were not substantial, and the sellers in the United States appeared to be in need of the funds. Moreover, a system was set up by which non-residents could "switch" from one security to another. Transactions of this character have assumed substantial proportions. Operating through brokers and dealers, many United States holders, who desired to make outright sales, have been able to do so as the brokers and dealers found other non-resident customers who wished to purchase an equivalent amount of the same or other Canadian domestic securities.

Up till the present time, our general arrangements in respect to non-resident sales of securities have applied to residents of the United Kingdom. We have now decided that some outright sales by United Kingdom residents will be permitted. The authorities in the United Kingdom will grant permits to their residents to make

such

The Hon. Cordell Hull,
Secretary of State of the United States,
Washington, D. C.

- 2 -

such sales, subject to certain restrictions in respect to the total dollar value of permits granted. We have expressed our willingness to co-operate by authorizing our residents to purchase securities which United Kingdom residents are permitted to sell. This arrangement forms part of the general program of repatriation which has been arranged to provide Canadian dollars for United Kingdom purchases of war supplies in Canada.

I should add that while the amount of the permits which will be granted will not be announced - and will be subject to variations from time to time - it is expected that transactions will be kept to comparatively small amounts.

The present intention is to make the announcement on Friday, March 29th.

May I therefore request that you be good enough to inform Mr. Morgenthau in the foregoing sense in accordance with Colonel Ralston's suggestion.

Believe me, my dear Mr. Hull,

Yours very sincerely,

LORING C. CHRISTIE.

JR

PLAIN

London

Dated March 26, 1940

Rec'd 1:50 p.m.

Secretary of State,
Washington.

742, March 26.

FOR TREASURY FROM BUTTERWORTH.

1. The British Treasury states in confidence that an announcement will be made at the end of this week of an arrangement reached between the British and Canadian monetary authorities whereby permission will be granted for the sale by United Kingdom residents to Canadian residents of Canadian securities other than Canadian Government bonds. The issuance of permits by the Bank of England will not be on a pro forma basis such as prevails in the case of American securities since the dealings will be allowed only on a small scale and for limited amounts; but it will constitute a means by which the British Government can acquire some Canadian dollars without requiring the Canadian Government to raise the money. In this connection reference is made to paragraph 2 of my 623, March 12.

The

-2- #742, March 26, from London.

The British Treasury states that the Canadian Minister in Washington will call upon the Secretary of the Treasury to explain in detail the arrangement reached.

2. With reference to my No. 681 of March 18, 7 p.m., minimum dealing prices for a new range of trustee securities have been incorporated in the stock exchange official list and became effective today. They include local government, colonial and dominion bonds.

3. Following the Easter holidays activity has been small in the city and the new three per cent war loan continues at a discount which has now been reduced to one eighth.

KENNEDY

KLP

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The open market rate for sterling today experienced the sharpest decline that has taken place in a single day's trading since last September. The currency was under pressure all day as a result of heavy selling for account of foreign banks, which probably represented the accumulation of orders over the Easter holidays. As shown by the reported turnover figures, purchases of sterling were slightly less than half of the sales, with commercial concerns accounting for the greater part of the demand. Prior to the opening of the New York market, sterling in Amsterdam fell from 3.67-7/16 to 3.62-1/2. In New York, the opening quotation was 3.63-1/8. The rate moved downward all day with only minor interruptions and reached a low of 3.52 just before the close. The final quotation was 3.53-1/2.

Sales of spot sterling by the six reporting banks totaled £1,065,000, from the following sources:

By commercial concerns.....	£ 140,000
By foreign banks (Europe, Far East and South America)...	£ 925,000
Total.....	£1,065,000

Purchases of spot sterling amounted to £510,000, as indicated below:

By commercial concerns.....	£ 437,000
By foreign banks (Europe and Far East).....	£ 73,000
Total.....	£ 510,000

The following reporting banks sold cotton bills totaling £66,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 26,000 by the Guaranty Trust Company
20,000 by the Chase National Bank
10,000 by the Bankers Trust Company
8,000 by the National City Bank
2,000 by the Irving Trust Company
£ 66,000 Total

Moving downward with sterling, the French franc touched a low of .0199-1/2 and closed at .0200-1/2. The Canadian dollar, on the other hand, eased only slightly, and subsequently recovered to 19% discount at the close.

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- 2 -

The other important currencies closed as follows:

Guilders	.5310
Swiss francs	.2242-1/2
Belgas	.1701

A weak tone has characterized the rate for the Cuban peso for nearly a month. Today it widened to a discount of 11-9/16%. The quotation for the Mexican peso was .1672; it has remained at this figure since January 3.

We purchased \$1,000,000 in gold from the earmarked account of the Bank of the Colombian Republic.

The Federal Reserve Bank of New York reported that the B.I.S. was shipping \$566,000 in gold from Switzerland to the J. Henry Schroder Banking Corporation, New York, for sale to the U. S. Assay Office.

On the report of March 20 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 \$17,551,000, an increase of \$503,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION MARCH 13	SHORT POSITION MARCH 20	INCREASE IN SHORT POSITION
England	\$ 7,302,000	\$ 7,579,000	\$ 277,000
Europe	5,951,000	6,415,000	464,000
Canada	785,000 (Long)	755,000 (Long)	30,000 (Decrease in Long Position)
Latin America	696,000	665,000	31,000 (Decrease)
Japan	2,874,000	2,936,000	62,000
Other Asia	1,010,000	693,000	317,000 (Decrease)
All Others	-0-	18,000	18,000
Total	\$17,048,000	\$17,551,000	\$ 503,000

The Bombay quotation for silver worked out to the equivalent of 40.16¢ which represents an advance of 7/16¢ over the price quoted last Wednesday.

The London silver market opened today after a prolonged weekend holiday. The price fixed for spot silver was 20-1/16d, off 5/8d from the fixing price on Thursday. Forward silver was fixed at 20-1/8d, off 9/16d. The U.S. equivalents were 32.82¢ and 32.76¢ respectively. The drop in the London price was attributed to local speculative selling in a small market. Indian interests were reported as buyers on the fall.

Handy and Harman's price for foreign silver, which is used by the trade for settlement purposes, was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

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- 3 -

We made ten purchases of silver totaling 762,000 ounces under the Silver Purchase Act. Of this amount, 380,000 ounces represented sales from inventory and the remaining 382,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 42,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

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

STRICTLY CONFIDENTIAL

March 27, 1940

MEMORANDUM TO THE PRESIDENT:

The Secretary asked me to send you the attached copy of a letter from Mr. John Pelley, President of the Association of American Railroads, together with the statements referred to therein. The forecasts for the second quarter of 1940 are encouraging and for this reason the Secretary wanted you to have them today. These figures will not be released by the Association until about April 1st.

(Signed) D. W. BELL.

*Sent to General Watson-
White House*

MAILED 3-27 1940
(Secret Service)
BY SPEC. MESSENGER 11:57 A.M.
FILE TO _____

DWB:ce

COPY TO _____
*Copy of Pelley material
to Hqs 3/27/40 - 12:04 P.M.*

ASSOCIATION OF AMERICAN RAILROADS
Transportation Building
Washington, D. C.

101

COPY

J. J. Pelley
President

March 27, 1940

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

My dear Mr. Secretary:

Supplementing my letter of March 26th, I am pleased to enclose herewith a printed copy of the forecast for freight car requirements for the second quarter of 1940 which we have just received from the printer. This tells the story in detail by regions and by commodities, and will be released by the Association as of Sunday, March 31st.

Yours very truly,

/s/ J. J. Pelley

ASSOCIATION OF AMERICAN RAILROADS
Transportation Building
Washington, D. C.

102

COPY

J. J. Pelley
President

March 27, 1940

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

My dear Mr. Secretary:

Supplementing my letter of March 26th, I am pleased to enclose herewith a printed copy of the forecast for freight car requirements for the second quarter of 1940 which we have just received from the printer. This tells the story in detail by regions and by commodities, and will be released by the Association as of Sunday, March 31st.

Yours very truly,

/s/ J. J. Pelley

ASSOCIATION OF AMERICAN RAILROADS
TRANSPORTATION BUILDING
WASHINGTON, D. C.

March 26, 1940.

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

My dear Mr. Secretary:

In accordance with our conversation of several weeks ago, I am pleased to enclose herewith advance statements of the National Forecast of the Regional Shippers' Advisory Boards covering quarterly freight car requirements of 29 principal commodities for the second quarter of 1940.

Statement "A", attached, shows the estimate by districts compared with actual in 1939 and statement "B", attached, shows the detail commodities which go into these estimates. As a matter of information, a considerable part of the estimated increase for the second quarter is made up largely of coal and coke. During the first six weeks of the second quarter of 1939 a coal strike was in effect, so the heavy estimated increase in coal for the second quarter of 1940 is comparative with a period in 1939 of greatly reduced production and distribution. Eliminating the coal and coke, it is our judgment that the total of the second quarter increase will be about 8.1% over last year.

At our previous meeting, I left with you a printed copy of the estimate for the first quarter. For convenient reference, an additional copy is attached. You will note on the second page that the estimated increase in that quarter was 12.1%; the actual increase for the first eleven weeks of the quarter, and covering the latest available figures we have, shows a 12.5% increase in the loading of the commodities listed. For all the car loadings, which include l.c.l. commodities not covered by the forecast, for the first eleven weeks of 1940 the increase is 9% over a similar period of 1939.

As soon as we have car loading figures complete for the first three months of this year, which will be early in April, I will be very glad to send you, in accordance with your request, our estimate as to what the total car loadings will be for the year.

Sincerely yours,



2nd Quarter 1940

District No.		Actual 1939	Estimated 1940	% Increase	% Decrease
6	Southeast	544,983	592,210	6.7	
7	Southwest	314,513	300,667		4.4
12	New England	101,296	106,167	4.8	
8	Atlantic Sts.	597,791	600,946	0.5	
9	Allegheny	488,200	766,460	57.0	
2	Great Lakes	342,052	376,678	10.1	
4	Ohio Valley	430,815	753,706	74.9	
1	Mid-West	623,567	660,116	5.9	
3	Northwest	298,240	377,064	26.4	
5	T-M-K	270,332	279,536	3.4	
10	Central West	157,479	162,279	3.0	
11	Pac. Coast	231,739	266,232	14.9	
14	Pac. N.W.	187,501	187,713	0.1	
Total		4,598,508	5,429,774	18.1	

release in newspaper
 Sunday, March 31, 1940

ADVISORY BOARD CLASSIFICATION		TOTAL ALL REPORTING DISTRICTS			
ITEM NO.	COMMODITY	CARLOADINGS		ESTMTD. PERCENT	
		ACTUAL 1939	ESTIMATED 1940	INCREASE %	DECREASE %
1	Grain, All	227165	224043		1.4
2	Flour, Meal & Other Mill Products	191349	196991	2.9	
3	Hay, Straw and Alfalfa	11956	13031	9.0	
4	Cotton	19711	25460	29.2	
5	Cotton Seed & Products, Except Oil	7078	8174	6.5	
6	Citrus Fruits	42750	38984		8.8
7	Other Fresh Fruits	48877	51579	5.5	
8	Potatoes	65109	64771		0.5
9	Other Fresh Vegetables	77976	71759		8.0
10	Live Stock	142397	148630	4.4	
11	Poultry and Dairy Products	31164	31292	0.4	
12	Coal and Coke	1124782	1073214	48.8	
13	Ore and Concentrates	344419	436410	26.7	
14	Gravel, Sand and Stone	295746	295989	0.1	
15	Salt	23774	24679	3.8	
16	Lumber and Forest Products	404227	430544	6.5	
17	Petroleum and Petroleum Products	494442	517050	4.6	
18	Sugar, Syrup and Molasses	40019	40761	1.9	
19	Iron and Steel	314210	357078	13.6	
20	Machinery and Boilers	24778	28877	16.5	
21	Cement	156803	167764	7.0	
22	Brick and Clay Products	61630	63740	3.4	
23	Lime and Plaster	37433	39687	6.0	
24	Agric. Implements & Vehicles, Other than Automobiles	19685	22761	15.6	
25	Automobiles, Trucks and Parts	131582	173039	31.5	
26	Fertilizers, All Kinds	97109	106715	9.9	
27	Paper, Paper Bd. & Prepared Roofing	90596	98834	9.1	
28	Chemicals and Explosives	28589	32856	14.9	
29	Canned Goods - All Canned Food Products, (Includes Catsup, Jams, Jellies, Olives, Pickles, Preserves, etc.)	42553	45062	5.9	
TOTAL ALL COMMODITIES LISTED		4598508	5429774	18.1	

NATIONAL FORECAST

of the

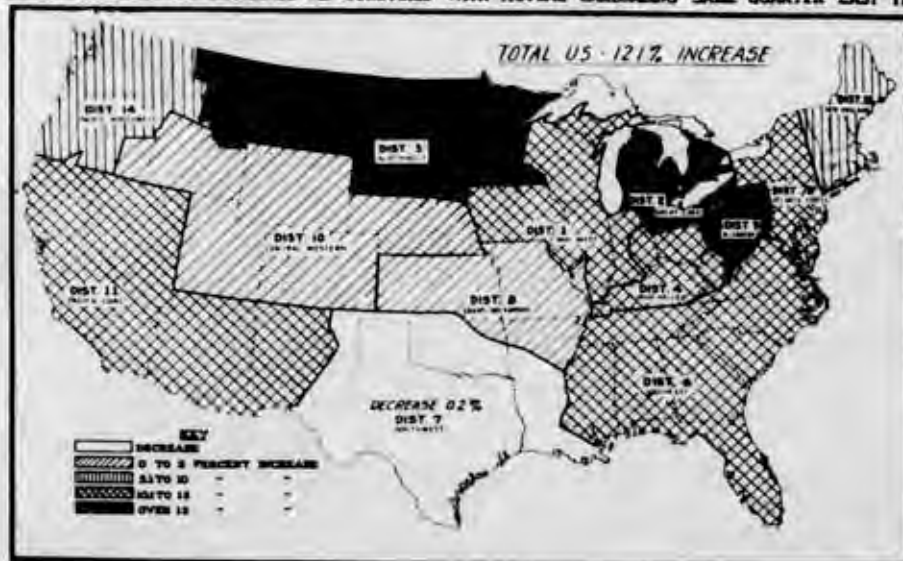
Regional Shippers' Advisory Boards

covering

QUARTERLY FREIGHT CAR REQUIREMENTS OF
29 PRINCIPAL COMMODITIES AS FURNISHED
TO THE CAR SERVICE DIVISION OF THE
ASSOCIATION OF AMERICAN RAILROADS

1st QUARTER 1940

PERCENT INCREASE OR DECREASE AS COMPARED WITH ACTUAL CARLOADINGS SAME QUARTER LAST YEAR.



ADVISORY BOARD CLASSIFICATION		TOTAL ALL REPORTING DISTRICTS		
ITEM NO.	COMMODITY	CARLOADINGS		ESTMTD. PERCENT
		ACTUAL 1939	ESTIMATED 1940	INCREASE % DECREASE %
1	Grain, All	198,465	222,114	11.9
2	Flour, Meal & Other Mill Products	189,801	200,555	5.7
3	Hay, Straw and Alfalfa	13,480	14,667	8.8
4	Cotton	27,235	47,347	73.8
5	Cotton Seed & Products, Except Oil	14,133	15,398	9.0
6	Citrus Fruits	47,195	47,385	.4
7	Other Fresh Fruits	34,130	35,009	2.6
8	Potatoes	55,672	58,505	5.1
9	Other Fresh Vegetables	71,559	73,662	2.9
10	Live Stock	141,233	143,995	2.0
11	Poultry and Dairy Products	24,080	25,544	6.1
12	Coal and Coke	1,726,870	1,889,244	9.4
13	Ore and Concentrates	95,222	134,039	40.8
14	Gravel, Sand and Stone	161,787	178,299	10.2
15	Salt	23,966	24,545	2.4
16	Lumber and Forest Products	346,968	381,091	9.8
17	Petroleum and Petroleum Products	455,507	473,459	3.9
18	Sugar, Syrup and Molasses	34,096	34,964	2.5
19	Iron and Steel	307,914	447,293	45.3
20	Machinery and Boilers	21,575	26,931	24.8
21	Cement	83,652	88,971	6.4
22	Brick and Clay Products	48,305	51,877	7.4
23	Lime and Plaster	28,917	32,296	11.7
24	Agric. Implements & Vehicles, Other than Automobiles	21,294	25,855	21.4
25	Automobiles, Trucks and Parts	162,690	193,238	18.8
26	Fertilizers, All Kinds	84,045	88,614	5.4
27	Paper, Paper Bd. & Prepared Roofing	82,139	94,937	15.6
28	Chemicals and Explosives	23,191	25,596	10.4
29	Canned Goods - All Canned Food Products, (Includes Catsup, Jams, Jellies, Olives, Pickles, Preserves, etc.)	45,351	47,797	5.4
TOTAL ALL COMMODITIES LISTED		4,570,472	5,123,227	12.1

NEW ENGLAND BOARD TERRITORY DIST. NO. 12				ATLANTIC STATES BOARD TERRITORY DIST. NO. 8				ALLEGHENY BOARD TERRITORY DIST. NO. 9				ITEM NO.
CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		
ACTUAL	ESTMTD.	INCR.	DECR.	ACTUAL	ESTMTD.	INCR.	DECR.	ACTUAL	ESTMTD.	INCR.	DECR.	
1939	1940	\$	\$	1939	1940	\$	\$	1939	1940	\$	\$	
2990	3050	2.0		3919	3919	-	-	505	600	18.8		1
3160	3160	-	-	8580	10725	25.0		638	800	25.4		2
156	159	1.9		3091	2472		20.0	86	60		30.2	3
766	766	-	-	-	-			-	-			4
6	6	-	-	-	-			-	-			5
2633	2633	-	-	-	-			-	-			6
924	924	-	-	5919	6866	16.0		219	300	37.0		7
18447	18447	-	-	730	584		20.0	41	70	70.7		8
196	196	-	-	3094	3032		2.0	16	20	25.0		9
373	373	-	-	-	-			183	201	9.8		10
259	246		5.0	881	881	-	-	-	-			11
18741	19678	5.0		250414	275455	10.0		437177	476523	9.0		12
217	326	50.2		26072	29461	13.0		-	-			13
1539	1693	10.0		19948	18751		6.0	16916	24528	45.0		14
	24	-	-	6883	6883	-	-	-	-			15
13959	15355	10.0		8913	8199		8.0	3562	3918	10.0		16
19447	19836	2.0		47945	51301	7.0		18841	19689	4.5		17
1314	1380	5.0		6441	6312		2.0	-	-			18
2432	3040	25.0		33411	46107	38.0		135833	205108	51.0		19
2091	2718	30.0		5004	7355	47.0		2793	3631	30.0		20
652	750	15.0		20365	23012	13.0		4501	5041	12.0		21
336	386	14.9		3230	3295	2.0		15394	17349	12.7		22
1387	1595	15.0		4125	4455	8.0		2507	3109	24.0		23
57	57	-	-	-	-			53	53	-	-	24
546	655	20.0		10451	9750		6.7	454	681	50.0		25
1372	1372	-	-	6486	6810	5.0		3708	4264	15.0		26
14968	16465	10.0		12748	14532	14.0		3586	4119	14.9		27
277	305	10.1		5772	6406	11.0		4032	4596	14.0		28
1011	1011	-	-	8441	9285	10.0		1693	1718	1.5		29
110280	116606	5.7		502863	555848	10.5		652738	776378	18.9		TOTAL

ADVISORY BOARD CLASSIFICATION		GREAT LAKES BOARD TERRITORY DIST. NO. 2				OMIO VALLEY BOARD TERRITORY DIST. NO. 4			
		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED	
ITEM NO.	COMMODITY	ACTUAL 1939	ESTIMTD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTIMTD. 1940	INCR. %	DECR. %
1	Grain, All	13314	14339	7.7		13048	11743		10.0
2	Flour, Meal & Other Mill Products	34491	34491	-	-	7966	7831		1.7
3	Hay, Straw and Alfalfa	2607	3804	45.9		1752	1927	9.9	
4	Cotton	-	-			12	12	-	-
5	Cotton Seed & Products, Except Oil	-	-			352	352	-	-
6	Citrus Fruits	-	-			-	-		
7	Other Fresh Fruits	400	440	10.0		44	44	-	-
8	Potatoes	2145	1609		25.0	16	16	-	-
9	Other Fresh Vegetables	2829	3112	10.0		41	41	-	-
10	Live Stock	7672	8049	4.9		7165	6448		10.0
11	Poultry and Dairy Products	-	-			562	562	-	-
12	Coal and Coke	8633	9000	4.3		487316	545794	12.0	
13	Ore and Concentrates	4761	25000	425.1		208	208	-	-
14	Gravel, Sand and Stone	5689	6474	13.8		13944	16524	18.5	
15	8	6061	6170	1.8		216	216	-	-
16	Lumber and Forest Products	2075	2782	34.1		6707	7572	12.9	
17	Petroleum and Petroleum Products	30892	33889	9.7		15652	16951	8.3	
18	Sugar, Syrup and Molasses	743	743	-	-	154	154	-	-
19	Iron and Steel	34244	43524	27.1		13678	18110	32.4	
20	Machinery and Boilers	3111	4035	29.7		2374	2740	15.4	
21	Cement	2003	2105	5.1		4906	5102	4.0	
22	Brick and Clay Products	3169	2770		12.6	3621	4494	24.1	
23	Lime & Plaster	6858	7640	11.4		485	643	32.6	
24	Agric. Implements & Vehicles, Other than Automobiles	877	1400	59.6		773	746		3.5
25	Automobiles, Trucks and Parts	99986	123083	23.1		5179	5697	10.0	
26	Fertilizers, All Kinds	2100	2344	11.6		2413	2447	1.4	
27	Paper, Paper Bd. & Prepared Roofing	7048	7414	5.2		6752	8555	26.7	
28	Chemicals and Explosives	2144	2152	.4		1617	1792	10.8	
29	Canned Goods - All Canned Food Products, (Includes Catsup, Jam, Jellies, Olives, Pickles, Preserves, etc.)	3723	4009	7.7		2150	2258	5.0	
TOTAL ALL COMMODITIES LISTED		287575	350378	21.8		599103	668979	11.7	

MID-WEST BOARD TERRITORY DIST. NO. 1				NORTHWEST BOARD TERRITORY DIST. NO. 3				TRANS-MISSOURI-KANSAS BOARD TERRITORY DIST. NO. 5				ITEM NO.
CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		
ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	
57500	66125	15.0		29109	55000	88.9		30577	27000		11.7	1
30600	33050	8.0		20215	22236	10.5		36915	38539	4.4		2
1300	1300	-	-	333	400	20.1		934	1167	24.9		3
-	-			-	-			-	-			4
-	-			-	-			-	-			5
-	-			-	-			-	-			6
334	250		25.1	17	25	47.1		112	100		10.7	7
2020	2200	8.9		10133	11500	13.5		42	40		4.8	8
1782	2000	12.2		431	450	4.4		232	200		13.8	9
41400	46380	12.0		13839	15445	11.6		13185	9889		25.0	10
11400	12084	6.0		4122	4300	4.3		3074	3269	6.3		11
308000	338800	10.0		23825	23825	-	-	48674	52567	8.0		12
392	500	27.6		1395	2800	100.7		3888	4910	26.3		13
15000	15750	5.0		1166	1282	9.9		10257	11283	10.0		14
	155244.4			-	-			3219	3219	-		15
29200	33580	15.0		8669	11100	28.0		14466	15913	10.0		16
59000	62000	5.1		10742	11000	2.4		54487	56122	3.0		17
3950	4225	7.0		843	800		5.1	1753	1795	2.4		18
46600	74560	60.0		701	2000	185.3		4410	7025	59.3		19
4300	4515	5.0		229	200		12.7	263	288	9.5		20
8000	7840		2.0	861	861	-	-	9250	9713	5.0		21
4900	5390	10.0		491	540	10.0		4274	4975	16.4		22
3140	3390	8.0		356	356	-	-	4199	4829	15.0		23
16900	20280	20.0		740	1545	108.8		660	573		13.2	24
17260	15534		10.0	1159	1080		6.8	13112	17200	31.2		25
3500	3890	10.0		126	150	19.0		-	-			26
10835	11375	5.0		3315	3415	3.0		-	-			27
2700	3105	15.0		27	30	11.1		-	-			28
												29
12250	13475	10.0		1021	950		7.0	1033	1085	5.0		
6925	781713	12.9		133865	171290	28.0		259016	271701	4.9		TOTAL

ADVISORY BOARD CLASSIFICATION		SOUTHEAST BOARD TERRITORY DIST. NO. 6				SOUTHWEST BOARD TERRITORY DIST. NO. 7			
		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED	
		ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %
ITEM NO.	COMMODITY								
1	Grain, All	2182	2400	10.0		14912	8947		40.0
2	Flour, Meal & Other Mill Products	11506	12656	10.0		15687	16471	5.0	
3	Hay, Straw and Alfalfa	425	467	9.9		553	608	9.9	
4	Cotton	17147	34294	100.0		5384	6730	25.0	
5	Cotton Seed & Products, Except Oil	8373	8373	-	-	4542	5450	20.0	
6	Citrus Fruits	20650	20650	-	-	8807	7486		15.0
7	Other Fresh Fruits	11132	12245	10.0		2129	1810		15.0
8	Potatoes	2035	2238	10.0		468	421		10.0
9	Other Fresh Vegetables	14800	16280	10.0		16300	13855		15.0
10	Live Stock	7247	7972	10.0		15478	15478	-	-
11	Poultry and Dairy Products	333	333	-	-	610	702	15.1	
12	Coal and Coke	74236	76463	3.0		8814	8814	-	-
13	Ore and Concentrates	13325	18655	40.0		1108	1108	-	-
14	Gravel, Sand and Stone	34054	34054	-	-	21473	23620	10.0	
15	Salt	157	157	-	-	5341	5448	2.0	
16	Lumber and Forest Products	130383	142117	9.0		34505	36230	5.0	
17	Petroleum and Petroleum Products	50007	52507	5.0		98622	98622	-	-
18	Sugar, Syrup and Molasses	4878	5024	3.0		8481	8905	5.0	
19	Iron and Steel	23791	33307	40.0		3860	4053	5.0	
20	Machinery and Boilers	650	715	10.0		470	470	-	-
21	Cement	13904	15294	10.0		9785	8807		10.0
22	Brick and Clay Products	7864	7864	-	-	3619	3257		10.0
23	Lime & Plaster	3522	3874	10.0		1841	1841	-	-
24	Agric. Implements & Vehicles, Other than Automobiles	546	601	10.1		329	280		14.9
25	Automobiles, Trucks and Parts	5993	7072	18.0		415	448	8.0	
26	Fertilizers, All Kinds	56940	59787	5.0		6725	6860	2.0	
27	Paper, Paper Bd. & Prepared Roofing	16901	19436	15.0		2640	5332	102.0	
28	Chemicals and Explosives	2681	3217	20.0		311	348	11.9	
29	Canned Goods - All Canned Food Products, (Includes Catsup, Jam, Jellies, Olives, Pickles, Preserves, etc.)	2238	2462	10.0		1542	1635	6.0	
TOTAL ALL COMMODITIES LISTED		537900	600514	11.6		294751	294036		0.2

CENTRAL WESTERN BOARD TERRITORY DIST. NO. 10				PACIFIC COAST BOARD TERRITORY DIST. NO. 11				PACIFIC NORTHWEST BOARD TERRITORY DIST. NO. 14				ITEM NO.
CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		
ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	
14958	13500		9.7	2458	2498	1.6		12993	12993	-	-	1
10322	10500	1.7		3372	3747	11.1		6349	6349	-	-	2
543	675	24.3		480	528	10.0		1220	1100		9.8	3
-	-			3926	5545	41.2		-	-			4
-	-			860	1217	41.5		-	-			5
-	-			15105	16616	10.0		-	-			6
797	820	2.9		775	579		25.3	11328	10606		6.4	7
16128	18150	12.5		1106	1327	20.0		2361	1903		19.4	8
1786	1900	6.4		28842	31487	9.2		1210	1089		10.0	9
25507	24160		5.3	7143	7310	2.3		2041	2290	12.2		10
2257	2450	8.6		36	42	16.7		546	675	23.6		11
52445	53130	1.3		3586	3445		3.9	5009	5750	14.8		12
13013	16395	26.0		27807	31505	13.3		3036	3171	4.4		13
3423	3325		2.9	14490	15661	8.1		3888	5354	37.7		14
4	440		4.6	1559	1833	17.6		-	-			15
2832	2940	3.8		14445	17016	17.8		77252	84369	9.2		16
16584	16895	1.9		26774	27925	4.3		6514	6722	3.2		17
2527	2300		9.0	2589	2876	11.1		423	450	6.4		18
4313	4815	11.6		3915	4858	24.1		726	786	8.3		19
166	155		6.6	-	-	-		124	109		12.1	20
2108	2200	4.4		4119	4524	9.8		3198	3722	16.4		21
637	685	7.5		571	629	10.2		199	243	22.1		22
264	308	16.7		-	-	-		233	256	10.0		23
324	275		15.1	-	-	-		35	45	28.6		24
137	120		12.4	7998	11918	49.0		-	-			25
366	380	3.8		-	-	-		309	350	13.3		26
81	75		7.4	1234	1302	5.5		2031	2917	43.6		27
319	270		15.4	2678	2755	2.9		633	620		2.1	28
1446	980		32.2	5888	6377	8.3		2915	2552		12.5	29
1734	177843	2.4		181756	203520	12.0		144573	154421	6.8		TOTAL

Washington, D. C.
January 2, 1940.

LIST OF SHIPPERS' ADVISORY BOARDS

<u>DIST NO</u>	<u>NAME OF BOARD</u>	<u>GENERAL CHAIRMAN</u>	<u>ADDRESS</u>
9	ALLEGHENY	L G HULTS	ROOM 1103 - PENNSYLVANIA STA., PITTSBURGH, PA.
8	ATLANTIC STATES	GEO F HICHBORN	" 1502 - 30 VESEY ST., NEW YORK, N. Y.
10	CENTRAL WESTERN	A. M. HAYS	" 402 - UNION PACIFIC BLDG., OMAHA, NEBR.
2	GREAT LAKES	HARRY CARROLL	" 5A - MICH. CENT. TERMINAL, DETROIT, MICH.
1	MID-WEST	W Y WILDMAN	" 2205 - 59 EAST VAN BUREN ST., CHICAGO, ILL.
12	NEW ENGLAND	W F GARCELON	" 421 - SOUTH STA., BOSTON, MASS.
3	NORTHWEST	C H CONAWAY	" 620 - HODGSON BLDG., MINNEAPOLIS, MINN.
4	OHIO VALLEY	H S MALONE	" N-203 - UNION STA., CINCINNATI, OHIO
11	PACIFIC COAST	P S ARMSTRONG	" 516 - WELLS FARGO BLDG., SAN FRAN., CALIF.
14	PACIFIC NORTHWEST	W G PERROW	" 404 - GREAT NORTHERN BLDG., SEATTLE, WASH.
6	SOUTHEAST	A W VOOTLE	" 211 - 110 CENTRAL AVE., S.W., ATLANTA, GA.
7	SOUTHWEST	E P BYARS	" 1413 - SANTA FE BLDG., DALLAS, TEXAS
5	TRANS-MO-KANSAS	CARL GLESSOW	" 254 - UNION STA. BLDG., ST LOUIS, MO.



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John Woodring Speech *March 27, 1940*

While Woodring read his prepared speech, John Norris of the Post whispered that Woodring wasn't "being entirely frank." Norris was referring to Woodring's statement on the War Department's new policy as read before the Committee and his position as expressed privately.

Immediately following its reading, Chairman May asked several leading questions:

"No military secrets are being sold to foreign nations?"

"Absolutely correct."

"None will be released?"

"No secrets will be released."

Harter of Ohio, Chairman of ^{aviation} subcommittee, ~~2~~, took up the questioning, with Woodring appearing very much at ease.

"Is there any way that the United States could recapture some of the cost of experimenting and developing planes which are sold to foreign nations?"

"I couldn't say we could do that in actual dollars and cents. But we can recapture some of the cost of planes delivered in future contracts because of the lower ~~of~~ per unit cost." (read from prepared statement not given out).

The next question came from Andrews of New York, ranking minority member of the committee. Woodring became flustered as he answered. He didn't appear very sure of himself or in what direction Andrews would lead him.

72, 8

"Who are the members of the Liason Committee you mention in your statement?" asked Andrews.

"Why, uh, the Treasury, the War and the Navy Dept."

"Who are the members?" persisted Andrews.

"I am not sure. Capt. Collins of the Treasury, Quartermaster General Gregory of the War Department. I don't know who on Navy, (very flustered.) Assistant Secretary Johnson whispered to the Secretary and Woodring responded, "Oh yes, the Paymaster General of the Navy."

"Aren't you a member?"

"I don't know what you mean--of this committee? No."

"Well--doesn't the quartermaster general have to get final approval of his actions from someone higher in the department, say you?" asked Andrews.

Woodring looked confused and Andrews pressed further.

"Is there any friction between the munitions control board and the War Department?"

"None at all." as an afterthought.--"This policy has been worked up by myself and my advisers without coercion or pressure from anyone. I am not very easily pushed around. I am not going to be pushed around."

May interrupted, "This committee isn't pushing you around." (general laughter)

Representative Short of Missouri asked, "Will this policy of yours result in a reduced appropriation for 1941?"

- 3 -

"By asking for only 496 replacements, we expect to have a reduction in appropriation of \$27,000,000."

"Are the aircraft manufacturers behind in their deliveries to the War Department?" Short asked.

Woodring asked May to allow Arnold to answer.

"According to my check," responded Arnold when given permission to answer the question, "there will be no delay in delivery of planes on the original contracts. I might add-- unless there is a change under this new policy there will be no change."

After several minor questions Anderson of Missouri asked:

"Is it true that Secretary Morgenthau and Ambassador Kennedy forced this policy to you?"

As Woodring stuttered his answer, Chairman May interrupted, addressed Anderson, said: "The question goes beyond this committee's inquiry. I refuse to allow the question." Anderson withdrew the question.

Woodring left the stand.

May banged his gavel. "I want to say that, with all due respect to the reporters here--and they are all intelligent fellows--stories that have appeared in the press about the release of our military secrets are all a tempest in a teapot. Secretary Woodring has come before us and has given us a straightforward and complete statement."

- 4 -

En masse, the minority side rose. One Republican, in an offside to a colleague, remarked, "How am I going to explain this to my constit-----?" He and his companion appeared to be disgruntled. Before leaving, Thomas of New Jersey objected because there had been no official stenographer present to take notes.

Johnson took the stand for about fifteen minutes and the meeting then was adjourned. May said that no meeting was scheduled for further hearings on the subject, but that Arnold and Marshall may be called before the committee at some future time.

-oOo-

MEMORANDUM

March 27, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

In accordance with our telephone conversation this morning, I am enclosing herewith transcript of my telephone conversation yesterday afternoon with Assistant Secretary of War Louis Johnson. I am also enclosing excerpts from the news ticker and clippings from the afternoon papers.

Mr. Schwarz agrees with me that this matter is now finished business and does not merit your further consideration. However, I am sending these things along because I thought they might be of some passing interest to you. Now that the crisis is past, they might qualify as light vacation reading.

JLS

Telephone Conversation - March 26 at 4:20
Louis Johnson called Mr. Sullivan.

- J. Hello.
- S. Hello, Louis.
- J. I just called the General (laughter).
- S. General Hugh?
- J. Yes -- and thanked him for his editorial yesterday. He said he was trying to back me up in this fight. (laughter) Then -- I thanked him for the one today. He said he was backing the army up generally, and all you people are going to like it. I said I think they do, General.
- J. Well, he said, Marshall don't -- he spent an hour and a half with me yesterday and he didn't like it. Among other things, he is all wrong about this super-charger. I asked if he limited his objections to the super-charger. All it means is -- damn it -- someone planted this stuff on the Hill to start it -- the President told them on a telephone call over here the night before the Committee Hearing was set. That seems to be all I could get -- but it isn't all there is to it. Marshall seems to do all that he is told.
- S. Was Marshall present when the Commander-in-Chief gave the orders?
- J. Yes -- Marshall was at a dinner party last Monday night.

About 10:00 o'clock the President phoned and told Woodring. Woodring was going on the Hill the next morning. Woodring said if the President didn't like the way he was doing the job -- he could get somebody else.

J. Before the Press Conference last Friday -- the President called him a little after 10:00. Marshall was not there and doesn't know about it. Woodring didn't tell Marshall about it. I was back in my office. This may sound like disloyalty, John, but it is backing up the Chief.

S. Yes -- I know.

J. If I can only get by without stirring up trouble. I've found out that certain questions have been planted with members of the Committee from here to be asked tomorrow morning. But -- you need not worry about them -- I've got the answers -- I know how to answer them now. We've an agreed statement written by my officers. They have all agreed to it and we will stick to that text tomorrow. If I can get him off the stand when he finishes reading the statement -- then Arnold and I can take care of the questions. And -- Arnold is 100% now -- he was reflecting the other fellow's attitude before. Arnold is 100% with us now.

S. So you want to answer the questions yourself tomorrow?

J. As long as the Secretary sticks to the other stuff, Arnold and I know how to answer the questions. If he tries to -- we'll be in trouble.

S. Good luck to you. Call me tomorrow and let me know what happened.

ConfidentialP A R A P H R A S E

A telegram (no. 150) of March 27, 1940 from the American Ambassador at Chungking reads substantially as follows:

A letter of March 25 addressed by the Chinese Minister of Finance to the American Ambassador states that Japanese authorities who are engaged in setting up a regime headed by Wang Ching-wei are actively taking steps to establish in the Yangtze Valley a central bank of issue, which, the Finance Minister points out, will amount to another overt act having for its aim the destruction of foreign interests by rendering them unable to keep on trading with China on a basis of equality because of planned exchange control under which Japanese trade would be favored. The French and British Embassies have received similar letters from the Minister of Finance. The American Ambassador believes that representations in Tokyo in anticipation of such a step might be helpful. The Ambassador invites attention in this connection to reports in January from Shanghai to the effect that Japanese army politicians were looting the customs deposits in the Yokohama Specie Bank, thereby defrauding obligations and loans secured on the customs funds

- 2 -

funds of their security. In December 1939, according to information received by the Ambassador when he was in Tientsin at that time, there was deposited in the Yokohama Specie Bank and credited to the customs in Tientsin the sum of one hundred fifty million yuen in currency of the Federal Reserve Bank. Although it should be noted that responsibility for arrangement by which customs funds are being deposited in the Yokohama Specie Bank lies with the British, the American Ambassador thinks that the situation described in the sentence next above provides a further basis for protest by interested powers.



123

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

March 27, 1940

My dear Mr. Secretary:

There is attached hereto memorandum covering today's meeting with the aviation industry.

Generally the meeting went off very well, and with the exception noted of Mr. Hartson's objection, there seemed to be nothing but full accord on the part of representatives of the industry who were present. Colonel Jouett mentioned in the memorandum is President of the Aeronautical Chamber of Commerce, and he was asked to attend at the suggestion of General Brett of the Army. Likewise, it was indicated that the industry would make any announcements which they cared to through him and not as representatives of independent companies.

At the opening of the meeting, at which I presided, it was pointed out that the meeting was an informal one called at the request of the Army and that the interpretations of policy embodied in Attachment "A" to memorandum enclosed were more or less tentative. In other words, should it develop that the policy may have to be altered in view of any developments that might occur, we have the door wide open to take such action without backtracking on anything that was said or done today.

After the meeting a release was prepared by the Army, Navy and myself, copy of which is attached, but so far has not been given out as the press has not yet called. This release I checked with Chic Schwartz, and to it he agreed thoroughly.

With kindest personal regards,

Sincerely yours,

Honorable Henry Morgenthau, Jr.

The Secretary of the Treasury



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 27, 1940

MEMORANDUM FOR THE SECRETARY

Meeting was held this afternoon with the aviation industry at which were present representatives of the following companies:

Grumman Aircraft	Curtiss-Wright Corporation	North American Aviation, Inc.
Vought-Sikorsky	Republic	Consolidated
Brewster	Douglas	Martin
Bell Aircraft	Vultee	Boeing
Lockheed		

Also present were Colonel Jouett of the Aeronautical Chamber of Commerce, General Brett and Major Lyons of the Army Air Corps, Colonel MacMorland of the Munitions Board of the Army, Admiral Towers, Admiral Spear and Captain Kraus of the Navy, and Captain Collins and Mr. Bones of the Procurement Division.

At the request of General Brett Captain Collins read attachment marked "A".

After this presentation there was a general discussion of the application of the policies indicated, General Brett of the Army answering questions which were developed.

With the exception of Mr. Hartson, representing Martin, there was a general agreement to the policies enunciated. It was felt by the Government representatives that Mr. Hartson was becoming disturbed over details which might effect their transactions after the currently discussed Allied program was disposed of. His fears, however, were partially allayed by General Brett after the meeting, and he has agreed to discuss the details brought up by him with representatives of the Army Air Corps in the near future.

It is believed by all Government representatives present that the meeting was conducive of excellent results. Apparently those companies having restricted items, the release of which has been requested, plan to contact the Aeronautical Board in the immediate future in order that releases may be had, negotiations made, and contracts effected with the Allied representatives.

H. J. Collins

REQUEST OF ANGLO-FRENCH PURCHASING BOARD FOR RELEASE
OF CERTAIN ENGINES AND AIRPLANES
 (For Oral Presentation Only)

I. General:

Pursuant to a request of the Anglo-French Purchasing Board for the release of certain engines and airplanes, the policy heretofore promulgated by the War and Navy Departments has been liberalized to permit the foreign sale of our most modern designs, subject to certain considerations of great importance to the National Defense.

II. Extracts of Policy:

The considerations governing releases on the specific models and types of aircraft and their components, requested by the Anglo-French Purchasing Board, are substantially as follows:

First: No military secret as determined by the War and Navy Departments will be divulged or released to any foreign purchaser of military airplanes.

Second: Foreign governments must agree to furnish the Army and Navy full and complete information on the comparative suitability, design, equipment, and combat performance of American made airplanes.

Third: Stimulation of productive capacity for new types and models of aircraft to insure approved types of airplanes for our forces is imperative.

Fourth: Contracts with the Army and the Navy which are modified to provide for deferred deliveries must provide for continuously protecting the Government against interference with the delivery of equipment necessary for our defense needs.

Fifth: Each case must be decided individually on its merits from the point of view of National Defense and the assurance that types of airplanes are delivered to the War and Navy Departments in the event of deferred deliveries of any airplane or its component on contract to the Government, and no such contract shall be amended except in the interests of the Government.

III. Procedure for Foreign Release:

Predicated upon the foreign sale policy, the following procedure shall govern the release of aircraft and their components as well as other items of aeronautical equipment.

First: Authority to negotiate with foreign purchasers will be requested strictly in accordance with the present procedure.

Second: Prior to action on such requests by the War and Navy Departments, the manufacturers will be required to negotiate with authorized representatives of the War and Navy Departments for change orders on existing contracts as follows:

- a. To provide for deferment in deliveries on contract airplanes if desired.
- b. To provide for such changes in those models of equipment upon which release is requested that will insure that improved types of airplanes are delivered to the Department concerned.
- c. To provide for suitable guarantees which will assure the Department concerned that there will be no interference with the delivery of equipment necessary for our defense needs.
- d. To provide for the changes covering improvements in design, performance and installation.

Third: If the manufacturer takes advantage of foreign orders after negotiating with the War and Navy Department authorized representatives on changes in contracts as heretofore generally outlined, then, prior to the release of the specification in accordance with the present procedure, the manufacturer shall agree to the following:

- a. To accept change orders on existing War and Navy Department contracts for the improvements agreed upon by negotiation.
- b. To cause to be inserted in contracts with foreign purchasers conditions that will fully protect the Government from any interference with the delivery of equipment for units necessary for our own defense needs as may be determined from time to time by the War and Navy Departments.

- c. To cause to be inserted in contracts with foreign purchasers means for manufacturers' and United States Government representatives obtaining full and complete information on changes in design equipment and performance of the particular airplane, based upon the experience of actual combat or use under service condition by the foreign purchaser, all of which information shall be transmitted to the Department concerned for use as it may deem essential to the National Defense.
- d. Prior to release the Government must be assured through contract or otherwise that neither designs owned by the War Department nor manufacturer-owned designs over which the War Department has control, will be released for manufacture or detailed assembly abroad.

Fourth: Upon release of the detailed specification by the Department concerned, application for license for export will be requested in accordance with present procedure.

IV. Responsibility for Negotiation:

The release of the items of aircraft equipment and accessories for installation on export aircraft, such as guns, signal apparatus, etc., will be referred to the Chiefs of the Arms or Bureaus concerned by the authorized representatives of the War Department and the Navy Department, through such channels as the Department concerned may direct.

A meeting of representatives of the Aircraft Industry and representatives of the interested departments of the Government was held this afternoon for the purpose of exchanging views regarding the general situation in the Aircraft Industry, with particular reference to policies to be followed in connection with foreign sales. There was general agreement that large additional foreign orders can be handled in a manner not only in complete protection of our National interests, but also to the satisfaction of the Aviation Industry.

Later S. P. M.

*Above was read to Mr. Mayhew
in Dick Schwartz's office. Mr.
will be released then.*

HT

STRICTLY CONFIDENTIAL

130

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Knoke talked with me today in regard to a cablegram which the National City Bank of New York had received from the Banki Millie Afghan, the Government owned institution in Afghanistan which functions as a central bank, to the effect that the Afghanistan Government had arranged to obtain gold in the United States. I read to Mr. Knoke the cablegram which we had received from Paris and replied to in February, after consultation at that time with Mr. Knoke, in regard to the possibility of Afghanistan acquiring gold on this market. I also sent Knoke copies of these cablegrams to help him in assisting the National City in framing a reply to the correspondent bank in Afghanistan, giving directions as to how to make an official approach for the purpose in mind. Before finishing my conversation with Mr. Knoke, I spoke with Mr. Wallace Murray in the Department of State and confirmed that there had been no correspondence between the Department of State and the Afghanistan officials in regard to the question under reference since the exchange of cablegrams above mentioned.



CTLY CONFIDENTIAL
TREASURY DEPARTMENT

131

INTER OFFICE COMMUNICATION

DATE March 27, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

In accordance with the instructions of Under Secretary Bell, I telephoned the Finnish Minister at 12:15 noon. I let him know that Mr. Bell had spoken with the Secretary of the Treasury, as well as with General Watson of the White House, this morning in regard to the Finnish question. Since it appeared that the President had not passed on to Secretary Hull any recommendation on, or even the details of, Secretary Morgenthau's plan, and since the President will not be able, because of his illness, to deal with this question prior to his early departure to Georgia, the Minister was advised by me not to start any discussion at the State Department in regard to further financial assistance for Finland. I told Mr. Procope that if I receive any word from Secretary Morgenthau prior to his return, indicating some action that the Minister should take, I would promptly get in touch with him. Otherwise, the matter should remain in abeyance until the Secretary's return to Washington.

Minister Procope is leaving today for New York. He said, however, that if I had any message for him it would promptly reach him if I communicated it to his secretary, Mr. Solanko.



MEMORANDUM FOR THE SECRETARY:

March 27, 1940.

Shipping Situation

The shortage of intercoastal space, both eastbound and westbound, remained the most crucial problem facing shippers last week. On all sides there was a clamor for space and committees were being formed to approach the Maritime Commission for some type of remedial action. It did not appear, however, as if any great help would come from the Commission or from anywhere else, since rates in world trades had so far surpassed domestic rates that operators could no longer ignore the draw of the lucrative world charter market. One intercoastal line indicated it would reduce sailing frequency by about 33-1/3 per cent, and it was expected that other lines would start releasing tonnage from intercoastal operation. A vessel was chartered in the intercoastal trade for a full cargo of lumber eastbound at \$19, and it was felt that the lines could easily get \$20 per 1000 feet under charter. Last week's fixture was \$4 over the conference rate of \$15. The lines were turning down cargo at all ports.

Business to the Orient from this range was not particularly active, but indications were that rates would seek higher levels. In addition, a line announced that it would inaugurate a new service in the trade. There were no scrap fixtures from the Pacific Coast reported, but owners are understood to be asking well above \$13 on an f.i.o. basis. Berth quotations were around \$12 and \$14 for No. 1 melting. Metal was still offering in good volume. A scrap fixture was reported closed at \$17.50, whether this was f.i.o. or not was not disclosed. Inquiry for ships was active but little or no business was done due to the scarcity of ships. Owners were asking as high as \$6.50 for time charters and this much had been reported done in an Oriental trade. Lumber was not very active, but rates remained firm.

The European range was somewhat irregular. The Antwerp/Rotterdam range was inclined to be soft. Lumber was being booked at \$55 and some wheat was reported taken at \$26, although this latter figure could not be confirmed. On the other hand, business to the Scandinavian countries continued strong. Lumber was being taken at around \$50. Operations and conditions in the United Kingdom range were kept secret.

The Australian market was quiet, especially for general cargo, due to severe import restrictions put into effect by the Australian and New Zealand governments. A charter for a full cargo of lumber from British Columbia was reported at undisclosed terms.

Basil Harris

TREASURY DEPARTMENT

133

INTER-OFFICE COMMUNICATION

DATE March 27, 1940

TO Secretary Morgenthau
FROM Mr. White *HDW*

Subject: Analysis of Estimates by Standard Statistics of the Foreign Exchange Resources of the Allied Powers

STANDARD STATISTICS SAYS:

1. Allied purchases in the United States were much heavier than our trade figures indicate since they spent an average of \$230 million per month and our exports averaged only \$115 million per month.

OUR INFORMATION:

The Allies spent \$220 million a month for the first six months of the war but a large part of these expenditures were not for merchandise purchases, but consisted of the following, in addition to purchases of goods:

- a. About \$200 million was spent in liquidation of foreign exchange contracts negotiated prior to the establishment of exchange control.
- b. At least \$100 million was spent in adjusting to the cash and carry provisions in our neutrality laws.
- c. A substantial part of the British Empire's net dollar expenditures went to pay for sterling balances withdrawn from London by nationals of third countries and sold in the free market in New York.
- d. The Allies liquidated foreign exchange assets in the United States to pay for British and French imports from third countries. (The dollars obtained by the third country nationals from the liquidation of sterling balances or from exports could have been used to buy gold here, to build up dollar assets, or to pay for imports from the United States.)
- e. The Allied representatives told us that approximately \$200 million have been paid over as advance payments either for goods or plant expansion. These will not take the form of exports for months to come.

Prepared by H. D. White, H. Glasser and J. S. Hooker

- 2 -

Division of Monetary
Research

- f. Payments to Americans and third country nationals on account of earnings from investments in the British Empire.

At least half and probably more of the Allies' expenditures in the United States during the past six months was not for merchandise transactions, but for non-recurring short-term capital items and advance payments. Therefore, the trade figures are an accurate indication of how much the Allies have purchased and shipped, although the exports do not include the goods in transit to and piled up on the docks awaiting shipment which have been paid for.

Our total exports to the British and French Empires were \$150 million per month since the outbreak of war, in comparison with \$115 million in the previous year.

Our excess of exports to the British and French Empires has been only \$70 million per month compared with \$50 million per month in the previous year.

(The Standard Statistics' trade figures include only United Kingdom, Canada and France. It is more significant to use the entire Empires. However, whether one uses the fewer countries or the entire Empires does not substantially alter the net figures during the period considered.)

STANDARD STATISTICS SAYS:

2. The foreign exchange reserves of the Allies total \$12 billion, consisting of the following:

a. Dollar balances.....	\$ 1,128 million
b. Securities.....	1,315 million
c. Direct investments.....	1,450 million
d. Gold on earmark in the United States.....	1,000 million
e. Gold holdings.....	5,700 million
f. Investments in other countries, liquidation value conservatively estimated.....	2,000 million
	<u>\$12,593 million</u>

OUR INFORMATION:

The foreign exchange reserves of the Allies consist of assets which can yield more than \$13 billion, conservatively estimated at liquidation value.

a.	Dollar balances of England, France and Canada.....	\$ 1,000 million
b.	Domestic securities held by England, France and Canada.....	1,200 million
c.	Direct investments in United States of England, France and Canada.....	600 million
d.	Gold held under earmark.....	160 million
e.	Gold holdings of England, France and Canada (including \$300 million gold in hoards)...	5,200 million
f.	Gold held by other British Empire countries including hoards in British India of \$1.5 billion, of which at least half will be available if necessary.....	750 million
g.	British investment in neutral countries...	2,000 million
h.	British investment in her Empire outside of United Kingdom.....	2,000 million
		<u>\$12,910 million</u>

Our estimates of the liquidation values of the above items are very conservative. For example:

The liquidation value of the British investment in neutral countries is \$2 billion. Actually British estimates prior to the war placed their face value at \$7 to \$8 billion, of which \$5 billion was in Latin America alone. Although a substantial proportion of these investments is not being serviced in full, other investments are worth as much or more than the face value. For example, their holdings of the Argentine railroads alone have an actual current value of more than \$1 billion.

We have estimated the liquidation value of British investments in her own Empire outside of Europe at \$2 billion. The British estimated the face value of these investments at more than \$10 billion.

The direct investments of England, France and Canada in American plants and factories were valued at \$1.2 billion by the Department of Commerce prior to the war. We give a liquidation value of only \$600 million.

Our estimates of the liquidation value of British and French holdings of American securities is several hundred million dollars less than the value reported by the Department of Commerce after allowance has been made for their sales since the beginning of the war.

We believe that our \$13 billion figure is an underestimate of the foreign exchange resources of the British and French Empires by at least \$2 billion, provided that the following conditions hold during the next few years:

- a. That the Allies have several years in which to gradually liquidate their foreign exchange resources.
- b. That the British Empire countries do not break away from the British Empire, or that they do not refuse to pool all their foreign exchange resources with the United Kingdom.
- c. That business activity in neutral countries is maintained at approximately current levels. If business gets much better the liquidation value of the Allies' holdings in neutral countries will be greater; if business gets much worse, the value will be less.

Of the \$13 billion of foreign exchange assets which we estimate the British and French Empires have, one-third can be easily liquidated without any significant economic effect on the Empires. Another third can be liquidated only with permanent losses to the economic and political power of Great Britain and France. The last third would be liquidated only if the Allies were desperate and the alternative was a serious military defeat. They probably would prefer almost any kind of a negotiated peace than deprive themselves of the last \$5 billion of foreign exchange assets. In fact, there is some question whether they might not prefer a negotiated peace to the loss of anything beyond \$5 billion of their current assets. Were England and France to lose all their foreign exchange assets during the next few years, their economic position as a world power would be greatly reduced and the United States would emerge as the leading financial power without any close seconds.

STANDARD STATISTICS SAYS:

3. The Allies will need \$275 million per month for their purchases here. Their current receipts will be \$55 million from exports to us and \$65 million from newly mined gold, leaving net liquidation of foreign exchange assets of almost \$200 million per month.

CUR INFORMATION:

The Standard Statistics, in their estimates, made no reference to the foreign exchange which Britain will need from her purchases from countries other than the United States, yet those purchases are just as important in the calculations for how long her foreign exchange will last as are her purchases from the United States.

We estimate that the total net liquidation (including the United States and other countries) of foreign exchange assets by the British and French Empires will be from \$150 to \$200 million a month during the next year of war. Should the war last longer and become more destructive the drain will be greater. Standard Statistics estimated \$200 million but their estimate did not include various important items which happened to approximately balance out. They did not include the British foreign exchange purchases from third countries which would amount to roughly \$100 million a month on balance, but this omission was offset by their omission of revenue to the British and French Empires from all service transactions which also amount to roughly \$100 million a month. Therefore, their estimate and ours are similar but the similarity is accidental.

The basis for this estimate is briefly summarized below:

During the past six months the Allies bought \$150 million per month here. ^{wa} ~~Their representatives~~ estimated that they would buy \$200 million per month excluding airplanes during this year. Including airplanes the sum would be \$275 million per month.

In part payment for her purchases from us the Allies will obtain, we estimate, \$80 million a month from exports to the United States. (Only \$15 million of this \$80 million comes from Great Britain and France.) Our imports from the British and French Empires during the first six months of the war was at the rate of \$85 million a month. In January it was \$100 million a month; \$83 million in February. This means that the Allies will have an unfavorable trade balance with the United States during the next year or so at the average rate of \$200 million a month.

In addition to their purchases from us it is important to add to their purchases from all other foreign countries that must be paid for in foreign exchange.

In 1938 the British and French Empires had an unfavorable balance of trade with the rest of the world of \$2 billion of which \$1,500 million represented the unfavorable balance of

trade with countries other than the United States. We do not have anything like as good figures on British purchases from third countries which need to be paid for with foreign exchange. We do know that they are making arrangements to reduce this figure to an absolute minimum. The British and French are making every effort to reduce the unfavorable balance by restrictions on imports, shifting purchases from non-Empire to Empire sources, and blocking sterling balances arising out of import surpluses. Their adverse balances with countries other than the United States will not be increased much because of war needs because most of the kind of things she needs to buy with foreign exchange she can buy only in the United States, i.e., planes, machine tools, cotton and machinery. Therefore, since we have already included payments for those items in our estimates of what they will purchase from us it is not unreasonable to expect that their unfavorable trade balance that must be liquidated with foreign exchange outside of the United States will be not more than \$100 million a month and may be as low as \$50 million a month. (This does not include sums which she will lend to neutrals for international political purposes.)

We estimate their current receipts will be as follows:

- a. British exports have been included in the previous section in estimating their balance of trade.
- b. Newly mined gold will provide the British Empire with \$70 million per month.
- c. On service and capital account the British and French Empires will probably receive currently from the United States and from third countries about \$100 million a month. In 1938 the British estimated that they had a net income on these items of \$1.2 billion, or \$100 million a month. This sum should not be reduced as a result of war conditions and may be higher on account of higher shipping rates and increased yield on investments in neutral countries, but the sum will decline as the British and French dispose of their investments in foreign countries.

STANDARD STATISTICS SAYS:

4. The Allies have enough foreign exchange to last for several years before calling on the United States for credits.

OUR INFORMATION:

Our estimate is that the Allies will need during the current year a maximum of \$2½ billion. The second year it might be as much as \$3½ billion and the third year, as much as \$5 billion.

Division of Monetary
Research

- 7 -

If our estimates of their foreign exchange assets of \$13 billion are approximately correct and our estimates of her needs are also approximately correct, then they will have exhausted all their foreign exchange assets in a four to five year war. But this prognostication must not be stated independently of the following assumptions:

- a. That the war does not continue at present inactive levels but increases in intensity but that the present neutrals are not drawn in on the side of the Allies.
- b. That the British and French Empire countries continue to pool their resources.
- c. That world business activity remains roughly in the region which it now is.

A statement of these assumptions indicates the uncertainty of any prophecy looking ahead four years.

All that can be definitely stated now, it seems to us, is that there is no danger that the foreign exchange assets of the Allies will be exhausted during the next two years at least. Claims that the Allies must borrow at the end of a year or curtail their ability to conduct a war effectively is, in our opinion, unfounded. Their reluctance to part with their foreign exchange resources is understandable. That reluctance will increase as their foreign exchange assets diminish.

McL

Plain.

London.

Dated March 27, 1940.

Received 12.58 p.m.

Secretary of State,
Washington.

749, March 27.

FOR TREASURY FROM BUTTERWORTH.

The recent fall of sterling in the unofficial market in New York has called forth little attention here. The city has taken little interest in this development and many of the newspapers have ignored it. The only paper today to offer critical comment has been the DAILY MAIL and its criticism is mild and concerned with prestige:

"It may be that the sales of free sterling will gradually shrink to a point at which recovery in the rate will be seen. "We have to remember in these days that points like a slump in the pound in the free market may be exaggerated and distorted by our enemies to our disadvantage in neutral countries and may suggest unwarrantable deductions with regard to the stability of the official rate":

In my comings and goings in the British Treasury I do not gather that they are acutely disturbed about the decline of the pound though the depreciation has been greater than they anticipated-and they are at loss as to how much of the immediate effect has been caused by the new regulations

-2- 749, March 27 from London.

regulations as such and how much by international developments following the Russo-Finnish peace. In conversation they always emphasize the narrowness of the New York dollar sterling market.

Incidentally it would be helpful to have information as to how narrow the market has been recently.

KEN NEDY.

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 27, 1940, 7 p.m.

NO.: 398

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Today our Bank of France friend lunched at my house. He said that in Paris and London there was growing anxiety - but not panic - regarding the free market rates for sterling and the French franc. As far as the British were concerned, he seemed to feel that there was not much that could effectively be done by the authorities, as they would not want to block foreign sterling balances for fear that the remedy would be worse than the disease, and that they would seriously prejudice their international banking position with all its advantages. No evidence has come to my attention as yet that there is any intention to change official rates or to try to support the free market.

Our friend said, regarding the franc, that insofar as its position is "sympathetic" to the pound France was of course estopped from taking any effective action. However, insofar as the franc weakness was independent he felt it would be of some help in reducing the franc supply on the free market if the Bank of France and the Ministry of Finance insisted that purchases in the United States be made in dollars.

Reference, telegram of March 21, No. 375 from the

Embassy.

- 2 -

Embassy. Our friend spoke of the attitude of other government departments as did Couve de Murville, saying that in part it was due to the scaling down of their estimates of import requirements in foreign currencies; he remarked that frequently the reduction of these estimates resulted in attempts to purchase in francs and in this way avoid the restrictions.

Our friend, however, lamented the fact that the French Treasury is the source of a sizeable proportion of the francs on the free market, reference, telegram of November 5, No. 2660 from the Embassy, but he said he has not as yet been able to remedy the practice of placing substantial sums in francs at the disposal of French missions and consulates abroad.

No reference was made by him to franc balances held before the war by nationals of countries with weaker currencies, as for example the Balkans, but I have heard that the supply of francs on the free market is still augmented in this way. Up to the present he had not seen any serious signs of any internal effect here from the weakness of the franc in New York. Several Paris-American bankers with whom I have had conversations have confirmed this impression. The securities market here was on the other hand strong today, particularly in international issues.

The

- 3 -

The franc weakness in New York was generally cited as the cause, though in the press the speech by Reynaud is said to be responsible.

As for internal finances, our friend seemed to be quite satisfied. He pointed out that the fact that there has been no material increase in circulation of banknotes is a sign that the "closed capital circuit" is functioning well. However, he said there continued to be some rise in prices.

I asked whether he knew the new Finance Minister, Lamoureux. He said that he was "a very well-intentioned man" and it was likely he would follow closely his predecessor's financial policies. Yesterday in a statement issued at his first conference with the press the Minister confirmed his intention of following the policies of Reynaud, and said that it was his good luck that he did not have to take any precipitate action on budgetary and monetary questions in view of the satisfactory state of public finance.

Before the Senate adjourned on Friday it approved the bill which authorized the expenditure of 55,000,000,000 for the second quarter for national defense purposes; reference, telegram of March 18, No. 357, from the Embassy.

There

- 4 -

There is no comment in the Paris financial press on the New York exchange rates, but the rates are quoted. It is felt in financial circles that, in spite of the inauspicious start of the Reynaud Government, Reynaud will be given a period of at least several weeks to inaugurate his program of action rather than words, there having been time over the Easter weekend for thought, and on the part of some of the deputies themselves for remorse, in regard to prejudice which is done to France by political horseplay in the Chamber in the midst of a war for the existence of France. It is a fact that the most ardent advocates of an "aggressive" war policy are unable to specify the form or field which should or can be taken by this action.

There are rumors that conversations are being carried on with Italy, of a "tougher" attitude about the use or misuse of the territorial waters of Norway, and about a move in the Near East - usually vague. In all three spheres, there are sound arguments against initiative by the Allies. However, I can only express my belief that for at least several weeks, until Reynaud can show what he hopes to accomplish, France will be spared another Cabinet crisis. Of importance to this Government is the attitude of Daladier.

END OF MESSAGE.

MURPHY.

EA:LWW

146

BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

March 29, 1940

From DIRECTOR

To Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury.

For Sent at the request of
Mr. Noble, Under Secretary
of Commerce.

James W. Young
James W. Young.

ECONOMIC DEVELOPMENTS

RECESSION in business activity, which began toward the end of December continued during March. Pace of the decline, particularly in industrial production, was less rapid than in January and February but the drop for the month was nonetheless substantial. The arc inscribed by business over the past seven or eight months is shown by the following major indicators:

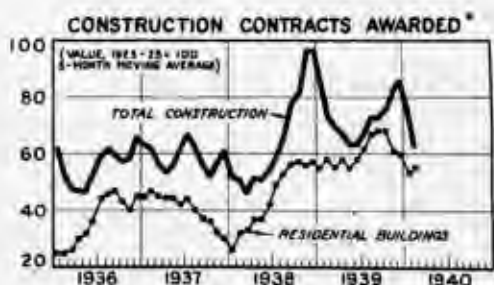
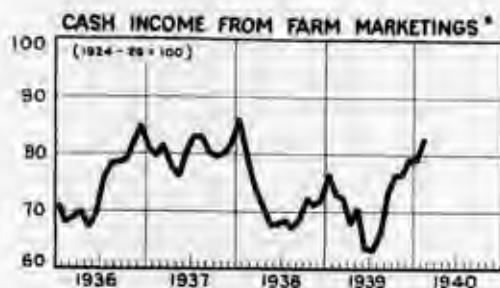
EXAMPLES: (March figures are estimated)

	Industrial Pro- duction (1923-25=100)	Income Pay- ments (1929=100)	Department Store Sales (1923-25=100)
<u>1939</u>			
August	103	85.4	89
December	128	89.5	96
<u>1940</u>			
January	119	89.5	92
February	109	88.4	90
March	104	87.2	88

SIGNIFICANCE: First quarter contraction in industrial activity has erased the spectacular gains made during the 4 months following the outbreak of the European war. We are just about back to the position of last August with this significant difference: The trend was then up whereas now it is down. Income payments by March had not receded to the August level, though the recent rate of decline has been about the same as the upward move of late 1939. The shrinkage in income payments since December has amounted on an annual basis to about \$2 billion—or from \$73 billion to \$71 billion.

INVENTORY ACCUMULATION probably stopped in March. This volatile type of capital was being added to at a slower rate in both January and February than was the case during the fourth quarter of 1939—this largely explains the decline in production so far this year. Addition to inventory from September to the end of February was in the neighborhood of one and a half billion dollars. The relatively small increase in February, shown in the following table, plus the further decline in production in March indicates that there was little inventory change in that month—whether the net was slightly up or slightly down.

MONTHLY BUSINESS INDICATORS, 1936 - 1940



* ADJUSTED FOR SEASONAL VARIATIONS

D.D. 40-194

EXAMPLE:

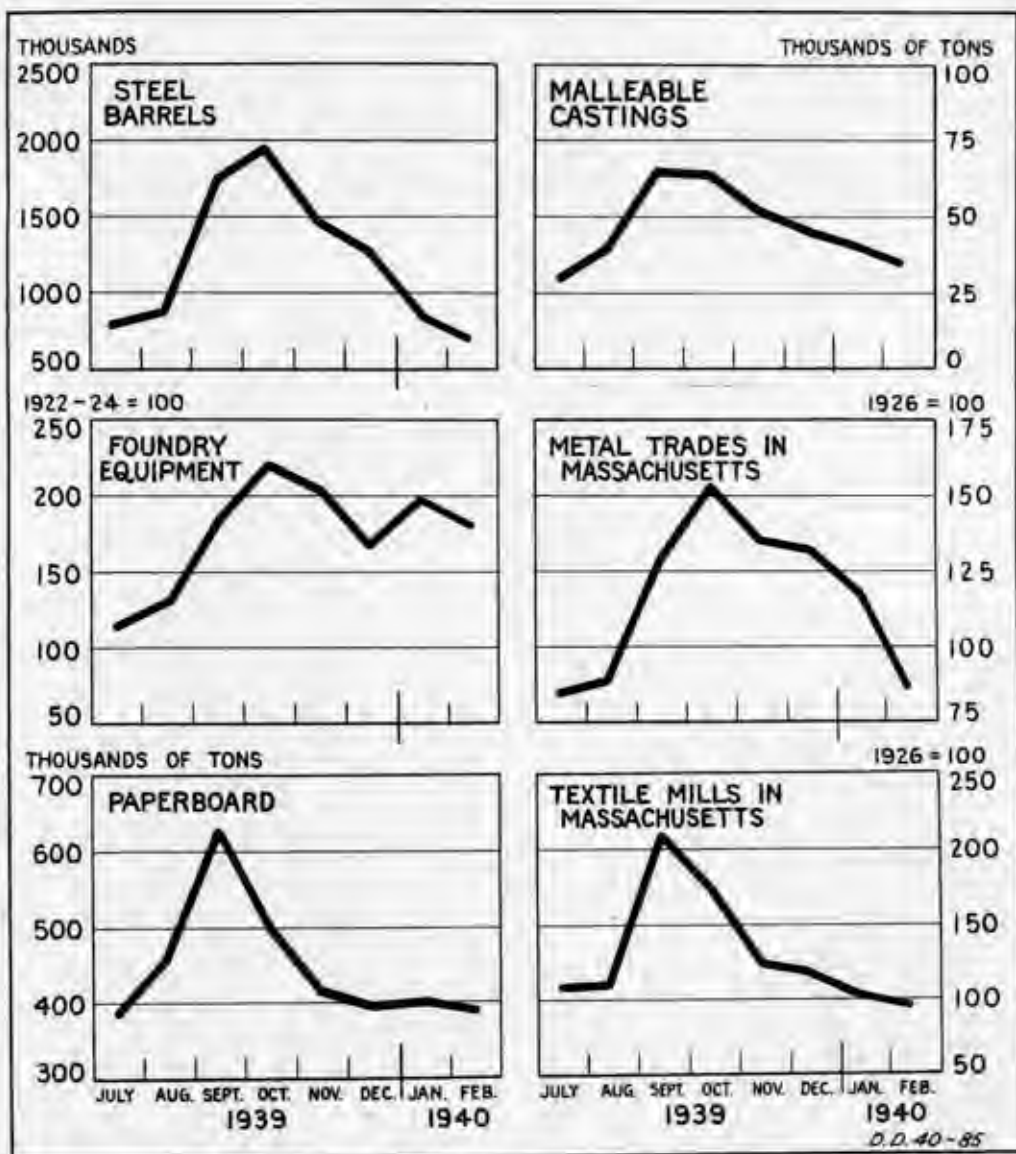
Recent Inventory Changes
(December 1938=100)

	<u>Manufacturers</u>	<u>Wholesalers</u>	<u>Department stores</u> (seasonally adjusted)
<u>1939</u>			
June	98.5	104.0	100
October	101.5	112.5	104
November	104.5	112.5	107
December	107.5	111.0	103
<u>1940</u>			
January	110.0	116.5	104
February	110.5	118.0	—

SIGNIFICANCE: The time is now at hand when business decision regarding the added inventories must be made. If they are maintained—as they may be to provide a safeguard against future war developments—a sidewise movement of industrial activity over the near term appears probable. Any tendency for business to let inventories run off, however, would result in a deepening of the recession. Liquidation to the extent of even a fifth of the holdings accumulated since September could hardly be offset by such increases in other types of investment as are likely to be realized.

IT IS OF REAL IMPORTANCE that positive action is required to maintain inventories. These have been increased by the deliveries of orders placed months ago—in recent months new orders have not been so high as shipments nor have they been so large as consumption. Hence, if orders are not stepped up in line with utilization then inventories will be drawn down. That is why so much interest centers in the volume of current purchasing.

BUSINESS PURCHASING continues very sluggish. Retailers appear to have adopted a waiting policy in the face of the recent hesitancy shown in retail trade. A cautious attitude prevails among industrial purchasing agents with expectations of further price weakness. No evidence of a real expansion in new commitments can be sifted from the March performance.



NEW ORDERS RECEIVED BY SELECTED MANUFACTURING INDUSTRIES, 1939 AND 1940 (THE INDEXES OF NEW ORDERS (VALUE) RECEIVED BY TEXTILE MILLS AND METAL TRADES IN MASSACHUSETTS ARE COMPILED BY THE ASSOCIATED INDUSTRIES OF MASSACHUSETTS. THE OTHER SERIES ARE THOSE REGULARLY SHOWN IN THE SURVEY OF CURRENT BUSINESS AND REPRESENT QUANTITY, EXCEPT THE INDEXES FOR "FOUNDRY EQUIPMENT" WHICH ARE ON A VALUE BASIS.

EXAMPLES: See attached chart for a few representative series plotted through February. Preliminary data from our monthly survey relating primarily to the durable goods industry show:

	New Orders January 1939=100	Orders were above or below shipments by - (percent)
<u>1939</u>		
January	100	+ 1
February	105	-
October	192	+41
November	159	+10
December	129	-10
<u>1940</u>		
January	119	-12
February	115 (p)	-12

SIGNIFICANCE: New orders continued below shipments in February despite a decline in shipments for that month.

THE STEEL SITUATION is interesting and characteristic even though the industry has been subject to much wider swings than general business. Output of ingots has dropped to 61 percent of capacity—a lower rate than prevailed in the latter part of August. Even with the decline in production, unfilled orders have been further reduced. March closes without any material change in the flow of new orders. These have been lower than shipments now for 5 months and this disparity has been very considerable during most of that period. The position of the industry is clearly revealed in the following table.

Recent Changes in the Iron and Steel Industry

	<u>Ingot rate</u>	<u>New Orders</u>	<u>Shipments</u>	<u>Ratio New Orders to Shipments</u>
	(January 1939=100)			
<u>1939</u>				
January	100	100	100	101
February	102	93	94	99
October	170	242	165	151
November	172	159	164	98
December	169	127	164	76
<u>1940</u>				
January	153	94	142	66
February	128	91	133	71
March	119	-	-	-

SIGNIFICANCE: Although the steel industry had exceptionally good business during the fourth quarter of 1939, its position has been entirely altered during the first 3 months of this year. The dividend declared by U. S. Steel has been cited as evidence of confidence in the outlook for the industry. However, it merely represents a disbursement of about half the earnings of the corporation in 1939. We can not see that it has any significance for the present year in view of the fact that it is only the second common dividend paid since 1931. The \$1.00 dividend in 1937 would undoubtedly have been larger had it not been for the necessity of paying off arrearages upon the preferred.

WHILE we feel that the inventory movement will be the dominant factor in the level of business during the second quarter we do not mean to imply that it is always the determining element in the business picture. For example, after the coming quarter is over the level of business activity is apt to be more conditioned by the volume of the basic categories of expenditures, i.e., investment in plant and equipment, residential building, exports, consumers' durable goods, and net government outlays. What the volume of these expenditures might be, say three or six months hence—could only be estimated with a considerable margin of error.

153

FOREIGN TRADE NOTES

Argentina: In connection with recent tenders for automatic signal installation on one of the Argentine railways, it is interesting to note that the German bids were 20 percent lower than the American. In view of the difficulties connected with deliveries from Germany, it is believed that a part of the order will go to the United States.

Soviet Union: The continued decline in Soviet exports is shown by the January figures of exports from Russian Black Sea ports passing Istanbul. The total volume for January 1940 was only 26,500 metric tons, as compared with almost 300,000 tons in January of 1939. There were no shipments of cereals, petroleum products, sugar, or other agricultural products. The shipments consisted almost entirely of manganese, all destined for the United States.

Hungary: It is estimated that half of Hungary's planted crops, as well as large numbers of cattle and hogs, have been destroyed by flood and frost. It is believed that there will be great difficulty in sending food supplies to Germany.

Germany: The scarcity of leather is illustrated by the fact that the cost of half-soleing a pair of shoes varies from 7 marks (\$2.80) for a pair of cheap shoes costing originally 3 marks, to 12 marks (\$5.00) for an American shoe with an original cost of \$8.75.

Italy: The disguised devaluation of the lira through the payment of premiums on foreign exchange has become so pronounced that an official devaluation is more or less openly discussed in banking circles. There is talk of a rate of 35 to 40 lire to the dollar.

Denmark: Foreign trade figures for 1939 show a doubling of the unfavorable trade balance, due largely to the fact that the prices on import commodities have increased much faster than on Danish export products. The Danes are very much concerned over the British efforts to curtail imports from Denmark, and particularly as regards bacon, which is now replaced to a substantial extent by imports from Canada.

According to the latest cable, the decrease in British imports of Danish agricultural products has resulted in immediate slaughter of a large number of unhealthy and young pigs and the request to Danish farmers to eat more pork.

Bureau of Foreign and Domestic Commerce,
March 28, 1940.

WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939			1940		Percent increase, Mar. 23, 1940 from -	
	Mar. 25	Aug. 26	Sept. 16	Mar. 16	Mar. 23	Mar. 25, 1939	Aug. 26, 1939
All commodities	76.6	74.8	79.3	78.2	77.9	1.7	4.1
Farm products	66.7	61.1	69.7	68.0	67.5	1.2	10.5
Foods	70.8	66.7	75.5	70.4	69.9	- 1.3	4.8
All commodities other than farm products and foods .	80.6	80.4	82.4	83.0	82.9	2.9	3.1
Hides and leather products .	92.3	92.6	98.3	102.5	102.1	10.6	10.3
Textile products	66.1	67.4	71.4	73.0	72.7	10.0	7.9
Fuel and lighting materials .	73.6	73.2	74.1	72.6	72.6	- 1.4	- 0.8
Metals and metal products .	94.4	93.5	94.9	95.5	95.4	1.1	2.0
Building materials	89.9	89.7	90.7	93.2	93.3	3.8	4.0
Chemicals and drugs	76.0	74.2	77.1	77.4	77.3	1.7	4.2
House-furnishing goods . . .	86.5	87.0	87.1	89.6	89.5	3.5	2.9
Miscellaneous	73.9	73.1	76.1	76.9	76.5	3.5	4.7
Raw materials	70.3	66.2	73.0	71.9	71.5	1.7	8.0
Semimanufactured articles . .	74.7	74.4	82.0	79.6	79.4	6.3	6.7
Finished products	80.3	79.3	82.3	81.4	81.2	1.1	2.4

Source: U. S. Department of Labor, Bureau of Labor Statistics.

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		March 29	August 30	Sept. 13	March 20	March 27
Copper, electrolytic, New York	\$ per lb.	11 1/4	10 1/2	12	11 1/4	11 1/4
Lead, prompt shipment, New York	do	4.85	5.05	5.50	5.15	5.15
Zinc, New York	do	4.84	5.14	6.64	6.14	6.14
Tin, straits, New York	do	46 3/5	49 3/4	1/ 75	46 5/8	45 1/2
Rubber, plantation, N.Y.	do	16 1/16	16 13/16	22 1/2	18 9/16	18 5/16
Hides, light native cows, Chicago.	do	10	11	15	12 1/2	12 1/2
Silk, 13-15 denier, 78% seriplane, N.Y. . .	\$ per lb.	2.26	2.72	3.21	2.92	2.89
Cotton, middling, aver- age, 10 markets.	\$ per lb.	8.47	8.53	9.01	10.40	10.26
Print cloth, 60x64, 3 1/2 inches, N.Y. . .	\$ per yd.	4 1/4	4 5/8	5 3/8	4 7/8	4 3/4
Wool tops, May 1940 futures, New York. . .	\$ per lb.	2/79.5	3/81.5	3/111.9	96.7	92.9
Sugar, raw, 96°, duty free, New York	do	2.88	2.92	3.70	2.83	2.80
Cocoa, Accra, New York	do	4.70	4.38	6.45	5.50	5.60
Coffee, Santos, No. 4, New York	do	7 1/4	7 5/8	7 3/4	7 1/4	7 1/4
Lard, cash, Chicago. . .	do	6.22	5.65	7.75	5.75	5.55
Cottonseed oil, May 1940 futures, N. Y. . .	do	2/ 6.57	3/ 5.61	3/ 7.30	6.75	6.54
Wheat, May 1940 fu- tures, Chicago.	\$ per bu.	2/ .67 1/2	3/ .67 1/4	.85 3/8	1.05 3/4	1.05
Hogs, good and choice, 220-240 lbs., Chicago	\$ per cwt.	4/ 7.35	6.88	8.13	5.33	5.18
Steers, beef, medium, 750-1,100 lbs., Chi.	do	8.88	8.38	8.88	8.63	8.38

1/ Nominal. 2/ May 1939 futures. 3/ December 1939 futures. 4/ Hogs weighing 220-250 lbs.

Sources: All commodities, with the exception of wool tops, cottonseed oil, hogs, and steers, are taken from the Journal of Commerce; wool tops and cottonseed oil are taken from the Wall Street Journal; and hogs and steers are from the U. S. Department of Agriculture, Bureau of Agricultural Economics.

COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

Date	Pig Iron ^{1/}	Steel Scrap ^{2/}	Finished Steel ^{3/}
	(Dollars per gross ton)		(Cents per pound)
1939:			
March 28	20.61	15.29	2.286
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.50	2.236
1940:			
March 19	22.61	16.54	2.261
March 26	22.61	16.29	2.261

^{1/} Based upon average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

^{2/} Based upon No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

^{3/} Based upon steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Source: The Iron Age.

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Date	Motor gasoline, 65 octane	Light fuel oil, number 2	Diesel oil, ships' bunkers,	Bunker oil, grade "C", cargoes
	(Cents per gallon)			(Dollars per barrel)
1939:				
March 29	4.50 - 4.75	3.125 - 3.375	1.45	0.70 - 0.72
August 30	4.75 - 5.00	3.375 - 3.75	1.45	0.78 - 0.80
September 13	6.25 - 6.875	3.875 - 4.00	1.45	0.825 - 1.00
1940:				
March 20	5.25 - 6.00	4.125 - 4.25	1.70	0.90 - 1.05
March 27	5.25 - 6.00	4.125 - 4.25	1.70	0.90 - 1.05

Source: Platt's Oilgram.

March 28thTHE CLOISTER
SEA ISLAND, GEORGIA

Spoke to Lettettine. He said it took lots of nerve to declare dividend. What did I think of it. Told him from stand point of his company I had no opinion ^{but} from stand point of our own country thought it was damn good bet.

He said he was sure that if war continued within 60 days we would be getting substantial orders from allies. Just got 30,000 Tm order of steel for manufacture direct

from London for account
of France. Said I can't
tell Purvis provided I
did not reveal source.

Said business in U.S. last
week not so good, but
there were special reasons.

Will lunch with me
Friday April 12th
10m2.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 28, 1940

My dear Mr. Secretary:

From information I have gleaned this morning it appears that no further action will be taken by the House Military Affairs Committee on the investigation of foreign sales of airplanes. Likewise, I learned that the LaFollette resolution was defeated in committee by a vote of 5-4, and therefore, the Senate investigation will probably never occur, all of which will permit of more time being devoted to our legitimate pursuits.

Representatives of Pratt & Whitney, Wright Aeronautical and Allison Motors are meeting with the Liaison Committee and aviation representatives of the War and Navy Departments tomorrow at 10 AM. At 2 PM accessory manufacturers, composed of Bendix, Sperry, Curtiss, Hamilton Standard, Pioneer, and Kollsman will have a similar meeting with the same Government representatives. The new policy concerning release of restricted items will be discussed and explained as it was yesterday with the airplane manufacturers.

Any statements for the press concerning these meetings will be released by Chic Schwarz as was done in connection with the meeting yesterday.

With kindest personal regards,

Sincerely yours,

Honorable Henry Morgenthau, Jr.

The Secretary of the Treasury



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

160

March 28, 1940

MEMORANDUM FOR THE SECRETARY

Yesterday afternoon I talked with Mr. Green of the State Department on the subject of toluol.

He informed me that he is accumulating information concerning the total production and exports being made to foreign countries and that as soon as this information is available to him he will discuss the matter with Secretary Hull for a determination as to what action should be taken.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 28, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

When the Secretary telephoned me at 4 o'clock yesterday afternoon I told him that sterling was quite weak and that Harry White had discussed with me the desirability of bringing this to the Secretary's attention and of ascertaining whether any steps should be taken in the premises. I told the Secretary that we were watching the market carefully and collecting all of the information that we could from official and banking sources, but that I thought the Treasury should do nothing on monetary grounds at this moment toward making representations to or inquiries of the British. The Secretary agreed.

Mr. Livesey of the State Department told me this morning that Dr. Feis desired to present a memorandum to Secretary Hull in regard to the sterling situation, with particular reference to the effect that the depreciation of free sterling may have upon our market and trade, upon other currencies, and upon the general price level of commodities, etc. Feis had suggested to Livesey that I be asked to submit a Treasury memorandum on this subject. I told Livesey of my brief conversation with Secretary Morgenthau. I felt that there was no occasion for the Treasury Department to voice any protest to the British under the Tripartite Agreement, or even to make official inquiries from the monetary point of view. I told him that the question of certifying to rates for sterling, and determining the rate at which Customs duties should be levied, was another matter which did not come within my field, except insofar as I had provided technical information to the officers of this Department dealing with the subject. Livesey confirmed that he was speaking of the sterling exchange question, as apart from the tariff question, and was fundamentally interested in the problem of the State Department's trade relation policy with Great Britain. In answer to my question, Livesey stated that his Department had not cabled London in regard to the exchange rate, but was following the whole situation very closely, especially since this is the perhaps critical week for the Trade Agreements legislation.

I gave Livesey an idea of the volume of trading in New York in unofficial sterling and pointed out to him that this volume, and the fluctuations in the rate, had been exceptional this week. I attributed this principally to the uncertainties as to the future of unofficial sterling, following the placing into effect this week of new regulations in regard to the use of such sterling. I added that the international political situation had undoubtedly had some adverse effect also. I told Livesey that I should be glad to continue to keep in touch with him, but that since the picture is not yet clear, I hesitate to submit any memorandum. Incidentally, I mentioned that sterling had improved considerably today, with lesser transactions and these limited principally to professionals.



HSM

PLAIN

London

Dated March 28, 1940

Rec'd 1:20 p. m.

Secretary of State,
Washington.

762, March 28.

FOR TREASURY FROM BUTTERWORTH.

1. Uruguay has been added as an exempt country of destination on the Continent of America to which the new foreign exchange regulations are inapplicable (see paragraph numbered 1 of my 594 of March 9, noon). This is because a confidential arrangement has been reached between the British and Uruguayans which is "tantamount to a payments agreement".

2. The South African Government is to exercise its option to repay the £7,900,000 South African 5 percent loan 1940-60 which is held in London, redemption to take place July 1. Due to the rise in the value of gold South Africa in recent years has had large sterling balances which from time to time are used for debt repayment. Kindersley's figures indicate that British capital invested in South African Government and municipal loans at the end of 1930 totalled £118 million and at the end of 1938 £109 million.

KENNEDY

HPD

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 28, 1940.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knoke

Mr. Tong in the absence of Mr. Bolton who is away on a short holiday, called me at 11:20 a.m. to have a talk about the New York market. I repeated to him what we have said in our daily market cables and added that today the character of the sterling market had completely changed with sterling now quoted at 3.56 to 3.57 after last night's closing at 3.49. I told him that the market seemed to ascribe this change to an article in the Times this morning under the heading "Drop in the Pound Watched by Hull."

Mr. Tong replied that he had read this article which had been cabled over to London. He wanted to know whether there was a heavy short position ^{in sterling} here/and I replied that according to the best information available the short position for the whole market in recent weeks and months never seemed to have been a heavy one. Referring to the daily turnover figures which we cable every night, Mr. Tong said that according to reports which they had from centers on the Continent, the turnover there had not increased substantially and that most of the operations appeared to be concentrated in New York. I asked whether the recent break in the sterling rate disturbed them. Mr. Tong replied that naturally they were surprised at the rapid drop. They had ~~naturally~~ expected to see a downward movement as a result of the increased export control but they had not expected what he called the "snowballing effect." I stated that the latest regulations in my opinion were only one of several factors making for a weaker

FEDERAL RESERVE BANK
OF NEW YORK

164 280

OFFICE CORRESPONDENCE

DATE March 28, 1940.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knoke

2

sterling. Nevertheless I thought, for the time being at least, we had seen the worst even though the market seemed rather bearish here. Mr. Tong thanked me for our daily cables and expressed his regret that their channels of information were not quite as open as they used to be in pre-war days.

LWK:KW

HSM

PLAIN

London

Dated March 28, 1940

Rec'd 1:20 p. m.

Secretary of State,
Washington.

763, March 28.

FOR TREASURY FROM BUTTERWORTH.

A summary of the information previously reported as to the demand and supply sources of free sterling may be of use:

(A) The supply of free sterling arises from:

1. The withdrawals of foreign balances. As reported in my 564 of March 6 foreign balances are now reduced to about operating levels, whereas up to a month or two ago withdrawals were the mainstay of the supply. These were and are exclusive of Argentine, Norwegian and Swedish balances which are blocked under special agreements (my 664 of March 14).

2. Proceeds of imports into the sterling area paid for in sterling. This is an elastic item, bound to be influenced by the free market rates.

3. The liquidation of foreign-owned sterling securities which is potentially substantial and remains sensitive

hsm -2- No. 763, March 28, from London

sensitive to war news.

4. Interest, dividends and redemption of sterling securities held by foreigners - a relatively steady and insensitive item, probably not very large.

5. Insurance premia and claims on pre-war policies - small, steady and insensitive.

6. Legacies, distribution of capital on winding up of trusts and capital and interest payments under trusts established before September 3.

7. Rents and mortgage interest on property owned by foreigners or due under a pre-war trust.

8. Annuities purchased by non-residents from insurance companies.

9. Remittances for personal expenditures.

10. License fees on pre-war trade mark and copyright contracts.

(B) The demand for free sterling arises out of the sterling requirements of foreigners to pay for

1. British exports invoiced in sterling (other than rubber, tin, jute, whiskey and furs).

2. Other British services such as shipping insurance, et cetera.

3. Remittances presents, et cetera, by foreigners to United Kingdom residents.

4. Sterling obligations of foreigners in the United Kingdom for interest, dividends, fees, et cetera.

Incidentally

hsm -3- No. 763, March 28, from London

Incidentally American banks operating in London have seen the results of sales from New York of British securities which in the case of one bank have amounted to almost a quarter of a million pounds in the last day or two.

It occurs to me that a technical factor may at some point operate to strengthen sterling: although as previously reported non-residents may not obtain rupees for payment of Indian exports by offering sterling purchased on the unofficial market, under existing regulations such American importers may open a sterling credit in India, make their rupee payments out of this and then repay the sterling credit by pounds purchased on the unofficial market. No doubt this will soon become realized and if not prohibited by new regulations will furnish some support for the pound in New York.

The British financial press has today awakened to the significance of the recent depreciation and there is considerable comment of varying character. Representative criticism is contained in the following excerpt from today's FINANCIAL TIMES:

"As previously stated the authorities profess complete unconcern about the fall in the rate. Their view is not shared by an increasing number of people who believe on the other hand that the Control should pay greater

hsm -4- No. 763, March 28, from London

greater attention to the matter. It is felt that the psychological effect on foreign nationals particularly upon neutrals who wish to be friendly is bad. It is not considered sufficient merely to point out that this 'free' market is a narrow one and that it is of no real significance. Foreign nationals however wrongly regard the 'free' rate as a barometer of our financial and economic position. Our enemies furthermore lose no opportunity of distorting facts and fostering doubts as to the stability of the official rate".

The following excerpt from today's DAILY TELEGRAPH is representative of the defensive comment which follows the official line:

"Sterling relapse in the free market in New York has attracted more attention than it deserves. In London the reasons for this movement are fully appreciated and occasion no apprehension. The two main points which seem to be forgotten are:

(1) That the Treasury limits satisfaction of demand for other currencies to those requiring to pay for approved imports, and (2) the principal exports of the country are paid for in dollars which are handed over to the 'Control'. There is therefore only a limited demand for sterling outside official channels and foreigners with balances in London who wish to move them

find

hsm -5- No. 763, March 28, from London

find few if any buyers of their sterling. Thus the market is becoming more and more closed and foreigners with sterling who naturally enough do not wish to hold the currency of a belligerent find the market restricted. As the 'Control' policy becomes more effective the obstacles to the movement of foreign sterling balances become greater. This is fully recognized and may explain the desire to get sterling out of the country before the rate becomes even more adverse in the free market. It is the inevitable result of tightening control. The essential fact is that the business of the United ^{Kingdom} / is being carried out on the basis of a sterling-dollar rate of \$4.03. This rate is stable."

KENNEDY

RR

March 28, 1940

MEMORANDUM TO THE SECRETARY:

In our conferences here in the Treasury on the subject of a reconstruction program for Finland a number of questions have been raised, and for your benefit they have been jotted down on the enclosed memorandum. I thought probably you would like to have them in connection with your study of the memorandum sent you by Harry White.

(Initialed) D.W.B.

MAILED 3-28, 1940
BY SPEC. MESSENGER pauch
FILE TO _____
COPY TO _____

DWB:ce

To Secy
90 Leicester Hotel
Sea Island Beach, Ga.

March 27, 1940

Secretary Morgenthau

Messrs. D. W. Bell, Cochran, Bernstein, Cotton and White

Subject: Reconstruction Program for Finland

At two conferences held this week in the Treasury the following questions regarding the wisdom of undertaking to extend Finland financial assistance on a large scale at this time were suggested as worthy of consideration.

1. What assurances are there that Finland will not be partly or wholly taken over by Russia or Germany long before the debt matures, so that instead of helping the reconstruction of a democracy we may actually be aiding totalitarian governments?
2. Finland's ability to service a large foreign debt presupposes either a resumption of liberal trade policies which characterized trade prior to the present war, or consummation of bilateral trade arrangements such as will give Finland the necessary foreign exchange. Suppose the democracies do not win and bilateral trade arrangements imposed upon Finland or voluntarily adopted by Finland yield only small amounts of foreign exchange, how will the United States be assured repayment since its own trade with Finland is not large? What kind of assurances, if any, are to be obtained from Finland with respect to the kind of trade arrangements she will make with foreign countries?
3. Would the financial aid be made if it were definitely known that the Allies would not emerge victorious from the present war? Is victory by the Allies certain enough to warrant financial risks involved in extensive aid to Finland?
4. Are the guarantees of any other foreign country to be obtained with respect to the inviolability of Finnish territory as a prior condition of large scale financial assistance?
5. Are any other governments going to be asked to participate in the financial aid?

- 2 -

6. Is aid to be extended while the war is going on, or only after peace is resumed?
7. Should the United States undertake primary responsibility for the economic reconstruction of an area which we can not defend, to which our merchant ships have no access, and with which our economic relationships are of only secondary importance?
8. Finnish exports are dominated by forest products -- timber, pulp and paper. What are the prospects for the maintenance or expansion of Finnish exports under conditions of peace and relatively free international trade? In particular, is Finnish pulp and paper competitive with our own industry and is it likely to lose the American market?
9. If the proposed aid to Finland is undertaken chiefly as an entering wedge for a much more important role in the shape of world economic and political relationships:
 - (a) What assurances are there that the Congress would look with favor upon the acceptance of wider responsibilities by the United States in world affairs?
 - (b) Would the American people subscribe to the kind of detailed program that would be necessary to work out if such a role were to be undertaken? Is Congress prepared to demand quid pro quos from foreign countries in the shape of a predetermined general pattern of economic and political relationships among European countries?
 - (c) How much financial assistance is this country prepared to extend to the rest of the world, and will that be enough to buy us the kind of international relations that we want?
 - (d) If financial assistance on a large scale is to be extended Europe after peace is declared, where are the funds to come from? Particularly, is it appropriate to tap the Stabilization Fund for expenditures of such character?
 - (e) Do we wish our aid to Finland to be taken as evidence of a willingness to utilize our economic resources to assist in the reconstruction of Europe after the war? If so, should we allow it to be

- 3 -

believed that we will offer our assistance without making clear that such assistance is conditional on the adoption of policies acceptable to us with regard to international trade, exchange, access to raw materials, etc.? Do we have such policies to propose, in a form which goes beyond platitudes?

- (f) Is our economic assistance to be conditional on a peace whose political terms we regard as just? If so, are we ready to participate in drawing up terms of peace and to assume responsibility for those terms? If not, do we really want our Finnish aid to lead towards "a seat at the peace conference"?
10. If congress fails to appropriate additional funds to finance the reconstruction of Finland, is there danger that the present Finnish government will be worse off than would be the case if their expectations of economic assistance from us were not fostered? In other words, would failure by their representatives to "bring home the bacon" leave those representatives in a much weaker political position at home and strengthen Finland's feeling of dependence upon Russia and Germany.

AC

GRAY

Paris

Dated March 28, 1940

Rec'd 3:15 p.m.

Secretary of State

Washington

402, March 28, 5 p.m. (SECTION ONE).

FOR THE TREASURY FROM MATTHEWS.

Today's Journal Officiel publishes an instruction issued by the compensation office regarding the methods of settlement to be employed in effecting payment for French imports from and exports to Spain. French imports of Spanish products appearing on list (a) of the Franco-Spanish trade agreement and Spanish imports of French products appearing on (b) are to be settled through the clearing arrangement in effect between the Spanish institute of foreign currencies and the French clearing office (see my telegram 104, January 22, 6 p.m.). Imports or exports of goods not appearing on these lists are to be settled through private compensation operations. Clearing conversions are to be made at the "official franc-peseta exchange rate" with the exception of French imports of Spanish products invoiced in peseta which are to be paid for in francs at the Spanish "exportation of merchandise" exchange rate.

MURPHY

KLP

MR

GRAY

PARIS

Dated March 28, 1940

Rec'd 3:47 p.m.

Secretary of State,
Washington.

402, March 28, 5 p.m.

(SECTION TWO).

French exporters are requested in the instructions to furnish the clearing office with full particulars regarding claims with respect to French commercial credits in Spain "blocked" before January 17, 1937.

Deposits in the national (postal) savings banks during the period February 16 --- 29 amounted to 171,000,000 francs, a figure lower by 38,000,000, than the total for the first half of February (my telegram No. 346, March 14, 7 p.m.). Withdrawals totaled 23,000,000, an increase of 5,000,000 over those occurring in the period February 1 --- 15. From January 1 to February 29, 1940 deposits exceeded withdrawals by 792,000,000 francs.

MURPHY

NPL

MR

GRAY

PARIS

Dated March 28, 1940

Rec'd 3:50 p.m.

Secretary of State,
Washington.

402, March 28, 5 p.m. (SECTION THREE)

Bank of France statement showed little change other than a decrease in note circulation of 505,000,000 to 154,943,000,000. Advances to the state remain unchanged.

The securities market after an early rise eased off. Rente issues, however, showed fractional gains and the 1937 dollar exchange guarantee issue after advancing 1.70 yesterday moved up another 1.60 to 220.95. The curb market was particularly active and strong with gold mining and rubber shares in demand.

(END OF MESSAGE)

MURPHY

NPL

Document signed & ret'd to Bell 3/28/40
(by the day)

177

March 26, 1940

MEMORANDUM TO THE SECRETARY:

There is transmitted herewith for your signature a proposed circular containing regulations covering U. S. Savings Bonds which embody the changes announced by you before you left. Also, an offering circular covering the same subject. I should appreciate it if you would sign them and return as soon as possible and wire me as soon as you have signed them so that we can start the printing. We hope to get these into the hands of the Federal Reserve Banks early next week and we plan to publish in the Federal Register for Saturday of this week. In order to do this we must have the signed documents in the hands of the archivists by Friday noon.

(Initialed) D.W.B.

To Mrs Betts - 12:10 P.M. -
for pouch

MAILED 3-26, 1940

BY SPEC. MESSENGER _____

FILE TO _____

COPY TO Broughton

To Lucy
90 Elvister Hotel
Sea Island Beach, Ga.

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 26, 1940.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF FRANCE.

Mr. Cariguel called at 12:18 o'clock to inquire whether there was any special reason for the weakness of the franc in New York today. I replied that the answer was the same as previously given him, namely, that francs were following sterling. Sterling was down to 3.61 and francs had eased off accordingly. Was sterling very much under pressure? I replied that so far today it was not. Monday's turnover had been about £700,000. It was too early to estimate today's turnover. Meanwhile it was correct to say that sterling was under some pressure and this undoubtedly due to the fact that the March 8 regulations had become effective on March 25. Did the turnover in francs continue very small? I replied about 20 to 25 million francs a day, as heretofore.

I stated that I had just been down in the vaults to look over the latest ^{gold} shipment which had arrived during the night and which we had taken in at that hour in compliance with a request of the express company.

LWK:KW

COPY

ANKARA

March 27, 1940

Rec'd 3:50 p.m.

Secretary of State,
Washington.

31, March 27, 3 p.m.

Apparently in relation with the fall of sterling with respect to the dollar a basic official rate for the purchase of dollars has been fixed by successive changes since yesterday at approximately pounds (Turkish) 1.48 as compared with 1.31 previously prevailing. No substantial change has taken place in the pound (Turkish) pound (sterling) or pound (Turkish) franc rate.

MACMURRAY.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The weak tendency displayed by sterling yesterday continued today. In Amsterdam, the opening quotation for sterling was 3.53-5/8 and it later moved up to 3.56-13/16. In New York, the initial rate was 3.55-1/2. After the opening, the quotation receded steadily until mid-afternoon when it reached a low of 3.44-3/4. At that time, the downward movement was arrested and the rate subsequently recovered to close at 3.49-3/8.

The reported volume of sterling transactions today was greater than that of yesterday by £150,000. As compared to yesterday's turnover, sales were £89,000 less but purchases were £239,000 greater.

Sales of spot sterling by the six reporting banks totaled £976,000, from the following sources:

By commercial concerns.....	£ 264,000
By foreign banks (Far East, South America and Europe)....	£ 712,000
Total..	£ 976,000

Purchases of spot sterling amounted to £749,000, as indicated below:

By commercial concerns.....	£ 373,000
By foreign banks (Far East, Europe and South America)....	£ 376,000
Total..	£ 749,000

The following reporting banks sold cotton bills totaling £146,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 75,000 by the Bank of Manhattan
35,000 by the Guaranty Trust Co.
23,000 by the National City Bank
8,000 by the Bankers Trust Co.
3,000 by the Irving Trust Co.
2,000 by the Chase National Bank
£ 146,000 Total

The French franc also continued to decline. After being quoted at the equivalent of .0202-1/8 in Amsterdam, it opened in New York at .0201-3/8. After touching a low of .0196, it recovered to close at .0198-3/4.

The rate for the belga was strong closing at .1707-1/2, the high for the day.

The other important currencies closed as follows:

Guilders	.5310
Swiss francs	.2242-1/2
Canadian dollars	18-7/8% discount

We sold \$290,000 in gold to the National Bank of Belgium to be added to its earmarked account.

The Federal Reserve Bank of New York reported that the Eastern Bank, Ceylon, shipped to the Guaranty Trust Company, New York, gold valued at \$35,000. This shipment will be sold to the U. S. Assay Office in New York.

The equivalent of the Bombay price for silver was slightly lower at 40.11¢.

The London fixing prices for silver were 20-1/4d for spot and 20-5/16d for forward, both up 3/16d. The U. S. equivalents were 32.51¢ and 32.43¢, based on the open market rate at that time of 3.56-3/4 for spot sterling and 3.54-3/4 for forward sterling. At the lowest rate for sterling which prevailed in the afternoon, the equivalent for spot silver was 31.44¢ and for forward, 31.35¢.

Handy and Harman's price for foreign silver, which is used by the trade for settlement purposes, was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was unchanged at 35¢.

We made seven purchases of silver totaling 402,000 ounces under the Silver Purchase Act. Of this amount, 120,000 ounces represented sales from inventory and the remaining 282,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 25,000 ounces of silver from the Bank of Canada under our regular monthly agreement.



CONFIDENTIAL



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

182

March 28, 1940

MEMORANDUM TO THE SECRETARY:

In our conferences here in the Treasury on the subject of a reconstruction program for Finland a number of questions have been raised, and for your benefit they have been jotted down on the enclosed memorandum. I thought probably you would like to have them in connection with your study of the memorandum sent you by Harry White.

sub B

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 27, 1940

TO Secretary Morgenthau

FROM Messrs. D. W. Bell, Cochran, Bernstein, Cotton and White

Subject: Reconstruction Program for Finland

At two conferences held this week in the Treasury the following questions regarding the wisdom of undertaking to extend Finland financial assistance on a large scale at this time were suggested as worthy of consideration.

1. What assurances are there that Finland will not be partly or wholly taken over by Russia or Germany long before the debt matures, so that instead of helping the reconstruction of a democracy we may actually be aiding totalitarian governments?
2. Finland's ability to service a large foreign debt presupposes either a resumption of liberal trade policies which characterized trade prior to the present war, or consummation of bilateral trade arrangements such as will give Finland the necessary foreign exchange. Suppose the democracies do not win and bilateral trade arrangements imposed upon Finland or voluntarily adopted by Finland yield only small amounts of foreign exchange, how will the United States be assured repayment since its own trade with Finland is not large? What kind of assurances, if any, are to be obtained from Finland with respect to the kind of trade arrangements she will make with foreign countries?
3. Would the financial aid be made if it were definitely known that the Allies would not emerge victorious from the present war? Is victory by the Allies certain enough to warrant financial risks involved in extensive aid to Finland?
4. Are the guarantees of any other foreign country to be obtained with respect to the inviolability of Finnish territory as a prior condition of large scale financial assistance?
5. Are any other governments going to be asked to participate in the financial aid?

- 2 -

6. Is aid to be extended while the war is going on, or only after peace is resumed?
7. Should the United States undertake primary responsibility for the economic reconstruction of an area which we can not defend, to which our merchant ships have no access, and with which our economic relationships are of only secondary importance?
8. Finnish exports are dominated by forest products -- timber, pulp and paper. What are the prospects for the maintenance or expansion of Finnish exports under conditions of peace and relatively free international trade? In particular, is Finnish pulp and paper competitive with our own industry and is it likely to lose the American market?
9. If the proposed aid to Finland is undertaken chiefly as an entering wedge for a much more important role in the shape of world economic and political relationships:
 - (a) What assurances are there that the Congress would look with favor upon the acceptance of wider responsibilities by the United States in world affairs?
 - (b) Would the American people subscribe to the kind of detailed program that would be necessary to work out if such a role were to be undertaken? Is Congress prepared to demand quid pro quos from foreign countries in the shape of a predetermined general pattern of economic and political relationships among European countries?
 - (c) How much financial assistance is this country prepared to extend to the rest of the world, and will that be enough to buy us the kind of international relations that we want?
 - (d) If financial assistance on a large scale is to be extended Europe after peace is declared, where are the funds to come from? Particularly, is it appropriate to tap the Stabilization Fund for expenditures of such character?
 - (e) Do we wish our aid to Finland to be taken as evidence of a willingness to utilize our economic resources to assist in the reconstruction of Europe after the war? If so, should we allow it to be

- 3 -

believed that we will offer our assistance without making clear that such assistance is conditional on the adoption of policies acceptable to us with regard to international trade, exchange, access to raw materials, etc.? Do we have such policies to propose, in a form which goes beyond platitudes?

- (f) Is our economic assistance to be conditional on a peace whose political terms we regard as just? If so, are we ready to participate in drawing up terms of peace and to assume responsibility for those terms? If not, do we really want our Finnish aid to lead towards "a seat at the peace conference"?

10. If Congress fails to appropriate additional funds to finance the reconstruction of Finland, is there danger that the present Finnish government will be worse off than would be the case if their expectations of economic assistance from us were not fostered? In other words, would failure by their representatives to "bring home the bacon" leave those representatives in a much weaker political position at home and strengthen Finland's feeling of dependence upon Russia and Germany.

DEPARTMENT OF STATE

186

ADVISER ON
INTERNATIONAL ECONOMIC AFFAIRS

April 20, 1940.

To: Mr. Cochran
From: Mr. Feis

Here is a copy of the memorandum you requested of my office. There was an article on this subject in the New York Times of March 31 headed "Oil Deal by Japan Causes Comment", written by J. H. Carmical.

H.F

*Mr. Secretary
Ashton-Burton
speaks of this
J.H.F.*

COPY (HOC:EB)

Confidential.

B. R. JACKSON
620 Fifth Avenue,
New York, March 28, 1940.

Communicated by Mr. Ashton-Gwatkin.

Sir H. O. Chalkley, K.C.M.G., C.B.E.,
Commercial Counsellor,
British Embassy,
Washington, D. C.

Dear Sir Owen,

The sale by Anglo-Iranian to Mitsubishi, Japan of about 120,000 tons of Iranian crude oil to be delivered over a year, beginning last February, has evoked some comment in oil circles here.

In the past the Japanese attempted from time to time to persuade the large international companies to sell them crude oil. Shell, Standard of New Jersey and Anglo-Iranian have hitherto always declined to sell crude, although they have disposed of products in this quarter.

In the present cases the buyers made a direct approach to the Iranian authorities, who made it clear to my Company that they could see no reason for our refusing to make an offer for the business, having regard to their desire for an increase in the production of Iranian crude oil. It will be appreciated that War conditions have involved a diminution in Iranian production, so that the attitude of the Iranian Government is quite understandable.

Before we quoted for this business, we formally advised Shell and Standard of New Jersey of our intentions.

Some of my oil friends have told me that the matter was mentioned to them in the course of discussions with the State Department in Washington, where, apparently, there was some speculation as to whether the sale might not be the opening move in a policy of rapprochement between H.M.G. and Japan.

I need hardly say that to the best of my knowledge and belief the sale is entirely devoid of any political significance and was made at the instance of the Iranian Government.

I am writing to you on the subject in case you may
think

- 2 -

think it worth while mentioning the circumstances under which the transaction was effected, to the State Department, on some appropriate occasion within the near future.

In view of current oil exports from California to Japan, the criticism which I understand has been levelled in this country at my Company appears illogical.

I and my associates would be particularly grateful for anything you feel disposed to do with the object of correcting any false reports which may come to your knowledge.

I have been approached by the New York Times on the subject so there may be some mention of the matter in the press.

Yours sincerely,

(Sgd.) B. R. JACKSON.

OIL DEAL BY JAPAN CAUSES COMMENT

Tokyo and London Get Together on 1,000,000-Barrel Delivery From Iran

POLICY OF U. S. A FACTOR

Trade-Treaty Lapse Effect Analyzed—Persia, Too, May Have Swayed Britain

By J. H. CARMICHAEL

An oil transaction probably having important political and economic significance recently was concluded between the Japanese and British Governments. Through the Anglo-Iranian Oil Company, a majority of whose stock is owned by the British Government, the sale of about 1,000,000 barrels of crude oil produced in Iran has been made to Japan.

Already one cargo of about 100,000 barrels has been shipped in a tanker chartered from Norwegian interests from Abadan, a port at the head of the Persian Gulf, to Yokohama, where it is to be refined by the Mitsubishi Oil Company. After processing, it is understood most of the products will be taken by the Japanese Government.

Discussions for the purchase of Diesel oil and other products from the Anglo-Iranian Oil Company are said to be under way. In addition, Japanese interests are negotiating for oil supplies from Mexico and Venezuela.

Factors in Japan's Policy

Abrogation of the Japanese trade treaty last January by the United States Government and the loss of additional pressure by Washington, as a result of Japan's military activities in China, are believed to be factors in Tokyo's desire to make contracts for oil supplies outside the United States. Such rearrangement would seriously affect the Pacific Coast oil companies, which for years have supplied most of Japan's oil requirements.

Without knowing all details, it is impossible to determine the reasons that prompted the conclusion of the British-Japanese oil deal. Despite the lapse of the trade treaty, commerce between the United States and Japan is being carried on normally. California still is able to supply Japan's oil requirements and is better located geographically for that purpose than is Iran. Consequently, it is believed that the British transaction with Japan must have involved a price concession or political considerations, or both.

The fact that the transaction was concluded against the background of months of British-Japanese differences and diplomatic protests suggests that a rapprochement between these two powers may be in the offing. Only last Thursday, the British Ambassador to Tokyo in a speech told a Japanese audience that "it is not beyond the powers of constructive statesmanship to bring the aims of British and Japanese policy into full harmony."

Iranian Pressure Hinted

Another version of the deal is that it was forced on the British Government by the Iranian Government. In this connection, it is stated that the Japanese Government approached Iran authorities for the purchase of oil supplies. As a result of the European situation, the demand for oil from Iran had declined substantially and consequently the Anglo-Iranian Oil Company had reduced its output.

At present, nearly every political entity is interested in obtaining more revenue. In that royalty payments are based on production, the Iranian Government is said to have insisted that the British Government make the deal with Japan. Thus, in order to avoid any further friction in the Near East, it is emphasized that there was virtually no other course left to the British Government than to conclude the deal. Only a few years ago the Iranian Government canceled the concession of the Anglo-Iranian Oil Company and the British Government succeeded in getting it reinstated only after agreeing to more advantageous terms to Iran.

For several months Great Britain has been much concerned over shipments of oil from the Pacific Coast to Vladivostok. Only recently the House of Commons discussed the sale of about 500,000 barrels of gasoline to Russia by three privately owned California oil companies. Although some criticism was voiced against these shipments, they did not involve any aviation gasoline nor was delivery made near a refinery where they could be converted into that product.

The sale of this oil to Russia was arranged in August last year, before the outbreak of the European war, and the quantity involved was less than in the two or three preceding years. The last of the twelve cargoes was shipped on Jan. 12 last.

Contrary to the situation in the World War, a "buyers' market" exists for oil supplies in almost every producing country except Rumania, where both Germany and the Allies are carrying on a "bug of war" for that country's supplies.

COPY FOR SECRETARY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 28, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

The downward tendency in the sterling rate which prevailed for the last two days was reversed today and the quotation made an appreciable recovery. Yesterday, sterling strengthened to 3.49-3/8 after reaching a low of 3.44-3/4. This improvement continued in Amsterdam today when sterling opened at 3.50-7/16 and it moved up to 3.51-3/4. In New York, the opening quotation was 3.52-3/8. Within the first hour of trading the rate dipped to 3.50 but thereafter it developed a strong undertone and by mid-afternoon it was 3.61. During the latter part of the afternoon the rate moved in an erratic manner and the closing quotation was 3.60.

The reported volume of sterling transactions was slightly greater than that of yesterday but the interesting feature of the figures given below is that today for the first time since March 22 the demand for sterling exceeded the supply.

Sales of spot sterling by the six reporting banks totaled £841,000, from the following sources:

By commercial concerns	£ 345,000
By foreign banks (Europe, South America and Far East) ...	£ 496,000
	<hr/>
Total	£ 841,000

Purchases of spot sterling amounted to £980,000, as indicated below:

By commercial concerns	£318,000
By foreign banks (South America, Far East and Europe) ...	£662,000
	<hr/>
Total	£980,000

A United Press news despatch from Rio de Janeiro today stated that the Bank of Brazil announced that it would not deal in the pound sterling, effective tomorrow. It was further stated the Bank of Brazil emphasized that the suspension was temporary and that dealings would be resumed when conditions warrant. The Bank declined to predict how long the suspension would last or to state the specific reason for the restriction.

CONFIDENTIAL

The following reporting banks sold cotton bills totaling £56,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 28,000	of the Guaranty Trust Co.
21,000	of the Irving Trust Co.
4,000	of the Bankers Trust Co.
3,000	of the National City Bank
<hr/>	
£ 56,000	Total

The French franc paralleled the sterling quotation and after a low of 1.98-1/4 it strengthened to touch a high of 2.04-1/2. The closing quotation was .0204.

The belga continued to improve and its best price of the day was .1708-1/2. It closed at .1708.

The discount on the Canadian dollar narrowed from 19-1/8% yesterday to 18% today. The better quotation may be merely a reflection of the improved rate for sterling.

The other important currencies closed as follows:

Guilders	.5312
Swiss francs	.2242-1/2

The Cuban peso was weak being quoted at 11-15/16% discount. The Mexican peso remained unchanged at .1672.

The Federal Reserve Bank of New York reported that it purchased 100,000 belgas for the Bank of Latvia.

We sold \$1,005,000 in gold to the National Bank of Belgium to be added to its earmarked account. The belga has been strong for the past two days, and the funds to pay for the gold were procured by the Belgian bank's purchases of dollars against the sale of belgas. As Belgium is an adherent to the principles of the Tripartite Agreement the dollars obtained from such exchange operations are convertible into gold.

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

\$ 6,035,000	from England, shipped by the Bank of England to be earmarked for its account.
4,490,000	from Switzerland, shipped by the National Bank of Switzerland, to be earmarked for its account.
536,000	from Chile, to be earmarked for account of the Central Bank of Chile.
<hr/>	
\$11,061,000	Total

CONFIDENTIAL

- 3 -

The State Department forwarded to us a cable stating that the following gold shipments would be made from England:

\$907,000 shipped by the Swiss Bank Corporation, London, to the National City Bank, New York.

50,000 shipped by the Credit Lyonnais, London, to the Chase National Bank, New York.

3,000 shipped by the Swiss Bank Corporation, London, to its New York office.
\$960,000 Total

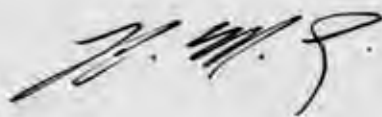
These shipments will be sold to the U. S. Assay Office upon arrival.

The fixing prices for silver in London today were 20-7/16d for spot and 20-1/2d for forward. These prices calculated at the open market rates for sterling at that time were 32.35¢ and 32.26¢ respectively. Later in the day when sterling improved to its best price the equivalents were 33.20¢ and 33.11¢.

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

We made five purchases of silver totaling 167,000 ounces under the Silver Purchase Act. Of this amount, 110,000 ounces represented sales from inventory and the remaining 57,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 75,000 ounces of silver from the Bank of Canada under our regular monthly agreement.



CONFIDENTIAL

March 29, 1940

MEMORANDUM TO THE PRESIDENT:

Supplementing my memorandum of March 27, 1940, there is transmitted herewith a forecast of freight car requirements for the second quarter of 1940. This information will be made public Sunday, March 31st, according to Mr. Pelley, President of the Association of American Railroads.

DWB:ce

*Mr. Bell carried the orig.
of this memo & attachment
to Cabinet 2 P.M. - 3/29/40 -
left with the President*

March 29, 1940

Dear John:

In the absence of the Secretary I acknowledge receipt of your letters of March 26th and 27th, with which you enclosed statements showing data on freight car requirements for the first and second quarter of 1940. The Secretary asked me to tell you that he appreciates your thoughtfulness in sending him this information.

Sincerely yours,

1st Dan

Mr. John J. Pelley,
President,
Association of American Railroads,
Washington, D. C.

Mailed 3-29-40

DWB:ce

ASSOCIATION OF AMERICAN RAILROADS
TRANSPORTATION BUILDING
WASHINGTON, D. C.

1940

J. J. PELLEY
PRESIDENT

March 27, 1940.

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

My dear Mr. Secretary:

Supplementing my letter of March 26th, I am pleased to enclose herewith a printed copy of the forecast for freight car requirements for the second quarter of 1940 which we have just received from the printer. This tells the story in detail by regions and by commodities, and will be released by the Association as of Sunday, March 31st.

Yours very truly,



NATIONAL FORECAST

of the

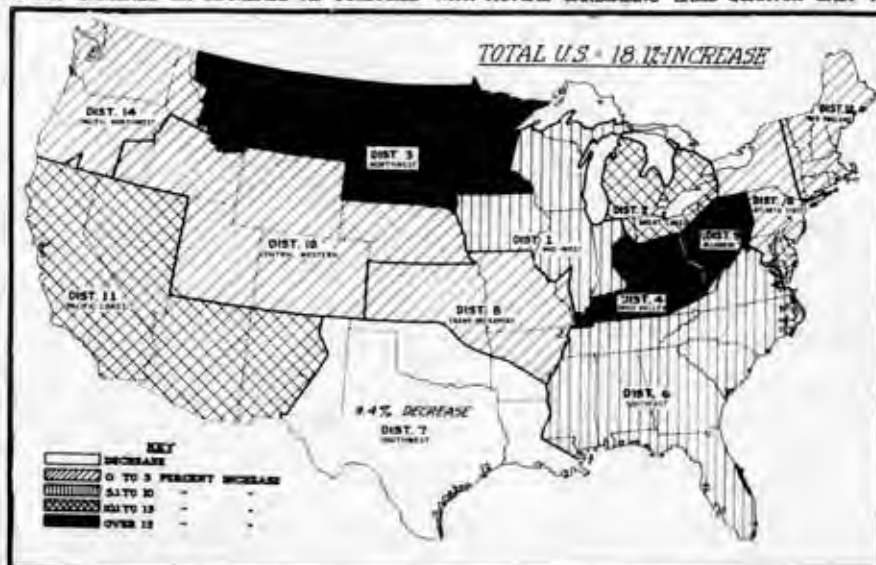
Regional Shippers' Advisory Boards

covering

QUARTERLY FREIGHT CAR REQUIREMENTS OF
29 PRINCIPAL COMMODITIES AS FURNISHED
TO THE CAR SERVICE DIVISION OF THE
ASSOCIATION OF AMERICAN RAILROADS

2nd QUARTER 1940

PERCENT INCREASE OR DECREASE AS COMPARED WITH ACTUAL CARLOADING SAME QUARTER LAST YEAR.



ADVISORY BOARD CLASSIFICATION		TOTAL ALL REPORTED DISTRICTS			
		CARLOADINGS		ESTMTD. PERCENT	
ITEM NO.	COMMODITY	ACTUAL 1939	ESTIMATED 1940	INCREASE %	DECREASE %
1	Grain, All	227,165	224,043		1.4
2	Flour, Meal & Other Mill Products	191,349	195,991	2.9	
3	Hay, Straw and Alfalfa	11,956	13,031	9.0	
4	Cotton	19,711	25,460	29.2	
5	Cotton Seed & Products, Except Oil	7,678	8,174	6.5	
6	Citrus Fruits	42,750	38,984		8.8
7	Other Fresh Fruits	46,877	51,579	5.5	
8	Potatoes	65,109	64,771		0.5
9	Other Fresh Vegetables	77,976	71,759		8.0
10	Live Stock	149,397	148,633	4.4	
11	Poultry and Dairy Products	31,164	31,292	0.4	
12	Coal and Coke	1,124,782	1,673,214	48.8	
13	Ore and Concentrates	344,419	436,410	26.7	
14	Gravel, Sand and Stone	295,746	295,969	0.1	
15	Salt	23,774	24,679	3.8	
16	Lumber and Forest Products	404,227	430,544	6.5	
17	Petroleum and Petroleum Products	494,441	517,050	4.6	
18	Sugar, Syrup and Molasses	40,013	40,761	1.9	
19	Iron and Steel	314,210	357,078	13.6	
20	Machinery and Boilers	24,728	23,877	16.5	
21	Cement	156,803	167,764	7.0	
22	Brick and Clay Products	61,630	63,740	3.4	
23	Lime and Plaster	37,433	39,607	6.0	
24	Agric. Implements & Vehicles, Other than Automobiles	19,685	22,761	15.6	
25	Automobiles, Trucks and Parts	131,582	173,039	31.5	
26	Fertilizers, All Kinds	97,109	106,715	9.9	
27	Paper, Paper Bd. & Prepared Roofing	90,596	98,834	9.1	
28	Chemicals and Explosives	28,589	32,856	14.9	
29	Canned Goods - All Canned Food Products, (Includes Cateup, Jams, Jellys, Olives, Pickles, Preserves, etc.)	42,553	45,062	5.9	
TOTAL ALL COMMODITIES LISTED		4,598,508	5,429,774	18.1	

NEW ENGLAND BOARD TERRITORY DIST. NO. 12				ATLANTIC STATES BOARD TERRITORY DIST. NO. 8				ALLEGHENY BOARD TERRITORY DIST. NO. 9				ITEM NO.
CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		
ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	
4220	4220	-	-	3860	3860	-	-	414	500	20.8		1
3962	3962	-	-	10248	10607	3.5		627	650	3.7		2
171	171	-	-	2598	2598	-	-	67	75	11.9		3
757	757	-	-	-	-	-	-	-	-	-	-	4
7	7	-	-	-	-	-	-	-	-	-	-	5
2269	2269	-	-	-	-	-	-	-	-	-	-	6
1496	1496	-	-	7140	8568	20.0		19	25	31.6		7
10783	9669		10.0	3529	3529	-	-	9	10	11.1		8
238	238	-	-	2324	2092		10.0	6	10	66.7		9
424	424	-	-	-	-	-	-	138	150	8.7		10
274	274	-	-	1092	928		15.0	-	-	-	-	11
13953	16046	15.0		280902	252812		10.0	254241	408143	32.0		12
233	231	24.9		26421	30723	8.1		-	-	-	-	13
8	3253	5.0		34564	39679	14.8		23924	28709	20.0		14
15	15	-	-	6457	6206	5.4		-	-	-	-	15
11189	12242	10.0		9308	10146	9.0		3792	1982	5.0		16
16604	16936	2.0		45000	44600	8.0		21238	22512	6.0		17
1106	1106	-	-	7506	7333		2.3	-	-	-	-	18
2562	3203	25.0		16510	19942	9.4		137583	168339	22.0		19
2381	2976	25.0		5851	7150	22.2		3097	4026	30.0		20
1382	1520	10.0		46732	52433	12.2		8465	11512	36.0		21
710	781	10.0		4408	5161	15.0		18372	20208	10.0		22
2057	2263	10.0		5959	6138	3.0		2909	3054	5.0		23
23	23	-	-	-	-	-	-	73	73	-	-	24
585	644	10.1		9645	11574	20.0		414	455	10.0		25
3656	4022	10.0		13605	14285	5.0		3441	3785	10.0		26
15635	15635	-	-	13388	14727	10.0		3912	4166	7.0		27
382	430	14.9		11532	13836	20.0		3770	4714	25.0		28
4	1265	5.0		7132	7417	4.0		1269	1341	6.0		29
101296	106167	4.8		597791	600946	0.5		488200	766480	57.0		TOTAL

ADVISORY BOARD CLASSIFICATION		GREAT LAKES BOARD TERRITORY DIST. NO. 2				OHIO VALLEY BOARD TERRITORY DIST. NO. 3			
		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED	
		ACTUAL 1939	ESTIMATED 1940	INCR. %	DECR. %	ACTUAL 1939	ESTIMATED 1940	INCR. %	DECR. %
ITEM NO.	COMMODITY								
1	Grain, All	12425	12425	-	-	6834	6857	10.0	
2	Flour, Meal & Other Mill Products	35143	34736		1.3	5875	6386	8.7	
3	Hay, Straw and Alfalfa	2039	2708	32.8		2838	2788	24.6	
4	Cotton	-	-			2	2	-	
5	Cotton Seed & Products, Except Oil	-	-			245	245	-	
6	Citrus Fruits	-	-			2	2	-	
7	Other Fresh Fruits	142	142	-	-	132	132	-	
8	Potatoes	1740	1218		30.0	5	5	-	
9	Other Fresh Vegetables	415	415	-	-	13	13	-	
10	Live Stock	4511	4285		5.0	9270	10661	15.0	
11	Poultry and Dairy Products	-	-			876	876	-	
12	Coal and Coke	7858	7000		8.6	31171	62048	99.2	
13	Ore and Concentrates	69892	70000	0.2		104	104	-	
14	Gravel, Sand and Stone	13972	14715	5.3		19071	20635	8.1	
15	Salt	5121	6268	2.4		119	129	8.4	
16	Lumber and Forest Products	2581	2393		7.3	783	8067	5.0	
17	Petroleum and Petroleum Products	34629	38369	10.6		15958	16453	3.1	
18	Sugar, Syrup and Molasses	997	997	-	-	118	118	-	
19	Iron and Steel	31282	35724	14.2		14965	18212	21.7	
20	Machinery and Millers	1699	4058	4.7		2788	3509	27.7	
21	Cement	5298	5558	4.9		8831	9061	2.6	
22	Brick and Clay Products	3239	3288	1.5		4948	5458	10.3	
23	Lime & Plaster	10511	11446	8.9		397	383	-	
24	Agric. Implements & Vehicles, Other than Automobiles	1103	648		41.3	506	668	32.0	
25	Automobiles, Trucks and Parts	76656	101630	32.6		4452	5120	15.0	
26	Fertilizers, All Kinds	4126	4369	5.9		3524	4039	14.6	
27	Paper, Paper Bd. & Prepared Roofing	7585	7576	1.2		6613	8268	25.0	
28	Chemicals and Explosives	2171	2260	4.1		1620	1620	-	
29	Canned Goods - All Canned Food Products, (Includes Canned Fruit, Jellies, Dishes, Pickles, Preserves, etc.)	4069	4350	6.9		2505	3039	17.0	
	TOTAL ALL COMMODITIES LISTED	342092	376678	10.1		430815	753706	74.9	

MID-WEST BOARD TERRITORY DIST. NO. 1				NORTHWEST BOARD TERRITORY DIST. NO. 3				TRANS-MISSOURI-KANSAS BOARD TERRITORY DIST. NO. 5				ITEM NO.
CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED		
ACTUAL 1939	ESTIMD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTIMD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTIMD. 1940	INCR. %	DECR. %	
50120	52625	5.0		42281	50000	18.3		37009	37009	-	-	1
26620	26620	-	-	20768	21806	5.0		38477	39362	2.3		2
870	870	-	-	222	150		32.4	934	934	-	-	3
-	-			-	-			-	-			4
-	-			-	-			-	-			5
-	-			-	-			-	-			6
430	350		18.6	17	20	17.6		550	500		9.1	7
1500	2200	46.7		3948	4800	21.5		449	550	22.5		8
570	650	14.0		85	90	5.9		601	500		16.8	9
36200	41216	12.0		11788	13200	12.0		11616	10424		10.0	10
14034	14450	3.0		7058	6900		2.2	3235	3751		4.4	11
157217	168200	7.0		6757	6757	-	-	26000	26000	-	-	12
36300	40000	10.2		147402	221103	50.0		4986	4750		4.7	13
40	44650		5.0	14897	8000		46.3	24331	25795	10.0		14
70	110	57.1		-	-			3748	3935	5.0		15
27536	29740	8.0		11177	11100		0.7	14837	16321	10.0		16
72430	78200	8.0		16843	17000	0.9		57220	58937	3.0		17
3950	3950	-	-	848	800		5.7	1867	1947	4.3		18
44900	44900	-	-	1246	1280	2.7		5122	3585		30.0	19
4700	4700	-	-	391	500	27.9		371	371	-	-	20
21700	22350	3.0		3447	3672	5.0		15205	16421	8.0		21
8050	7245		10.0	1236	1298	5.0		4946	5169	4.5		22
4200	4200	-	-	382	382	-	-	4052	4384	8.2		23
15700	18370	17.0		970	1490	53.6		647	613	25.7		24
14100	17625	25.0		1354	1400	3.0		12374	16071	29.8		25
6050	7260	20.0		231	250	8.2		-	-			26
11700	13700	-	-	1876	4126	6.4		-	-			27
2650	2915	10.0		34	40	17.6		-	-			28
20	13020	5.0		924	900		2.6	1050	997		5.0	29
623567	650116	5.9		298240	377064	26.4		270132	279536	3.4		TOTAL

ADVISORY BOARD CLASSIFICATION		SOUTHEAST BOARD TERRITORY DIST. NO. 6				SOUTHWEST BOARD TERRITORY DIST. NO. 7			
		CARLOADINGS		ESTIMATED		CARLOADINGS		ESTIMATED	
ITEM NO.	COMMODITY	ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %	ACTUAL 1939	ESTMTD. 1940	INCR. %	DECR. %
1	Grain, All	2245	2582	15.0		3044	1626		
2	Flour, Meal & Other Mill Products	12307	19153	15.0		15770	17347	10.0	
3	Hay, Straw and Alfalfa	201	201	-	-	664	664	-	-
4	Cotton	14903	19478	30.0		2967	3115	5.0	
5	Cotton Seed & Products, Except Oil	5243	5505	5.0		1655	1682		
6	Citrus Fruits	16058	3532		78.0	516	431		34.0
7	Other Fresh Fruits	26045	29957	15.0		3621	2697		
8	Potatoes	19047	18095		5.0	2344	2797		5.0
9	Other Fresh Vegetables	16283	13841		15.0	14537	10903		25.0
10	Live Stock	5642	6206	10.0		23466	23466	-	-
11	Poultry and Dairy Products	461	507	10.0		767	767	-	-
12	Coal and Coke	37008	57234	54.7		2394	2442	2.0	
13	Ore and Concentrates	11809	12990	10.0		1408	1497	6.0	
14	Gravel, Sand and Stone	51285	51285	-	-	26536	24678		7.0
15	Salt	137	137	-	-	4661	4894	5.0	
16	Lumber and Forest Products	135693	144047	6.0		16602	39530	8.0	
17	Petroleum and Petroleum Products	53831	55446	3.0		104169	101044		3.0
18	Sugar, Syrup and Molasses	6151	8459	5.0		8535	9281	9.0	
19	Iron and Steel	24424	25708	5.0		3570	3927	10.0	
20	Machinery and Boilers	699	769	10.0		401	413	3.0	
21	Cement	17278	17278	-	-	10516	9990		5.0
22	Brick and Clay Products	9915	10906	10.0		3567	1855		48.0
23	Lime & Plaster	4098	4508	10.0		2252	2366	5.0	
24	Agric. Implements & Vehicles, Other than Automobiles	261	287	10.0		132	99		25.0
25	Automobiles, Trucks and Parts	5140	5017		2.0	553	1797	225.0	
26	Fertilizers, All Kinds	57487	63216	10.0		4591	5052	10.0	
27	Paper, Paper Bd. & Prepared Roofing	16952	16250		7.7	5144	7459	45.0	
28	Chemicals and Explosives	2254	2705	20.0		349	359	2.9	
29	Canned Goods - All Canned Food Products, (Includes Catsup, Jams, Jellies, Olives, Pickles, Preserves, etc.)	1790	1888	5.0		1695	1732	2.1	
TOTAL ALL COMMODITIES LISTED		544963	592210	6.7		314413	309657		4.0

CENTRAL WESTERN BOARD TERRITORY DIST. NO. 10				PACIFIC COAST BOARD TERRITORY DIST. NO. 11				PACIFIC NORTHWEST BOARD TERRITORY DIST. NO. 14				ITEM NO.
CARLOADINGS ACTUAL 1939		ESTIMATED INCR. DECR. % %		CARLOADINGS ACTUAL 1939		ESTIMATED INCR. DECR. % %		CARLOADINGS ACTUAL 1939		ESTIMATED INCR. DECR. % %		
10417	15774		8.9	4277	4472	4.6		15212	14450		5.0	1
10829	10935	1.0		3557	3664	3.0		7119	6763		5.0	2
374	265		29.1	1214	1287	4.3		344	320		7.0	3
-	-			1002	2108	110.4		-	-			4
-	-			528	795	50.6		-	-			5
-	-			23605	32750	37.6		-	-			6
140	119		15.0	2823	2325		17.6	6322	5053		20.1	7
7929	9095	14.7		12130	11700		3.5	1135	1103		2.8	8
926	750	25.8		41248	40850		1.0	1060	1407	32.7		9
23953	23970	-	-	11317	11175		1.3	3472	3423		1.4	10
2048	2145	4.7		71	91	28.2		547	593	8.4		11
22227	22614	1.7		1532	1616	5.6		3224	3500	8.6		12
15340	16359	19.7		25375	28826	29.6		3145	3702	17.7		13
1	8575	5.3		19429	20837	7.2		9498	4208	55.7		14
507	300		40.8	1939	2085	7.5		-	-			15
6846	6285	8.6		24124	25298	4.9		113319	121393	7.1		16
21430	22380	4.4		26958	33077	22.7		8161	8096		0.8	17
4317	4195		2.8	4245	4025		5.2	399	550	37.6		18
5546	5669	2.2		5202	5823	13.1		837	707		15.5	19
225	213		5.3	-	-			215	192		10.7	20
4385	5814	8.0		4832	6500	34.5		7686	5659		26.4	21
1280	1430	11.7		605	670	12.1		274	262		4.4	22
371	254		31.5	-	-			245	300	22.4		23
230	245	6.5		-	-			40	45	12.5		24
60	61	1.7		6240	11625	86.3		-	-			25
189	189	-	-	-	-			207	228	10.1		26
72	67		6.4	1426	1546	8.3		2291	3196	39.5		27
405	370		8.6	2725	2816	3.3		697	780	11.9		28
1704	1704		1.4	5110	6133	20.0		7052	1783		13.1	29
157479	162279	3.0		231739	266238	14.9		187501	187713	0.1		TOTAL

Washington, D. C.

Washington, D. C.
April 1, 1940.

LIST OF SHIPPERS' ADVISORY BOARDS

<u>DIST.</u> <u>NO.</u>	<u>NAME OF</u> <u>BOARD</u>	<u>GENERAL</u> <u>CHAIRMAN</u>	<u>ADDRESS</u>
9	ALLEGHENY	L.G. HULTS	ROOM 1103 - PENNSYLVANIA STA., PITTSBURGH, PA.
8	ATLANTIC STATES	GEO. F. HICHBORN	" 1502 - 30 VESEY ST., NEW YORK, N.Y.
10	CENTRAL WESTERN	A.M. HAYS	" 402 - UNION PACIFIC BLDG., OMAHA, NEBR.
2	GREAT LAKES	HARRY CARROLL	" 5A - MICH. CENT. TERMINAL, DETROIT, MICH.
1	MID-WEST	F.A. SCHLEIFER	" 2205 - 59 EAST VAN BUREN ST., CHICAGO, ILL.
12	NEW ENGLAND	W.F. GARCELON	" 421 - SOUTH STA., BOSTON, MASS.
3	NORTHWEST	P. F. SCHEUNEMANN	" 620 - HODGSON BLDG., MINNEAPOLIS, MINN.
4	OHIO VALLEY	N. S. WORRELL	" N-203 - UNION STA., CINCINNATI, OHIO
11	PACIFIC COAST	W. S. JOHNSON	" 516 - WELLS FARGO BLDG., SAN FRAN., CALIF.
14	PACIFIC NORTHWEST	W.G. PERROW	" 404 - GREAT NORTHERN BLDG., SEATTLE, WASH.
6	SOUTHEAST	A.W. VOGTLE	" 211 - 110 CENTRAL AVE., S.W., ATLANTA, GA.
7	SOUTHWEST	E. P. BYARS	" 1413 - SANTA FE BLDG., DALLAS, TEXAS
5	TRANS-MO-KANSAS	CARL GIESBOW	" 254 - UNION STA. BLDG., ST. LOUIS, MO.



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AMERICAN RAILROADS, TRANSPORTATION BUILDING, WASHINGTON, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The strength which appeared in sterling yesterday was not maintained today and the quotation moved downward. In Amsterdam the rate opened at 3.57-7/16 and just prior to the opening in New York it was 3.56-3/4. In New York the initial quote was 3.57. During the morning it reached the best price of the day at 3.59-1/2, but then the rate started to decline. After receding to 3.53-3/4 by mid-afternoon sterling strengthened to 3.54-3/8. In the late afternoon a weak tendency developed and the quotation moved down to the low of 3.52. It closed at 3.52-1/2.

The reported volume of sterling transactions was greatly reduced from that of yesterday with sales off £158,000 and purchases off £405,000.

Sales of spot sterling by the six reporting banks totaled £683,000, from the following sources:

By commercial concerns.....	£ 355,000
By foreign banks (Europe, Far East and South America).....	£ 328,000
Total.....	£ 683,000

Purchases of spot sterling amounted to £575,000, as indicated below:

By commercial concerns.....	£ 257,000
By foreign banks (Europe, Far East and South America).....	£ 318,000
Total.....	£ 575,000

The following reporting banks sold cotton bills totaling £96,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 78,000 by the Irving Trust Company
18,000 by the Guaranty Trust Company
£ 96,000 Total

The other important currencies closed as follows:

French francs	.0200
Guilders	.5310
Swiss francs	.2242-1/2
Belgas	.1707
Canadian dollars	.18-1/4% discount

The Federal Reserve Bank of New York reported that it purchased 60,000 belgas for the Bank of Latvia.

CONFIDENTIAL

205

- 2 -

We sold \$115,000 in gold to the National Bank of Belgium to be added to its earmarked account. The dollars to pay for this purchase were obtained by the Belgian Bank from the purchase of dollars and the sale of belgas.

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

\$ 7,500,000 from Italy, shipped by the Bank of Italy to the Federal Reserve Bank of New York, the disposition of which is unknown.
2,092,000 from Switzerland, shipped to the Guaranty Trust Company for sale to the Assay Office at New York
\$ 9,592,000 Total

The London fixing prices for silver were both unchanged at 20-7/16d for spot and 20-1/2d for forward. The U. S. equivalents were 32.81¢ and 32.73¢ respectively.

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

We made nine purchases of silver totaling 765,000 ounces under the Silver Purchase Act. Of this amount, 583,000 ounces represented sales from inventory and the ramining 182,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 383,000 ounces of silver from the Bank of Canada which raises the total bought from Canada during March to the agreed limit of 1,200,000 ounces.





206

TREASURY DEPARTMENT

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON

March 29, 1940

My dear Mr. Secretary:

There is attached hereto a memorandum concerning the meeting held this morning with the engine manufacturers. In addition to what is indicated in the memorandum, Colonel Burns stated that the War Department is drawing up an administrative procedure to be followed in connection with the policy recently announced; that after its completion it would be submitted to the Secretary of War for approval, and that it was not at the moment sufficiently completed to permit of its discussion. He stated further that there would be forwarded to me for approval a copy of this before its promulgation, and I informed him that when I received it the matter would be taken up with representatives of the Navy, the policy recently approved by the President affecting the Government as a whole. Upon questioning, Colonel Burns indicated that he hoped it would be possible to submit the administrative procedure to the Liaison Committee in the near future. Obviously, until we have seen the proposed procedure it cannot be determined to what extent, if any, it is an about-face on the attitude assumed by the Army at the meeting Wednesday with the airplane manufacturers.

Both Kreusser and Wilson seemed satisfied with the information contained in the statement made at the beginning of the meeting and showed by their discussion of it that they had readily grasped its intent. The representatives of Wright Aeronautical arrived over Washington this morning at 8 AM but, owing to weather, could not land and were finally grounded at Camden, New Jersey. They have taken a train and will be here in time for the 2 o'clock meeting this afternoon with the necessary people.

There is also enclosed copy of a memorandum which I forwarded to General Watson yesterday concerning the meeting of Wednesday. I shall prepare another one for him after the 2 o'clock meeting is adjourned.

In answer to my inquiry, Kreusser stated that the Allison plant is working on Saturdays. I told him that you might be there a week from Saturday but I would inform him definitely of it later on next week.

General Brett is returning Monday, and I will speak to him concerning the visit to Wright Field, putting it, however, on a tentative basis until I have definite instructions from you.

With kindest personal regards,

Sincerely yours,

Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 29, 1940.

MEMORANDUM

Meeting was held at 10 AM this morning at which were present Mr. O. T. Kreusser of Allison Motors; Mr. E. E. Wilson and Mr. J. F. McCarthy of Pratt & Whitney; Colonel Burns of the General Staff, Aide to Secretary Johnson; Colonel Hines and Colonel MacMorland of the Army Navy Munitions Board; Major Lyons of the Army Air Corps; Captain Kraus, Bureau of Aeronautics, Navy Department; Captain Collins and Mr. Bones.

Captain Collins read the statement attached hereto, marked "A", which is the same presentation as was made to the meeting of the airplane manufacturers on Wednesday, March 27th. Colonel Burns stated that there was presently being prepared in the War Department a detail of procedure which would lay down definitely the steps which would have to be taken concerning the release of restricted articles. He stated that it was hoped that the procedure would be completed and approved by the War Department in the very near future and that it would be presented to the Chairman of the Liaison Committee immediately thereafter. The Chairman of the Committee pointed out to Colonel Burns that as soon as he received this procedure it would be submitted to the Navy for approval, no mention having been made by him of such action being taken on the part of the War Department.

The representatives of the engine companies seemed entirely satisfied with the changes in policy. Mr. Wilson of Pratt & Whitney stated that he felt that the changes indicated would result in expediting action on any contracts to be made in the future with foreign powers.

Meeting adjourned at 11:25.

REQUEST OF ANGLO-FRENCH PURCHASING BOARD FOR RELEASE
OF CERTAIN ENGINES AND AIRPLANES
(For Oral Presentation Only)

I. General:

Pursuant to a request of the Anglo-French Purchasing Board for the release of certain engines and airplanes, the policy heretofore promulgated by the War and Navy Departments has been liberalized to permit the foreign sale of our most modern designs, subject to certain considerations of great importance to the National Defense.

II. Extracts of Policy:

The considerations governing releases on the specific models and types of aircraft and their components, requested by the Anglo-French Purchasing Board, are substantially as follows:

First: No military secret as determined by the War and Navy Departments will be divulged or released to any foreign purchaser of military airplanes.

Second: Foreign governments must agree to furnish the Army and Navy full and complete information on the comparative suitability, design, equipment, and combat performance of American made airplanes.

Third: Stimulation of productive capacity for new types and models of aircraft to insure approved types of airplanes for our forces is imperative.

Fourth: Contracts with the Army and the Navy which are modified to provide for deferred deliveries must provide for continuously protecting the Government against interference with the delivery of equipment necessary for our defense needs.

Fifth: Each case must be decided individually on its merits from the point of view of National Defense and the assurance that types of airplanes are delivered to the War and Navy Departments in the event of deferred deliveries of any airplane or its component on contract to the Government, and no such contract shall be amended except in the interests of the Government.

III. Procedure for Foreign Release:

Predicated upon the foreign sale policy, the following procedure shall govern the release of aircraft and their components as well as other items of aeronautical equipment.

First: Authority to negotiate with foreign purchasers will be requested strictly in accordance with the present procedure.

Second: Prior to action on such requests by the War and Navy Departments, the manufacturers will be required to negotiate with authorized representatives of the War and Navy Departments for change orders on existing contracts as follows:

- a. To provide for deferment in deliveries on contract airplanes if desired.
- b. To provide for such changes in those models of equipment upon which release is requested that will insure that improved types of airplanes are delivered to the Department concerned.
- c. To provide for suitable guarantees which will assure the Department concerned that there will be no interference with the delivery of equipment necessary for our defense needs.
- d. To provide for the changes covering improvements in design, performance and installation.

Third: If the manufacturer takes advantage of foreign orders after negotiating with the War and Navy Department authorized representatives on changes in contracts as heretofore generally outlined, then, prior to the release of the specification in accordance with the present procedure, the manufacturer shall agree to the following:

- a. To accept change orders on existing War and Navy Department contracts for the improvements agreed upon by negotiation.
- b. To cause to be inserted in contracts with foreign purchasers conditions that will fully protect the Government from any interference with the delivery of equipment for units necessary for our own defense needs as may be determined from time to time by the War and Navy Departments.

- c. To cause to be inserted in contracts with foreign purchasers means for manufacturers' and United States Government representatives obtaining full and complete information on changes in design equipment and performance of the particular airplane, based upon the experience of actual combat or use under service condition by the foreign purchaser, all of which information shall be transmitted to the Department concerned for use as it may deem essential to the National Defense.
- d. Prior to release the Government must be assured through contract or otherwise that neither designs owned by the War Department nor manufacturer-owned designs over which the War Department has control, will be released for manufacture or detailed assembly abroad.

Fourth: Upon release of the detailed specification by the Department concerned, application for license for export will be requested in accordance with present procedure.

IV. Responsibility for Negotiation:

The release of the items of aircraft equipment and accessories for installation on export aircraft, such as guns, signal apparatus, etc., will be referred to the Chiefs of the Arms or Bureaus concerned by the authorized representatives of the War Department and the Navy Department, through such channels as the Department concerned may direct.

March 28, 1940

MEMORANDUM FOR GENERAL WATSON

Yesterday afternoon a meeting was held in the Procurement Division at which were present representatives of fourteen of the airplane companies, as well as representatives of the Air Corps of the Army, Bureau of Aeronautics of the Navy, and myself.

The policy forwarded to me with your note of March 25th was explained, with particular reference to its application to restricted articles. In general, the manufacturers seemed to be entirely satisfied.

Tomorrow a similar meeting will be held with the engine manufacturers in the morning and one with the accessory manufacturers in the afternoon.

HEC:gm



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 29, 1940

My dear Mr. Secretary:

There is attached hereto memorandum concerning the meeting held this afternoon.

The problems presented by the accessory manufacturers were not so involved as those concerning the plane and engine people, as accessory manufacturers as a class deal primarily with the engine and plane manufacturers. Their one fear seemed to be that they might, in the event of a diversion of an existing model, be left with an inventory of their particular items. After a discussion it was pointed out that this would appear to be highly improbable inasmuch as the planes diverted would still require engines and accessories that would have been used had the original Government program been gone through in its entirety.

All of those present expressed appreciation at the opportunity of having had explained to them certain phases of the policy and without any exceptions expressed an agreement to it.

As was mentioned this morning, we shall probably have to stand still a day or two until the administrative procedure is jointly agreed to by the Army and Navy and put in such form as will enable all concerned to give the information necessary to both the contractors and the foreign governments.

Personally, I feel that the meetings today have been conducive to much good to both the Government and industry and that we will, in the near future, be in a position to get very quick action on any requests made by any of the foreign governments for the release of any restricted article.

With kindest personal regards,

Sincerely yours,

Honorable Henry Morgenthau, Jr.

The Secretary of the Treasury



213

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

March 29, 1940

MEMORANDUM

Meeting was held this afternoon at 2 PM at which were present:

Chapline, G.F. - Wright Aeronautical
Finlay, W.W. " "
Morgan, T.A. - Sperry Corporation
Lea, R.B. - " Gyroscope Co.

Lewthwaite, G.A. - Pioneer Instrument
Walters, H.D. - Scintilla Magneto
Walsh, R. - Hamilton Standard

Taylor, I. - Aeronautical Chamber of Commerce

Captain Collins - Chairman, Liaison Comm.
Colonel MacMorland - (Acting) " "
J. Bones - Procurement Division

Captain Kraus - Bureau of Aeronautics
Major Lyons - Army Air Corps

Exhibit "A" was read, and the application of this policy to the problems of the accessory manufacturers was discussed.

Their position, generally, is tied in so with the airplane and engine manufacturers that some of the problems which were developed in the meeting on Wednesday did not arise. There was a uniformity of opinion in favor of the new policy, and it was agreed to by all present.

The fact that this new policy is addressed primarily to the proposed Anglo-French purchase was emphasized, as was also the fact that the request for the clearance of any items in which they might be interested would, of necessity, have to be processed separately.

Meeting adjourned at 3:31.

THIRTY THREE LIBERTY STREET
NEW YORK

214

AIRMAIL SPECIAL DELIVERY

March 29, 1940.

Dear Mr. Secretary:

Pursuant to your request of this morning through Mr. Cochran, I am enclosing a memorandum giving my personal hurried reaction to the questions raised by you. You will appreciate that this memorandum had to be prepared in the greatest hurry; if I should have any further thoughts in the matter I shall supplement it later on.

Faithfully yours,



Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Cloister Hotel,
Sea Island Beach, Georgia.

Enc.

"Free" sterling is sterling dealt in in markets outside the British Empire; the largest of these is the New York foreign exchange market.

The "free" sterling rate (as distinguished from the "official" rate fixed, in terms of sterling, for the United States dollar and certain other currencies by or on behalf of the British Treasury) is the rate at which sterling transactions are closed in markets outside the British Empire.

Among the first steps taken by the British Government at the outbreak of the war was the establishment of official control over the foreign exchange market. This, as is invariably the case, inevitably lead to the development of an "unofficial" (free) market. This "unofficial" market is not a "black" market. It is officially tolerated but not, I believe, liked by the British authorities. Transactions therein are legitimate, except for residents, and recognized.

The "unofficial" (free) market obtains its supplies

(1) from the sales of sterling by pre-war non-resident holders (except United States citizens resident in the United Kingdom who, under special arrangements were allowed to withdraw their sterling at the "official" rate). This supply is necessarily gradually slowing up, if not drying up.

(2) from transfer of sterling assets from residents to nonresidents. These are now substantially restricted under regulations issued on January 8, which subjected

all such transfers to special license. These transfers probably represent the most important source of supplies for the "free" market. They arise in connection with

- (a) imports into the United Kingdom of merchandise invoiced in sterling.
- (b) interest payments on foreign held investments.
- (c) payments of insurance claims by nonresidents on British insurance companies
- (d) payment of freight money to neutrals, etc.

(3) from loopholes in the Empire exchange control method, that is, in the exchange control within the Empire outside of the United Kingdom. These are steadily being plugged.

Demand for sterling in the "unofficial" (free) markets develops largely from

- (1) nonresidents who owe sterling debts.
- (2) importers from the United Kingdom of merchandise invoiced in sterling.

Advantages and Disadvantages to the British of "free" sterling

A. Advantages to the British:

The toleration of "free" markets dealing in sterling at the "free" rate has enabled

- (1) the British authorities to steer clear of the necessity of blocking* foreign balances (as was done in

*Efforts to block sterling assets belonging to nonresidents might presumably be very nearly hopeless bearing in mind the size of the Empire and the difficulty to extend effective exchange control over the whole.

Germany years ago). This, it is hoped in England, will "redound to the international credit of London". A low "free" rate may tend in the long run to discourage withdrawals of such balances.

(2) the British exporters to continue the time-honored tradition of invoicing their shipments in sterling. Foreign importers are thus possibly encouraged to buy in the United Kingdom.

The argument under (2) is no longer valid to the extent that under the latest regulations effective March 25, a number of exports from the United Kingdom (representing, in 1936, approximately one-third of British sterling area exports to foreign countries) to designated countries including the United States must be paid for in sterling bought at the "official" London rate of 4.03 1/2 or in pounds sterling purchased at official rates of exchange fixed by or on behalf of the British Treasury, with one of five designated currencies. It was this requirement which brought on the recent severe break in the "free" sterling rate.

(3) the British authorities to reduce somewhat the demand on them for foreign exchange by allowing part of it to be satisfied in "free" markets. Furthermore, a low "free" rate has an effect, similar to higher import duties in Great Britain in discouraging purchases by British residents of foreign products regarded as non-essentials for the duration of the war.

B. Disadvantages to the British:

Inasmuch as it must be of paramount importance to the British authorities for the successful conduct of the war to try

to build up its international assets in every way possible, the existence of a "free" market in a way represents a breach in the United Kingdom control system: sterling bought in "free" markets is sterling which (without a "free" market) would sooner or later have to be bought from the exchange control at its official rates. The control thus loses international assets which would otherwise have reached them. But their very efforts to narrow down the "free" market by reducing the demand for sterling in that market brought on the recent break in the rate.

Effects of a lower "free" sterling rate on the United States.

Prior to March 25 it might have been possible for the British as a result of a further depreciated sterling to increase all of their exports to us at the expense of our own industries. This possibility, however, is substantially curtailed as a result of the latest regulations which require payment in sterling at the "official" rate for a number of important non-competitive exports from the United Kingdom to this country (among others). Far from increasing their exports to us, in recent months England and Canada (and also France), as Secretary Hull pointed out on March 27, have substantially increased their purchases here for the first five months of the war over what they were in the corresponding months a year earlier:

Our exports to Great Britain rose by \$24,000,000, our exports to Canada by \$74,000,000 and our exports to France by \$53,000,000. At the same time our imports increased only \$5,000,000 in the case of Great Britain, \$40,000,000 in the case of Canada and \$2,000,000 in the

case of France. Excess of American exports over imports in February seems to have been the largest in any month since 1928.

Does the toleration by the British authorities of a "free" market and the depreciation of the "free" sterling rate represent a breach of the Tripartite Arrangement? In my opinion it does not, so far, because there are no indications of active steps taken by the British authorities aiming at deliberate depreciation of sterling "to obtain an unreasonable competitive exchange advantage". On the contrary, the latest step taken, i.e., the British regulations of March 8, 1940, requires payment at the official rate for a number of very important exports from the United Kingdom and thus deliberately limits the use of "free" sterling in connection with British overseas trade. There seems to be no ground, therefore, at this time for protest under the Tripartite Arrangement. Nor do I think that any positive action should be taken now. The heavily increased purchases by the allies here in recent months seem to make it essential for them if possible to try to increase their exports of merchandise or else to sell (to us) increasingly large amounts of gold, thus making worse a gold problem which is already a bad one. It would, of course, be advisable for the Secretary of the Treasury to continue to be kept posted as to further financial or economic steps contemplated in London, (Ottawa and Paris) and as to the trend of our import trade in the coming months, to ascertain whether the low rate for "free" sterling is enabling British exporters to undercut American producers in the domestic market. Similarly it would seem appropriate to watch

closely the developments in our export trade to see whether there is evidence that British competition with our industries in foreign markets is becoming destructive to our normal export trade.

3/29/40

STRICTLY CONFIDENTIAL

221

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The official buying rate for sterling has been fixed at 4.02-1/2; the official selling rate at 4.03-1/2 since January 8, 1940. The market or free rate for sterling was on March 1, 3.92-11/16. On March 9 an announcement was made that certain regulations would become effective March 25 which provided that free sterling could not after that date, except under special permit, be utilized for the purchase of specified British Empire export commodities. The free rate in New York began a decline on March 9, which has accentuated since March 25, the effective date, the lowest level of 3.44-3/4 having been reached on March 27. On yesterday, March 28, the rate improved to 3.61, and this forenoon it is around 3.58.

The British regulations under reference, which were issued in conjunction with similar measures in British Colonies and Dominions, insure that the proceeds of British Empire exports to the United States and to certain other destinations of tin, rubber, jute and manufactures thereof, whiskey and furs, shall accrue to the British Treasury in the form of specified currencies (belgas, guilders, Netherlands East Indies guilders, Swiss francs, United States dollars.) That is, payments must be made either in one of these currencies, or in sterling purchased from the British Exchange Control at the official rates with one of said currencies. Thus the British Treasury is making sure of obtaining the foreign exchange proceeds of the more important British Empire exports of non-competitive commodities and at the official rate. All other exports may be financed in sterling purchased on the free market.

During the period from March 9 to date there has been much uncertainty as to the future of free sterling, and the possible uses and supply thereof. Some holders of sterling, feeling that the restrictions of March 9 might be extended to other exports, thus further limiting the use to which sterling could be put, have dumped their sterling and have contributed to depressing the rate therefor. Important sales this week have come from foreign countries, including banks in Latin-America, Europe and the Far East. On the other hand, a fairly good commercial demand has developed in New York to absorb part of the offers. Yesterday the rate moved vertically upward 11 cents to 3.61 and then fluctuated erratically. There was evidence that professional operators were going in the market on a speculative basis. It would appear today that rate swings are less violent in a diminished market.

The basic purposes of the British Exchange Control Regulations have been to conserve and to acquire foreign exchange. The step taken on March 9 was a logical move, which may conceivably be followed by the inclusion of other commodities under the same regulations.

- 2 -

There has been a campaign in England toward fostering exports. Certain Government leaders have emphasized the necessity for exports in phrases which have been picked up by the American press as indicating that the free sterling rate is being purposely depreciated to achieve an expansion of British exports, which might amount to dumping. As the regulations now stand, British manufactured goods can be purchased with free sterling. These exports are highly competitive and costs thereof are necessarily rising as British labor is mobilized, ocean freight rates and insurance go up, etc. The object of the British stimulation of exports is to obtain foreign exchange, particularly to be used in purchasing war materials. A beginning has now been made in requiring foreign exchange or official rate sterling in payment for the Empire's most important commodities. It seems reasonable that the policy would be to enlarge the number of such articles producing the desired foreign exchange, rather than to seek a drastic depreciation of sterling simply to get rid of manufactures in return for this debased domestic currency.

There have been various articles in the press this week in regard to American official concern over the decline of free sterling, with the suggestion that the Department of State might protest on the basis of our trade pact with Great Britain, or that the Treasury Department might find cause for action under the Tripartite Agreement. While the steps taken by the British have resulted in a depreciation of free sterling, it remains to be seen whether any "unreasonable competitive exchange advantage" may be acquired. I am so far of the opinion that with Great Britain at war, facing the shipping and supply difficulties that she does, our trade is not going to suffer, at least in the present and immediate circumstances, from this decline in the free rate. Consequently, I feel that there is no reason for us to take any action under the Tripartite Agreement.

The State Department is naturally concerned, especially considering their trade agreement with Great Britain, and having the task of satisfying Congress that the present system of trade agreements should be continued. I have talked with Mr. Livesey recently on this subject. He has today provided me with the following draft of a cablegram which the Department of State proposes to send to London seeking information which will be of interest to all of us:

"To: American Embassy, London

Your 763, March 28.

For the information of this Department your comment on the following is requested:

(1) The Department has received conflicting information from competent sources that (a) 85% of our imports from England have been settled in free sterling and (b) 80% have been settled at the official rate.

(2) In view of the continued discount on free sterling since the beginning of exchange control it is difficult to

(Draft sent. see Embassy memo 4/1)

- 3 -

understand why a large part of our imports should be paid for in dollars or sterling acquired at the official rate.

(3) It has been suggested to the Department that prior to the order of March 9 (your 594 of that date) British banks were voluntarily discouraging the invoicing of exports from England in sterling and encouraging their invoicing in dollars.

If (3) is correct, do you expect the continuance of the practice?"

I am attaching a copy of Cablegram No. 763 under reference. Pending a reply from London, I believe we should do nothing other than watch the situation.

I have asked Mr. Knoke also to send you a memorandum, by air mail today. I am appending a copy of a memo received from him this morning on this subject.

There are attached hereto my daily reports prepared since your departure, to give you exact figures. Quite a bit of documentation has just come in from Butterworth. I shall not send you the full material unless you may request it. I presume you have read the articles in the New York Times and the Wall Street Journal of today which deal with the fall in sterling. The New York Times very properly points out the extent to which our exports to Great Britain have increased, as compared with our imports from Great Britain.



PARAPHRASE OF TELEGRAM RECEIVED

Recd 224
3-29-40
==

FROM: American Embassy, London

NO.: 568

DATE: March 7, 1940.

The British Government's determination to stop all classes of German exports of whatever destination is reflected, undoubtedly with official inspiration, in the articles appearing in this morning's papers, written by diplomatic correspondents, which discuss British seizure of shipments of German coal enroute to Italy.

I was confidentially informed by the Foreign Office that the breakdown in the trade negotiations between the British and the Italians which immediately preceded the announcement by the British of their intention to stop exports of coal from Germany to Italy came at a time when it appeared that an agreement would be reached; I was informed that the breakdown was the result of direct personal intervention on the part of Mussolini and that he called the whole thing off suddenly.

I was told by a responsible official of the Foreign Office that they are not certain what caused Mussolini to break off negotiations; he said it might have been the result of pressure by Germany, but they had no

reliable

-2-

reliable evidence to that effect. It was pointed out by the official that the Italians could not possibly have been surprised at the decision subsequently taken by the British to stop German coal exports from reaching Italy because they had been given notice two months previously, and from the British point of view, they had been enjoying a special favor for that period. The official said that Britain could no longer continue to give more favorable treatment in this respect to Italy than it was giving to other neutrals. It is carefully pointed out in press comment that the order to stop German coal shipments destined for Italy is in no sense to be considered a measure directed particularly against Italy but rather as the application of the general rule, from which up until now Italy has been enjoying an exemption. The Anglo-Italian trade situation is being reviewed and an answer to Italy's protest is being prepared.

JOHNSON

EA:EB

HSM

GRAY

Rio de Janeiro

Dated March 29, 1940

Rec'd 1:03 p. m.

Secretary of State,
Washington.

129, March 29, 1 p. m.

The CORREIO DA MANHA today featured a United Press despatch from New York stating that the Bank of Brazil has suspended operations in sterling as a direct result of pressure of the British Government to block sterling for the purchase of British products. This statement is unfounded.

What actually happened was that to protect its position against the fluctuation in sterling, the Bank of Brazil announced on March 28 that it would not buy sterling at the open market rates. However, the Bank continues to purchase sterling at its own rates and to sell sterling on the basis of the cross rate with the dollar.

This ruling does not affect other banks which continue to buy and sell sterling.

Inform Commerce.

CAFFERY

CSB

HSM

PLAIN

London

Dated March 29, 1940

Rec'd 2:05 p. m.

Secretary of State,
Washington.

779, March 29.

FOR TREASURY FROM BUTTERWORTH.

1. The relaxation of the restrictions on voluntary liquidation of British owned Canadian securities referred to in paragraph numbered 1 of my 742, March 26, is announced in the press today. Individual permits are limited to one month.

2. Ernest Bevin, the General Secretary of the Dominant Transport and General Workers Union who is one of the two most important British trade union leaders, publicly criticized Keynes' compulsory savings plan, thus to a substantial extent committing organized labor against it. After emphasizing organized labor's cooperation in the war effort through permitting dilution in skilled crafts and the introduction of the employment of women, et cetera, he stated: "We have the proof that all our finely balanced negotiating machinery is standing the test of wartime conditions. Then we get professors without

hsm -2- No. 779, March 29, from London

without experience or understanding of the reactions likely to be produced by their advice seeking to promote fancy schemes. Their schemes are likely to jolt the industrial machine, endanger production and result in serious disturbances and strikes at a most critical moment."

3. The British Treasury states that the announced issuance of a new type of one pound and ten shilling Bank of England notes was planned before the war and has not been immediately occasioned by reports of German counterfeiting of the old notes. However, I gather that this issuance was planned as part of the British financial measures to be taken in the event of war and therefore it is to be assumed that in due course the old notes will be called in. Through loss and destruction this will no doubt produce a substantial profit which will accrue to the exchequer and inasmuch as there were considerable pre-war hoardings of pound notes even in France it will produce interesting de-hoarding.

KENNEDY

CSB



TREASURY DEPARTMENT

WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA

CAA

March 29, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Walter Kidde and Company:

On March 25, 1940, an unreported conference of Bureau personnel was held. In the afternoon a letter from the Navy Department dated March 23, 1940, was received, making further certification.

Mr. Freygang is expected to return on Monday, April 1, 1940, for further conferences.


Commissioner.

IT:P:CA
CAA

March 29, 1940.

REPORT FOR SECRETARY MORGENTHAU:

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Mr. Freygang is expected to return on Monday, April 1, 1940, for further conferences.

(Signed) Guy T. Helvering

Commissioner.

CAA/MRA

(Copy of memorandum handed by Mr. Opie
of the British Embassy to Mr. Cochran
of the Treasury Department at 6:15
p.m. March 30, 1940 and explained by
Mr. Opie as constituting a message from
the Chancellor of the Exchequer to the
Secretary of the Treasury)



See Cochran's memo
of 4-1-40

*Handed to Mr. C. C. C. 10.1946
Office of Mr. C. C. C. 10.1946*

The following is the substance of a telegram received to-day expressing the views of His Majesty's Government on the reasons for, and the significance of, the fall in the dollar/sterling rate in the free market in New York, and on the criticism which that fall has invoked.

The only practicable correctives that could be undertaken to prevent the fall in the rate are:-

- (i) Direct intervention in support of the rate, thus providing an official demand for sterling on which the market could rely, and
- (ii) measures designed to limit the supply of sterling by immobilising sterling held by neutrals.

Action of the first kind would be to give away with our left hand reserves of foreign exchange which we are trying to conserve with our right. The second course would not only prejudice the international status of sterling as a currency, but it would also seriously penalize willing holders of sterling for the sake of preventing a withdrawal of balances now in foreign hands.

There is no sign at present of any mass withdrawals, and the volume of sales in the free market accounts for only a small fraction of the total transactions in sterling. The fall in sterling is mainly due to our recent measures of export control

which have the effect of reducing the demand for free sterling and of increasing the proportion of our exports which can be used to pay for imports. The effect of lowering the rate is natural and was expected; what we have done is to strengthen our exchange control, and it would be a travesty to say that by so doing we are deliberately depreciating our currency. On the contrary, weakness in sterling due to the erratic market abroad is the natural corollary of an efficient control over exchange transactions, and it must be expected that despite the effects upon the rate for free sterling we shall continue to strengthen and extend our control in this and other ways.

Criticism which asserts that the fall in the rate is damaging to our prestige is due to the failure to appreciate that the market and the rate are dominated by the official transactions, and that the free markets deal only with a small overflow which we are concerned to diminish but not to manage. The relative unimportance of the movements in the free sterling rate is demonstrated by the advance of the quotation from the low point of 3.44 to 3.60 while this telegram was being drafted. The thinner the market the larger the fluctuations are likely to be.

American Airplanes

By Mark Sullivan

The Allies To Get Them

IN WASHINGTON last Wednesday occurred an event which, properly seen, is an outstanding landmark of the war in Europe. It was the decision by our Government to facilitate sales of airplanes to the Allies. This action is comparable in significance to the most important events that have taken place within the theater of the war itself. For the Allies it is an event favorable in the highest degree.

For the United States, this step is the end of a long road, unnecessarily tortuous. It started in January, 1939—a year and 3 months ago, and 5 months before the war began. It started when a plane, in a test flight in California, coming down by accident, was discovered to have had a French army officer as a passenger. Developments disclosed that the French officer was an inspector and that the French government and also the British had ordered planes from American manufacturers. It was further learned that the orders had been encouraged and facilitated by President Roosevelt.

At once arose commotion, in the press and in Congress. Although no faintest question of neutrality was involved, although there was no war at the time, it was made to appear almost as if Mr. Roosevelt had done something detrimental to American interest. He felt obliged to defend himself in two press conferences and to a group of Congressmen whom he invited to the White House. What he said to Congressmen in confidence found its way, in possibly inexact form, into the newspapers. That led to a further spasm of commotion.

MR. ROOSEVELT put his justification mainly on the ground that sales of planes abroad by private manufacturers gave employment to American workers; that it gave training to our workers and factories for making planes for our own military equipment whenever we might need them. There were persons who felt that Mr. Roosevelt's justification was even stronger. This column said, January 27, 1939: "A steady and large supply of airplanes made in our factories and sold to England . . . is, under present conditions, the best preparedness we can practice."

During the 14 months intervening, the sale of planes to the Allies has been beset with suspicion in Congress, impeded by disagreement between Government departments. Finally, this week, we arrived at decision and a clear course. All the Government departments agreed, the Military Affairs Committee of Senate and House agreed. The Chief of Staff of the Army, Gen. George C. Marshall, urged it: "I would be deeply disturbed if we didn't do it; I consider it of vital importance for national defense."

From now on we are to let the Allies buy all the airplanes they wish. We go further. In order to give the Allies early deliveries, we will let them have airplanes that were ordered for our own forces. This is upon the sound theory that the making of these planes will lead to improvements in the ones we will get later and that the quantity production thus achieved will give us more planes in shorter time at lower cost.

In brief, the Allies are to have practically unlimited access to all America's plane-making facilities. These facilities are great. They have risen from a total output of 3,643 in 1935, to a present capacity of 1,500 a month. By July our capacity is expected to be 3,000 planes a month; later, 4,000 a month. These planes for the Allies are—so says Secretary of War Woodring—"of types superior to any others in the world." This is in addition to the Allies' own large capacity.

FOR THE ALLIES this should mean superiority in the air, at some reasonably near date. True, Germany can make many planes, and presumably will have Russian resources, and she may buy from Italy. (She has the privilege of buying from any neutral, including ourselves, if she had ships to carry them home.)

How many planes Germany can make or get must be an estimate. And how great a preponderance in number the Allies must have in order to achieve superiority in the air is for experts to say. But it seems clearly probable that the access of the Allies to our factories should give them, in due time, dominance in the air. They already have dominance on the sea. On land, their military strength is or can be made equal to that of Germany.

The other factors of the war—position, timing, opportunity for strategy, the possibility of other countries taking part on either side—all that is for the future to reveal, and for experts to estimate. But it seems tenable to say that the step taken by the United States this week is a major event favoring the Allies. It comes at a time of Allied need. The fall of Finland two weeks ago was a blow to the confidence of the world in Allied victory, a confidence having actual military importance in the case of Balkan nations and other neutrals.

What we did this week illustrates an idea widely held about America's relation to the war. It is that whenever and if the Allies seem in danger of losing, American sentiment would lead us to help them by methods always short of actual participation in the war. What we will never do was put in words by Mr. Roosevelt in his address to Congress last January: "The United States will not become involved in military participation in the war . . . [we] will never again consent to the sending of American youth to fight on the soil of Europe." That is the one thing that seems conclusively and permanently barred by American policy and American opinion."



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 30, 1940

My dear Mr. Secretary:

There is attached hereto copy of a memorandum which I will present to General Watson at such time as I can see him today. So far he has been engaged with the President and has not been available although I have made several attempts to reach him.

There is also enclosed the clipping of Mark Sullivan's column in this morning's Post, as well as a copy of the script of Fulton Lewis's talk over WOL the night before last.

There is further enclosed memorandum concerning the toluol situation which is self-explanatory.

With kindest personal regards,

Sincerely yours,

encs.

March 28, 1940

MEMORANDUM FOR GENERAL WATSON

A meeting was held this morning with the representatives of the airplane engine manufacturers and this afternoon with representatives of the aviation accessory manufacturers. At both of these meetings representatives of the Army Air Corps and the Bureau of Aeronautics of the Navy were present.

As at the meeting with the plane manufacturers on Wednesday, the application of the new policy for the release of restricted items was explained and met with the general approval of those present at both meetings. At the morning meeting Colonel Burns, Aide to Assistant Secretary of War Johnson, stated that the War Department is working on an administrative procedure which will detail the method to be followed in obtaining the release of a restricted item. At this meeting I informed Colonel Burns that such a procedure will, of course, be submitted to the Navy for approval inasmuch as the new policy recently announced is applicable to the Government as a whole and not to any one particular department of it. It is expected that this procedure will be ready for discussion the early part of next week.

At both meetings the representatives of industry attendant expressed their appreciation of having had explained to them the new policy.

RADIO COMMENTATION BY FULTON LEWIS, WOL WASHINGTON, THURSDAY NIGHT,
MARCH 28, 1940

Now, this time last night it looked as though the controversy about whether we should release the latest models of our army and navy fighting planes for sale to the Allies was finally settled. The answer was yes, and Secretary of War Woodring told Congress yesterday that that is the official policy of the War Department.

But I learned this afternoon that behind the scenes the picture is far from settled. In fact, for your information, certain things are brewing that may develop later into a major national issue.

As you know, the British and the French governments both have purchasing commissions here in the United States to buy whatever materials those countries needed, and thus far, of course, the chief items they want are fighting planes. Inasmuch as France and Great Britain are allies in the European war you might suppose that the two purchasing commissions would cooperate - they would work in close combination - but the truth is that there has been serious friction between them in the past - almost bitter friction at times - and there still IS friction.

The trouble began when the two commissions first arrived here in the United States. At that time the French thought they should work together, in full cooperation, so as to not interfere with each other, but the British failed to do so. The British went out independently and signed up several of the largest airplane factories for large contracts. They also placed large orders for motors, and that is particularly important because the airplane engine industry is the bottleneck of aviation production you know. The planes can be produced only as fast as engines are available.

The net result was that when the French began trying to place orders they found that the largest and most desirable plane manufacturers were loaded up to capacity with British orders, and the French had to stand by and wait. The French Commission resorted to a bit of strategy at that point. When the British began negotiating with one of the other smaller airplane factories the French Commission immediately made a bid to that same company for the same number of planes at the same price, the purpose, of course, being to tie up the British order and force the British to cooperate in the future, and that plan was effective because recently the British Commission did come around and DID agree to cooperate - at least in the matter of WHERE the orders are to be placed.

But there still is serious friction because the French want to go ahead and buy planes immediately while the British are holding off - and therein lies the real point of the story. There are some gentlemen here in Washington who are not going to like my telling this, but I think you're entitled to know it. If they're going to be displeased, they'll just have to be displeased.

The reason the British are holding up on their orders, is that they want to buy these fighting planes on so-called "easy terms". They want credit, in other words, instead of paying cash.

That of course is strictly forbidden under the Cash and Carry neutrality law that was passed by Congress last fall, in that law Congress definitely struck out all provisions, for credit of any kind - the policy was to be Cash and Carry.

The opponents of the bill argued at that time that before the war was a year old an attempt would be made to change the law in order to sell goods to the warring nations on credit. And as a matter of fact, behind the scenes that is exactly what the British are asking for at the present time. The British Commission has told at least one member of the President's cabinet that unless they can get these planes on credit, they cannot buy - because they can NOT afford to spare the cash. They have told the French Commission that the cash and carry law can be amended by Congress within 30 days - to strike out that cash requirement. I cannot say whether they claim to have been told that by the Cabinet officer, but that's the argument they are using with the French Purchasing Commission for not placing these orders at the present time.

So, be on the lookout for proposals to change the cash and carry law in the near future - the British at least are expecting that change to come and are operating on that basis.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 30, 1940

MEMORANDUM

Mr. Green of the State Department called me this morning concerning the toluol situation.

He stated that their analysis had indicated that there had been exported to Japan in the month of January 967,632 pounds of toluol, valued at \$56,000, and in February 110,220 pounds, valued at \$6,900; that so far no exports had been made to Japan during the month of March.

Mr. Green was asked as to whether similar information is available concerning Russia, and he said that he would make an effort to get it.

He stated further that he had talked with Secretary Hull and that the Secretary did not feel that any moral embargo could at this time be placed on toluol; that they had no legal authority for embargoing items of this type and that it was feared that if the moral embargo procedure were carried too far it might result in some most adverse criticism in Congress.

Mr. Green also stated that there had already been rumblings of certain members of Congress concerning action that had been taken with reference to other items, and the Secretary did not feel that, inasmuch as the quantities and amounts of monies concerned showed definite decreases, this matter should be pursued any further.

JOURNAL OF COMMERCE
March 30, 1940

THE TRIPARTITE MONETARY AGREEMENT

The severe decline of free market quotations of the pound sterling and the French franc raise questions as to the status of the tripartite agreement concluded in 1936 between Great Britain, France and the United States.

Under that agreement, the three contracting governments agreed to avoid as far as feasible undue fluctuations in the quotations of their currencies. The avowed purpose of this agreement was to prevent disturbance to foreign trade due to wide gyrations in the foreign exchange market.

In so far as this objective of protecting foreign trade from disturbance is concerned, the sharp decline in the free sterling and franc rates cannot be regarded as a violation of the agreement. The bulk of the foreign trade of Great Britain and France with the United States is paid for at official rates of exchange, only a small fraction of the commerce between these countries being paid for at the market rates. The wartime import restrictions imposed by the Allies, in fact, have had a very much greater effect upon our trade with them than have the fluctuations in foreign exchange quotations.

Furthermore, the substantial internal commodity price rise within Great Britain and France offsets to a considerable extent the decline in the free market rates for their currencies in affecting the report of goods that can still be sold for free exchange. With such higher prices, the lower free sterling rate is of limited help to British exporters in strengthening their competitive position in foreign markets. High shipping costs and inevitable delivery delays have a similar hampering effect.

As long as Great Britain and France conduct the bulk of their foreign trade in terms of stable official exchange rates, wide fluctuations in the open market rates for their currencies do not constitute a violation of the spirit of the tripartite monetary agreement in any practical sense.

B. M. P.

HSM

GRAY

Berlin

Dated March 30, 1940

Rec'd 11:33 p. m.

Secretary of State,

Washington.

778, March 30, 1 p. m.

My No. 639, March 13, 6 p. m.

TREASURY FROM HEATH.

Net borrowing of the Reich which had fallen from a total of 2,483 million marks during the month of October to 2,030 million marks in November again declined to a total of 1,761 million marks during December according to a statement published today by the Finance Ministry. The funded debt increased 383 million marks during the month and the floating debt rose 1,539 million marks but these increases were partly offset by the retirement of 161 million marks of tax certificates.

As in preceding months the principal method of short-term borrowing was through the issuance of Treasury bills and certificates net sales of which during December totaled 1,053 million marks but direct borrowing of the Government from the Reichsbank was also important, its operating

hsm -2- No. 778, March 30, 1 p. m., from Berlin

operating credit with the institution reaching a record high of 785 million marks on December 31 (having increased by 486 million marks from November 30 to December (*)). The previous month-end record of direct Government borrowing from the Reichsbank was on August 31 when the operating credit stood at 680 million marks.

The decline in the rate of Government borrowing during December was probably due to the heavy tax payments made during the month since there was no indication of any decrease in Government spending at that time. Disclosed borrowing of the Reich (which does not include proceeds of the issuance of army promissory notes, et cetera) totaled 8,518 million marks for the first four months of the war or a monthly average of some 2,130 million marks an amount roughly equal to the monthly average of central government tax collections during the period. The total disclosed debt of the Government on December 31 was 45,881 million marks.

Foregoing is also for information of the Department.

KIRK

RR

(*) apparent omission

AC

GRAY

Paris

Dated March 30, 1940

Rec'd 10:40 a.m.

Secretary of State

Washington

412, March 30, 1 p.m.

FOR THE TREASURY FROM MATTHEWS.

A decree appearing in today's Journal Officiel provides for the provisional entry into effect on April 1, 1930 of the payments accord and commercial agreement concluded between France and Italy on March 6, 1940, my telegram No. ³⁰¹~~1001~~, March 7, 6 p.m. and ³⁴⁸~~1048~~, March 15, 7 p.m. Save in "exceptional cases" imports and exports must be invoiced in either francs or lira. Payments are to be made through a clearing arrangement at the official franc - lira rates as quoted on the Paris or Rome Bourse. Two deductions are to be made from the total amount in francs derived from payments for French imports from Italy and from the service on Italian investments in France. The first is a fixed sum of four million francs per month for liquidating "blocked" French commercial credits carried away in a special lira account; the second is a deduction of 14% of the aforesaid total franc amount for settlement

- 2 - 412, March 30, 1 p.m. from Paris

settlement of the service on French investments in Italy.

In line with the current effort to increase bank deposits today's Journal Officiel also contains an instruction of the Ministry of Finance providing that pensionnaires may have their pensions collected through their banks and deposited to their bank accounts. It is apparently hoped that by sparing the pensionnaires the inconvenience and formalities of personally collecting their pensions it will encourage the use of bank deposit accounts and discourage to small extent the ingrained French fondness for bank notes.

MURPHY

DDM

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: March 30, 1940, 10 a.m.

NO.: 775

FOR TREASURY FROM HEATH.

The REICHSSANZEIGER in its issue of March 27 announces that on February 16, 1940, an arrangement was concluded with Yugoslavia for the payment of Yugoslav bonds held in Germany but does not disclose full details of the arrangement. The announcement divides Yugoslav bonds held in the Reich into five classes. The first class consists of the Serbian issues of 1902, 1906, 1913 and the Yugoslav state mortgage bank bonds of 1910 and 11. The German holders of these issues are allowed to retain their bonds the future coupons of which will be paid but must surrender past due coupons for which no payment will be made. The second series of bonds consists of the Yugoslav dollar issues of 1922-1927 and Yugoslav state mortgage bank dollar issues of 1933 (funding bonds) and the gold franc loan granted 1931 and subsequent franc funding bonds. German holders are allowed to retain these bonds but must sell all due coupons to German banks authorized to deal in foreign exchange. The third, fourth and fifth series of bonds consisting of fourteen national and local government issues dated from 1881 to 1912 and three issues of priority shares of Serbian railways must be surrendered by the German holders who will receive an unspecified percentage of the nominal value of

- 2 -

the securities.

The following is confidential:

The Yugoslav Commercial Attaché in Berlin has said that for several years the German Government has been trying to negotiate the resumption of payment of principal or interest of the external and internal bonds of Yugoslavia which are held in Germany. He said that under the arrangement payments of interest will be made on the more recent Yugoslav national internal and external issues. Upon their surrender, a small part - he said in no case more than 12 percent - of the nominal value of old Serbian national, provincial and railway bonds will be paid. The German Government will pay marks to the German holders for the bonds which they surrender, I was told. A credit of about 14,000,000 marks will be given to the German Government for the bonds at the Yugoslav Central Bank. This sum cannot be used to pay for commodities for the German Government, but it may utilize it for Yugoslav mining investments and for other enterprises in Yugoslavia.

KIRK.

TREASURY DEPARTMENT

246

INTER OFFICE COMMUNICATION

DATE March 30, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was quiet today. In Amsterdam sterling opened at 3.53-1/16 and closed at 3.54-3/8. In New York the opening quotation was 3.53-5/8. During the morning it fluctuated between a low of 3.52 and a high of 3.53-3/4. The closing quotation was 3.53-1/2.

Sales of spot sterling by the six reporting banks totaled £139,000, from the following sources:

By commercial concerns.....	£ 93,000
By foreign banks (South America, Far East and Europe).....	£ 46,000
Total.....	£ 139,000

Purchases of spot sterling amounted to £244,000, as indicated below:

By commercial concerns.....	£ 170,000
By foreign banks (Europe, Far East and South America).....	£ 74,000
Total.....	£ 244,000

The Guaranty Trust Company of New York sold cotton bills totaling £9,000 to the British Control on the basis of the official rate of 4.02-1/2.

The other important currencies closed as follows:

French francs	.0200-1/2
Guilders	.5310
Swiss francs	.2242-1/2
Belgas	.1708
Canadian dollars	.18-9/16 discount

We sold \$2,300,000 in gold to the Central Bank of Uruguay to be added to its earmarked account.

We purchased \$525,000 in gold from the earmarked account of the Central Bank of Colombia.

The Federal Reserve Bank of New York received a cable from the B.I.S. requesting it to obtain a license to transfer from its Account #2 to the account of the Bank of Latvia, gold valued at approximately \$562,000. The gold in B.I.S. Account #2 is owned by that institution. The Federal was authorized to make this transfer.

CONFIDENTIAL

247

- 2 -

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

\$ 3,120,000 from England, shipped by the Bank of England to be earmarked for its account.
1,243,000 from South Africa, shipped by the South African Reserve Bank to be earmarked for the account of the Bank of Sweden.
\$ 4,363,000 Total

We received a cable from the State Department stating that the following gold shipments were made from Sydney, Australia:

\$ 3,107,000 shipped by the Commonwealth Bank to the Federal Reserve Bank of San Francisco.
182,000 shipped by the Bank of New South Wales to the American Trust Company, San Francisco.
\$ 3,289,000 Total

These shipments will be sold to the United States Mint at San Francisco.

The equivalent of the Bombay silver price was 39.96¢.

The Dow Jones ticker carried an item today which stated that the Dutch Government has issued a decree stipulating that silver no longer shall be legal cover for Bank of the Netherlands sight liabilities. It also stated that the present stocks amount to 9,500,000 guilders (14,400,000 ounces of silver).

During the month of March, we purchased a total of 15,301,000 ounces of silver under the Silver Purchase Act. The sources of these purchases were as follows:

<u>TYPE OF SILVER</u>	<u>OUNCES</u>
New Production	
1. From various countries	8,135,000
2. From Canada under Agreement	1,200,000
Inventory Silver	5,643,000
Trading Silver	<u>323,000</u>
	15,301,000

B. M. R.

3-30-40

FHA Housing Project in Fort Wayne, Indiana
and USHA Projects in Vincennes, Indiana
and Mount Hope, West Virginia

Field trip report by
Wesley Lindow

Fort Wayne,
Indiana

FORT WAYNE, INDIANA

Introduction

The low-rent housing project of the Fort Wayne Housing Authority is unique in a great many respects, and I was fortunate to have Frank Watson along to discuss it inasmuch as he had managed the construction. The project consists of fifty individual houses placed on vacant lots here and there in blighted areas. The houses are of pre-fabricated construction and may be dismantled and moved to another site. WPA labor was used in the construction. There is no subsidy from the United States Housing Authority. The mortgage loan is carried by two Fort Wayne banks and an insurance company, and is insured by the Federal Housing Administration. Rents are \$2.50 a week per dwelling unit. This would be equivalent to about \$2.71 a room per month on a USHA basis (Frank Watson told me that USHA standards would count four rooms).

Construction

The pre-fabricated construction system is based upon studies made at the United States Forest Products Laboratory, Madison, Wisconsin, together with developments arising from the activities of the Housing Research Department of Purdue University (under Frank Watson). The houses are one-story structures anchored

Fort Wayne - 2

to a concrete floor laid directly on the ground. The walls and the roof are made of plywood box-beam panels. The sheets of plywood are nailed and glued to both sides of wooden beams and the space between the sheets is insulated with rock wool.

The panels were fabricated in a central building and transported by truck to the site. Each house consists of 35 wall and partition panels (eight containing windows and five containing doors) and nine roof panels. The wall and partition panels are erected on the concrete slab and bolted together with long steel rods. The rods extend vertically and horizontally, and tie the house firmly to the concrete slab. Adjoining panels are also spliced with strips of metal and are caulked. The roof panels are covered with a gravel-covered built-up roofing.

This house appears to be well constructed. I examined the panels carefully and discovered no evidence of weakness. They appear durable and their strength is supposed to be many times in excess of that required. They are distinctly not fragile. With reasonable care and occasional painting, it looks to me as though the houses ought to last a long time and provide comfortable quarters. They will hardly last as long as

Fort Wayne - 3

dwellings constructed of masonry, but they ought to compare favorably with frame dwellings.

Land Acquisition

An ingenious device was adopted to obtain land at no cost. The Fort Wayne slums are shacks rather than tenements, and there are a considerable number of vacant lots scattered among the blighted areas. An offer was made to purchase some of these lots for one dollar each with an option to the seller to repurchase. The repurchase option was based on a sliding scale, the original owner to pay the full cost of moving the house to another lot if he repurchased the lot within the first year, and decreasing amounts during the succeeding four years. Thereafter, the price for repurchase would be one dollar, and the Housing Authority would move the house to another lot.

While the Authority is using such lots, they are tax-exempt. This exemption might conceivably result in substantial indirect costs for land as revenues were lost. In Fort Wayne, however, the total annual tax bill on all the lots now being used was only around \$182.

Fort Wayne - 4

Costs

The total average cost of each house was \$1721, divided as follows:

Construction	\$ 1,419
Overhead	199
Miscellaneous, including landscaping	<u>103</u>
Total	1,721

The total labor cost was \$758 per house, all paid by the WPA. The WPA also paid for about \$63 of materials per house. As a result of the WPA contributions, the Fort Wayne Housing Authority found it necessary to cover only \$900 of the cost. This sum was raised through 4-1/2 percent mortgages taken up by three Fort Wayne lending institutions and insured by the Federal Housing Administration under Title II. A twenty-year amortization period was used.

The debt service on this loan amounts to \$72 per year per house. Maintenance, repairs and upkeep are figured at \$32 per year, making the total charges \$104 annually per house. Annual rents, allowing 4 percent for tenant movement, are estimated at \$125 a year, thus leaving \$21 as an annual surplus.

Fort Wayne - 5

Other Comments

I talked to some of the tenants about the houses and they all seemed well satisfied. I asked if the concrete floor was cold and found that people didn't seem to mind it. Although it was a distinctly raw day outside, the floor was not uncomfortably cold to the touch of my hand. The little oil stoves seemed to heat the houses well and the tenants told me they were inexpensive to operate. The houses seemed to be comfortably warm inside and well insulated.

There is no denying the fact that the houses are small and space is at a premium. The lack of a utility room means that the tenants have to keep their fuel oil outside, and I saw several places where wash-tubs were hanging outside on nails driven into the walls. Naturally the interiors look a little messy because they are so crowded. Compared with the neighboring shacks, however, the houses are generally larger. Moreover, they stand out in the neighborhood as a big improvement in almost every other respect over the neighboring dwellings.

The Fort Wayne Housing Authority is very well pleased with its houses. I talked to William B. F. Hall, Chairman of the Authority, and he expressed great

Fort Wayne - 6

satisfaction with the houses. They answer Fort Wayne's problem very well and Mr. Hall said they would like to build some more of them, but are not finding this possible. Negotiations are now under way with the United States Housing Authority for the development of a new project, but I was told that the USHA does not approve of these plywood houses. It seems to be generally believed that the USHA position is based to a large extent on the opposition of national labor unions to the Fort Wayne pre-fabricated house. I understand that the plasterers' union has been exerting considerable pressure on USHA in this regard. I found corroboration of this, moreover, in the Vincennes project.

Both Chairman Hall and Frank Watson told me that costs of the Fort Wayne house could be further reduced if private labor were used instead of WPA labor. The saving would be substantial. If another fifty or a hundred houses were built, using private labor, they estimate that the average cost including overhead would be only about \$1400. If production were extended into thousands, the cost would be brought down to around \$1100. These estimates include all costs except for

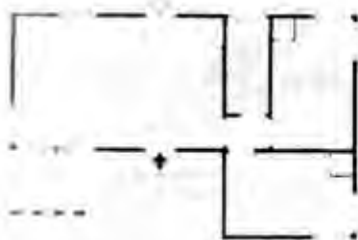
Fort Wayne - 7

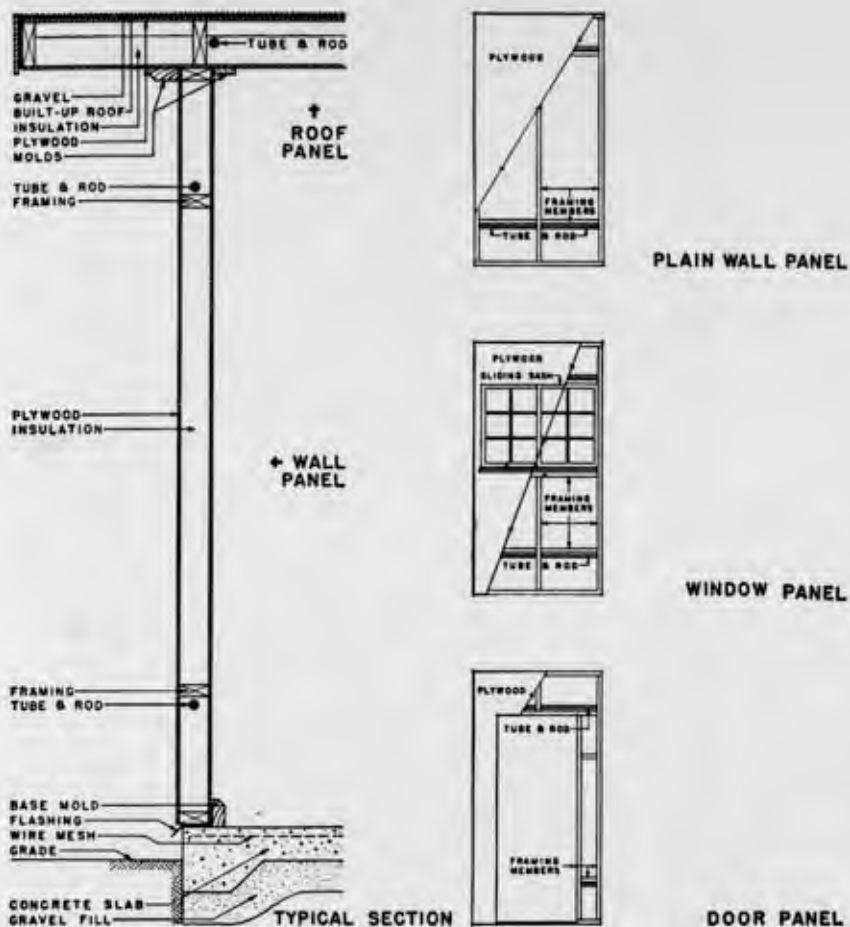
site improvement and sewer and water connections. These averaged around \$150 in the present houses.

In order to illustrate the various details concerning the construction of the Fort Wayne project, and the other two projects, I have assembled a group of photographs and prepared explanatory captions for them. Frank Watson and I each took along cameras and I also obtained photographs from the local authorities and various publications. The Fort Wayne illustrations follow.



A typical Fort Wayne House. The shell of the house can be erected in two hours. It can be dismantled and moved to another site. The interior arrangements are shown in the plan and the model below. It will be noted that there is a large living room with one end equipped with kitchen equipment and heating stove. The two bedrooms are small, and are provided with open-front closets which may be entirely closed with curtains.





The sketches show the Fort Wayne construction technique.



The floor is formed by a concrete mat reinforced with wire mesh and laid over gravel. With this construction, the floor assumes equable earth temperature and is warmer in winter and cooler in summer than if it were ventilated. The tenants, when questioned, said that the floor was not too cold in winter weather.





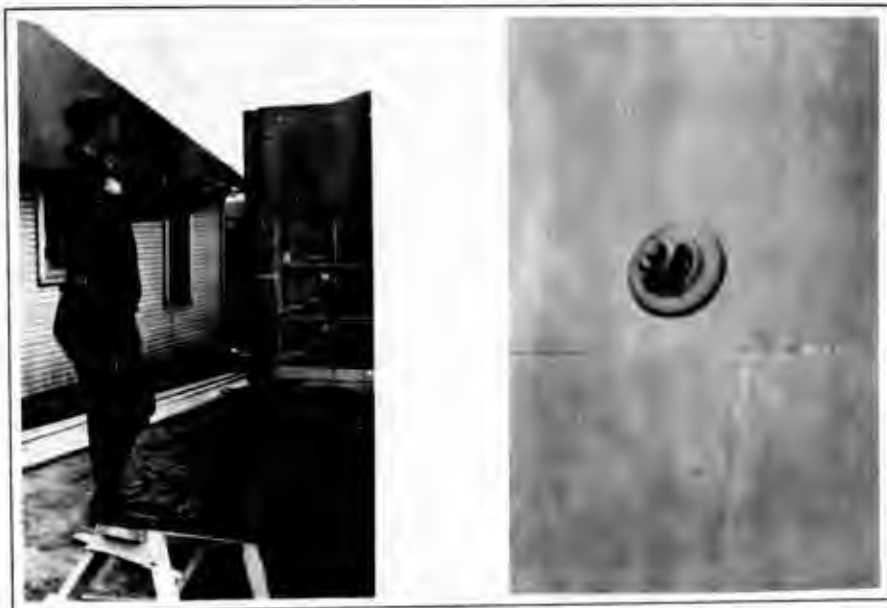
The construction consists of plywood box-beam panels. Above is a roof panel with the plywood underside already attached. The space between the two plywood plates is insulated with rock wool. Below is shown a wall panel with opening for insertion of windows. These are placed in position in the factory. Ordinary windows are turned sideways and used in a sliding manner, thus avoiding the need for window weights.





These are finished panels sufficient to make up the walls for four complete houses. Below is a house under construction with all the wall panels in place, and the roof panels being set.





Steel rods are bolted to angle irons at the corners. Rods run horizontally through the panels and vertically in the corners from the concrete floor to the roof. The upper left-hand photograph shows a rod being inserted, and the upper right-hand picture shows how securely these rods are bolted down. The photograph below shows the bolted ends of the rods running through the roof panels.





The roof is dead level. A four-ply pitch and gravel, seventeen-year specification roofing is applied. In calculating rents, this roof is written off on a ten-year basis.



Every effort has been made to keep down costs. The upper photographs show how the wiring is exposed.

Note in the lower photograph the exposed pipe in the bathroom. All of the plumbing pipes are exposed. The bathtub is of an inexpensive variety, and there is no shower. The bathroom contains a thirty-gallon hot water tank which provides an adequate supply of hot water. Among other economy features, the door locks should be mentioned. These are not built into the door as is customary in city houses, but consist of external hardware typical of summer cottages.





Above is the interior of a living room. The walls are painted, different colors being used in different rooms. The dark lines in the panels consist of accumulations of dust which gather only beneath the beams and not below the insulated spaces. This dust can be easily washed off with no damage to the paint which is of good quality.

The upper right-hand picture shows the kitchen end of the living room. Note the small stove which provides enough heat for the entire house at a low cost. The houses are so well insulated that the tenants report them to have been comfortable even on very cold days. The stove is equipped with a water coil to provide hot water. Note also the exposed pipes under the sink. For economy, only one turn-off valve is provided for all of the plumbing. (It will be noted subsequently that the Vincennes project has a turn-off valve for both faucets in the kitchen sink.) The open shelves are generally covered by the tenants with some kind of curtain.

The heating stove burns oil, and because of the lack of storage space, most tenants have a barrel of oil outside the building, as shown in the lower photograph.



Vincennes,
Indiana

VINCENNES, INDIANA

Introduction

The Vincennes project is sponsored by the Housing Authority of the City, and financed with USHA assistance. Mr. Matthew E. Welsh, the Secretary-Treasurer and Executive Director of the Authority, showed me around the project.

It consists of forty-two twin dwellings, taking up a full city block. Rents average \$8.35 a month per dwelling or \$1.99 a room.

Construction

These are one-story dwellings with no basements. The walls consist of two layers of three-inch concrete block with a two-inch air space between. The blocks are painted with concrete paint inside and out.

The floors are concrete laid on pre-cast concrete joists. I asked about the foundations and footings required, and Mr. Welsh showed me the only basement in the project, a room designed to be used as a work shop. He explained that the walls generally go about as low as though a basement were being installed. It should be noted that the concrete floor involves a different principle in construction than in the Fort Wayne project. The use of pre-cast concrete joists means that ventilation is

Vincennes - 2

provided beneath the floor, and the floor, therefore, would be colder in winter and warmer in summer than if laid directly on the ground.

Only the ceiling is plastered. Mr. Welsh told me that they had first wanted to use concrete joists and a concrete slab for the ceiling and thus eliminate plastering. USHA objected, however, and the concrete ceiling was abandoned. Although USHA argued that plaster would be better because it would reduce the area of painting surface, I understand that the impelling reason was probably the pressure coming from the National Secretary of the Plasterers' Union. There was no local union resistance, however. The local plasterers' union merely said they would like it better if plaster were used but they promised to raise no objection if it were not.

Some of the houses have been completed and are now rented. I talked to one tenant about the house and she seemed very pleased with it. I asked her about the concrete floor and she said it wasn't bad. Mr. Welsh told me that they were experimenting with an insulation for the floor. Heating is done with a small stove very economically. The tenant I talked to said a ton of coal lasted her over a month. This is certainly economical inasmuch as Vincennes has relatively cheap coal.

Vincennes - 3

Mr. Welsh explained to me that everything used in the project was of the best quality, although expenses were kept at a minimum by restricting expenditures to fundamentals. The plumbing is of a more expensive grade than in the Fort Wayne project and the houses are provided with utility rooms.

Costs

Final figures on costs of the Vincennes project are not yet available. It appears, however, that the total cost per dwelling unit will be around \$3850, divided as follows:

Dwelling facilities.....	\$2,900
Real estate, etc.....	<u>950</u>
Total	\$3,850

Most of the units consist of living room, two bedrooms, kitchen and bath.

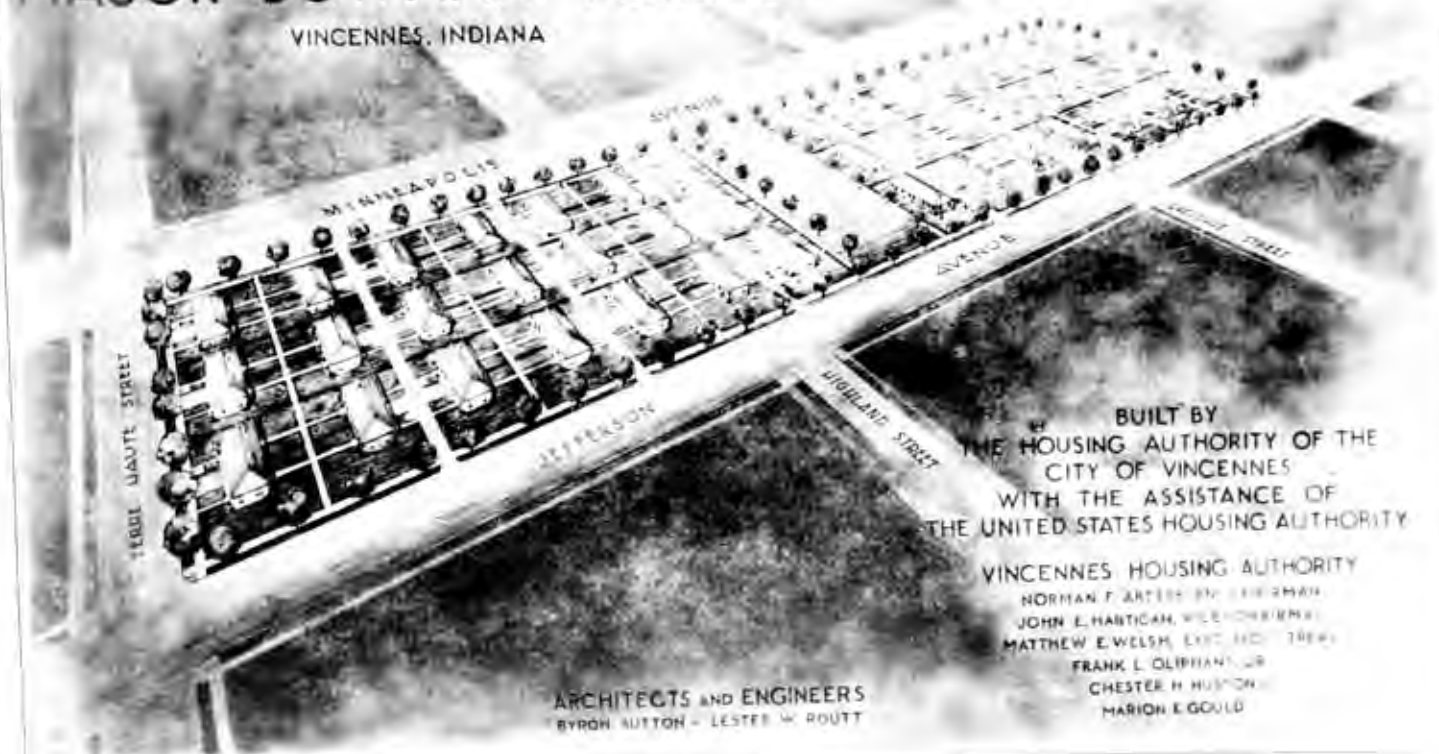
The average rent of \$6.85 per dwelling unit per month, or \$1.99 per room, is after allowing for the USHA annual subsidy.

Other Comments

These appear to be very well-built houses, simple but fully adequate. Replacement costs should be low, and a large measure of tenant maintenance will keep expenses down.

MAJOR BOWMAN TERRACE

VINCENNES, INDIANA



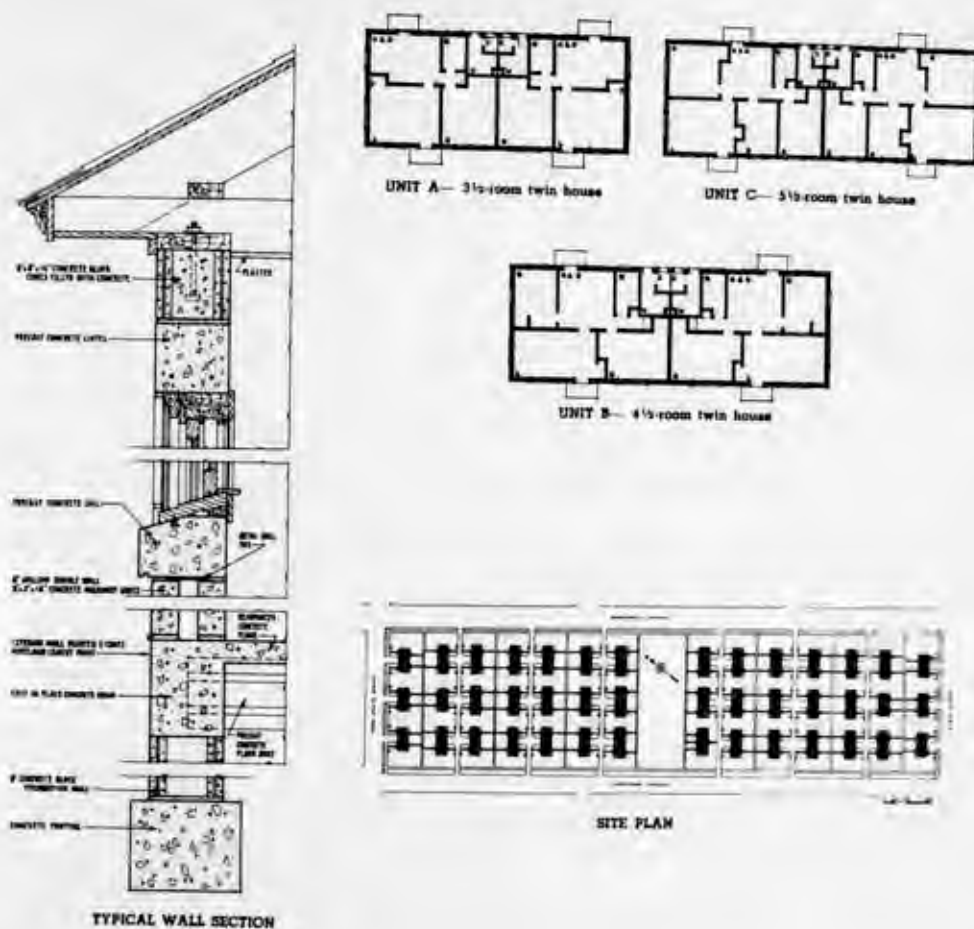
This photograph gives a bird's-eye view of the Vincennes project, which comprises forty-two twin dwelling units covering a full city block.



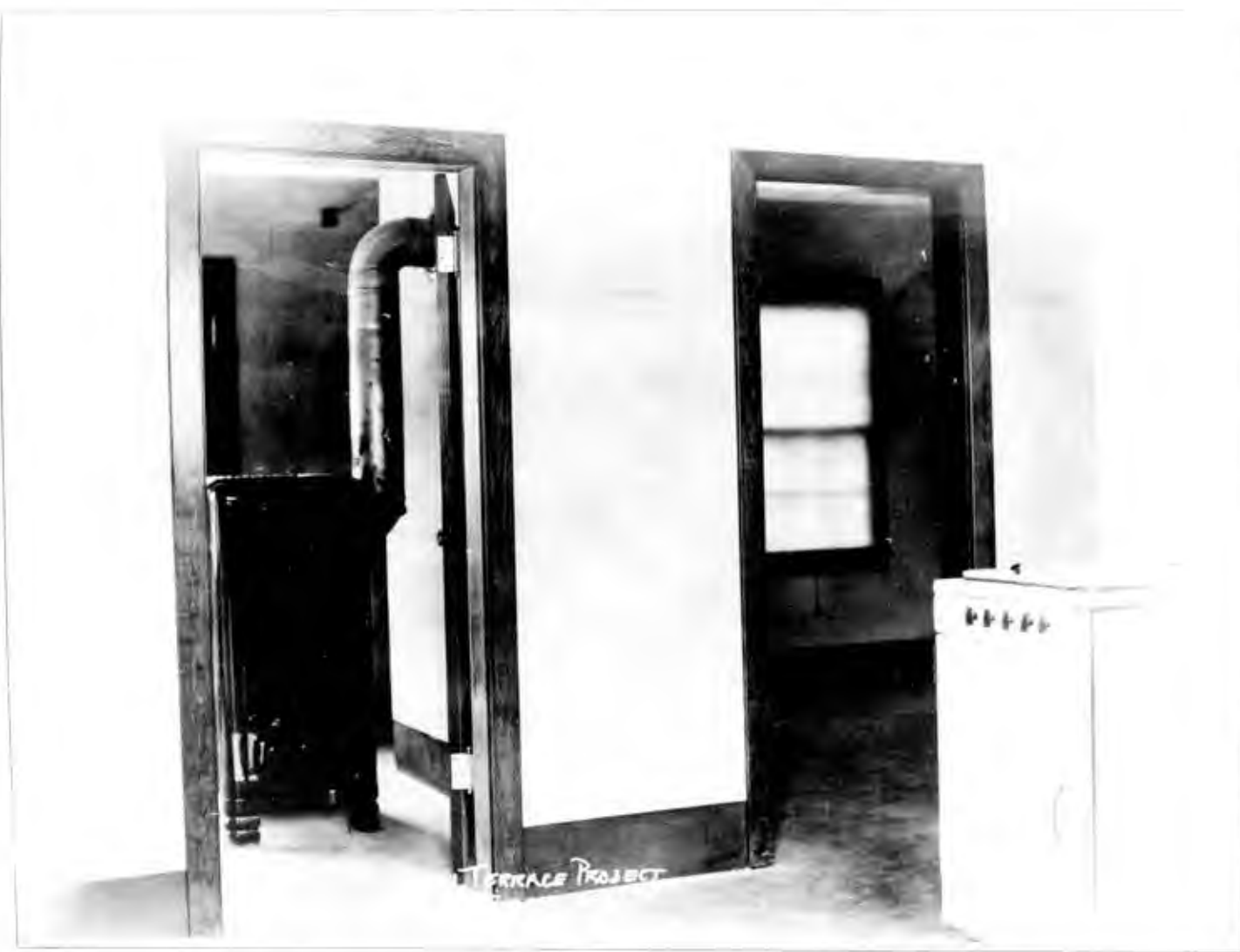
TYPICAL UNIT
for
MAJOR BROWNMAN TERRACE

BUILT BY THE HOUSING
AUTHORITY OF THE CITY
OF VINNENNE, INDIANA

The walls are constructed of concrete block in two thicknesses with an air space between.



Typical wall section and floor plans of Vincennes project.



This picture shows the interior walls and some of the equipment. The coal heating stove is efficient and inexpensive.



Everything used in these houses is first class, but there are no frills. The walls, interior and exterior, are painted with concrete paint. The ceiling is plaster. The floor is concrete laid on pre-cast concrete beams. There is no basement.



The left-hand photograph shows a typical recessed open closet. Note the rod provided for a curtain. The right-hand photograph shows the concrete waste receptacles. The two doors in the house are to utility rooms provided for each dwelling unit. They contain a coal bin, hot water heater, and the bathroom plumbing pipes.

276

Mount Hope,
West Va.

MOUNT HOPE, WEST VIRGINIA

Introduction

This project consists of thirty-five two-story twin houses. Construction is nearing completion but no tenants have yet moved in. Mount Hope is a mining town (population: 2,300) and the houses will be occupied largely by miners. Mr. P. M. Snyder, Jr., Executive Director of the Housing Authority of the City of Mount Hope, showed me around the project and explained the construction to me. This is the only one of the three projects I saw which was built on land from which slum dwellings had been cleared.

Construction

These houses are built with a concrete first floor laid on concrete joists, like in the Vincennes project. The concrete is covered with linoleum and I doubt that the average person would even suspect the floor was concrete. The walls are wood sheathing covered with what appears to be a good grade of asbestos shingle. Mr. Snyder explained that the shingle was expected to outlast the usual grade of asbestos shingle on the market. The houses have a good grade tile roof.

The houses are plastered throughout and have built-in door hardware. Recessed open closets are provided in the bedrooms. The plumbing is modern and the bathtub is built in.

Mount Hope - 2

Heating is provided by an Arcola Heater, set in the kitchen, with radiators in the larger rooms. Mr. Snyder told me that he figured about four tons of coal would heat a dwelling unit for one year. The price of coal per ton at present runs around \$2.00 in Mount Hope.

The Authority is not furnishing cooking stoves but (natural) gas connections have been provided. A gas hot water heater is placed in the kitchen.

Costs

The average dwelling unit has a total cost of \$4429, divided as follows:

Dwelling facilities.....	\$3,434
Non-dwelling.....	995
Total	\$4,429

The estimated average rent is \$11.88 a month per dwelling unit, or \$2.64 per room, after allowance for the annual subsidy by USHA.

Other Comments

These houses are very nice, and with a few exceptions, such as in the case of closets and the lack of a utility room, compare favorably with new small houses here in Washington. They are probably among the best houses in Mount Hope. I was unable to obtain any photographs of

Mount Hope - 3

the interiors from Mr. Snyder and it was so dark that I didn't take any pictures myself. The interiors are typical rather than unusual anyway.



THE TOWN OF
1910-1911
THE TOWN OF
1910-1911
THE TOWN OF
1910-1911
THE TOWN OF
1910-1911

Comparative
statistics

COMPARATIVE STATISTICS

	Fort Wayne, Indiana (FHA project)	Vincennes, Indiana (USHA project)	Mount Hope, West Virginia (USHA project)
Number of dwelling units	50	83	70
Cost per dwelling unit:			
Dwelling facilities	\$1,485	\$2,900	\$3,434
Non-dwelling facilities	236	950	995
Total	\$1,721	\$3,850	\$4,429
Monthly rent per dwelling unit	\$10.83	\$ 8.85	\$11.88
Monthly rent per room	\$ 2.71	\$ 1.99	\$ 2.64

The average unit in each of these projects consists of living room with separate or attached kitchen, two bedrooms and bath room. The breakdown of the cost figure for Fort Wayne was estimated by me on a basis as comparable as possible with that used by the USHA.

March 30, 1940

MEMORANDUM FOR THE SECRETARY:

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

RB

Roy Blough,
Division of Tax Research

Attachment

Monthly report on projects in the Division of Tax Research
March 1940

1. War and excess-profits taxes

The study of the problems of war-profits taxation is continuing. In this connection a history of war-profits taxation in the United States and foreign countries and an analysis and summary of the several excess-profits tax laws hitherto employed or proposed are in preparation. A list of questions suitable for circulation to our Foreign Service Officers or direct representatives of selected foreign countries has been prepared for the purpose of gathering information on foreign excess-profits and income taxes. (Mr. Ecker-R, Mr. Copeland, Mr. Gordon, Mr. Mannen and Miss Wells)*

2. Chain store taxation

A report describing and analyzing the Patman chain store tax bill (H. R. 1, 76th Congress, 1st Session) has been prepared and submitted to the Office of the

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

- 2 -

Legislative Counsel for transmittal to the Committee on Ways and Means. The report summarizes the reasons for and against chain store tax legislation, the present status of State chain store tax legislation, and the tax burden that would be imposed if the Patman bill were enacted. (Mr. Blough, Mr. Farioletti, Mr. Mannen and Miss Wells)

3. Life insurance companies

A report on the treatment of life insurance companies under the income tax, capital stock tax, and excess-profits tax during the period 1909-1940 is in preparation. This study was undertaken in connection with a request from the Temporary National Economic Committee for information on the subject. (Mr. Mills)

4. Income and estate taxes

(a) Reports on the following subjects have been completed:

- (1) Personal exemptions, credits for dependents and the earned income credit. (Mr. Shere and Mr. Atlas)
- (2) Capital gain and loss statistics and proposals for changing the holding period for long-term capital gains and losses.
(Mr. Shere, Miss Coyle and Mr. Atlas)

- 3 -

(b) Reports on the following subjects are in process:

- (1) The problems of special defense taxes with particular reference to the technical problems involved in the suggestion that a flat percentage increase in the present income and other taxes be imposed. (Mr. Shere and Mr. Mills)
- (2) Proposal to allow corporations with five or less shareholders to be treated, for tax purposes, as partnerships. (Mr. Blough and Mr. Mills)

(c) Reports on the following subjects are in various stages of preparation but have not been actively prosecuted during the month:

- (1) Distribution of tax-exempt securities by net income brackets with particular reference to the holdings of such securities by persons in high income brackets. (Miss Coyle)
- (2) Assets and income of corporations exempt from the Federal income tax under Section 101. (Mr. Shere)
- (3) The problem of illiquidity of estates and possible solutions under the estate tax. (Mr. Mills)

- 4 -

(4) Powers of appointment and remainders under the estate tax. (Mr. Mills)

5. Tax-exempt securities

A memorandum has been prepared indicating the equitable and financial considerations in connection with the problem of tax-exempt securities. (Mr. Blough and Mr. Shere)

6. Articles

The following articles are in preparation for possible publication in the Treasury Bulletin:

- (a) An article analyzing Statistics of Income data on dividends received by corporations. (Mr. Shere, Miss Coyle and Mr. Zorach)
- (b) An article on the treatment of consolidated returns, 1913-1939. (Mr. Shere, Mr. Zorach and Miss Hughes)

7. Inventory of tax proposals

A preliminary draft of an inventory of proposals designed to produce additional revenue, which have been considered by the Treasury from time to time has been completed and is now in final stages of editing. A similar compilation of Treasury tax proposals other than those designed to produce revenue is in preparation. (Mr. Shere, Mr. Gordon and Mr. Zorach)

- 5 -

8. Revenue-raising proposals

Summary statements have been prepared illustrating different methods of raising revenue. (Mr. Blough and Mr. Atlas)

9. Tax chronology, 1919-1927

A chronology of Federal tax rates covering the period 1919-1927 is in preparation. (Charts covering the years 1913-1918 and 1928-1939 were previously prepared.) (Mr. Atlas)

10. Statistics

In connection with its supervision of the technical work of the Bureau of Internal Revenue a report on the operating statistics of the Income Tax Unit was prepared and several proposals for special statistical tabulations have been examined. (Mr. Blough, Mr. Shere, Mr. Campbell and Mr. Ecker-R)

11. Income Tax Study (WPA)

The study of income tax returns, carried on in Philadelphia with WPA funds since October 1938, is continuing. The text suggested for Volume I of the Income Tax Study relating to sources of income and deductions of individuals, 1936, and specimen tables were reviewed. (Mr. Blough, Mr. Shere and Miss Coyle)

- 6 -

12. Reviews of publications, etc.

The preliminary report, "Statistics of Income for 1938, Individual Income Tax Returns and Taxable Fiduciary Income Tax Returns, Filed in the Period January through June 1939," was reviewed.

(Miss Hughes and Mr. Zorach)

13. Correspondence

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

Copy

FS

PLAIN

Nanking via N.R.

Dated March 30, 1940

Rec'd 12:45 a.m. 31st

Secretary of State,

Washington.

28, March 30, 2 p.m.

Nanking's 26, March 27, 6 a.m.

At a brief ceremony this morning, which included the paying of homage to Sun Yat Sen and the reading of his will, Wang Ching Wei and the other members of the new "National Government" took office.

Mr. Wang read a proclamation which inter alia set forth the "mission of the National Government" and its political program. As released for publication this program is

One, to adopt a policy of good neighborliness and through peace, diplomacy, secure the independence and integrity of China's sovereignty and administration to enable her to share the responsibility for the establishment of permanent peace and a new order in East Asia.

Two, To respect the legitimate rights and interests of friendly powers, to readjust Sino foreign relations, and to promote Sino foreign friendship.

Three, To unite with all friendly powers for the purpose of counteracting the subversive and peace disturbing activities of the Communist International.

Four.

- 2 -

Four, To rehabilitate the troops who support peace and national reconstruction, to pacify and settle the guerilla units, to organize a national defense army, and to eliminate the respective functions of military administration and military command with the object of destroying military dictatorship.

Five, To establish various grades of representative organs of the people, to enlist people of ability from every walk of life, and to consolidate national public opinion in order to build up the foundation of Democracy.

Six, To convene a National Assembly, to enact a constitution and to enforce constitutional government.

Seven, To invite the participation of foreign capital and the technical cooperation of friendly powers in the economic rehabilitation and industrial development of the country.

Eight, To promote foreign trade with a view to secure equilibrium in the balance of international payments, to establish the Central Bank of China and unify the currency system with a view to stabilizing the financial system.

Nine, To readjust the system of taxation with a view to lessening the burden of the people, to rehabilitate the rural districts by rendering relief to homeless refugees in order that they may return to their homes and resume their peaceful vocations.

Ten,

- 3 -

Ten, To adopt anti-Communist, peace and national reconstruction as the guiding principles in the educational policy, to promote scientific education and discard all misleading tendencies in the educational system of the past.

The proclamation also asserted that "henceforth the National Government is the only legal government within the country and hereafter any decree issued to the nation and any treaty and agreement entered into by the Chungking regime with foreign powers will automatically be invalid".

In conclusion the hope was expressed that the "Chungking Regime will sink all prejudices and cooperate in devising ways and means to readjust the present situation and tide over the national crisis".

During the course of a speech made by Mr. Wang at a press reception given after the inauguration ceremony he is quoted as having stated with a view to clarifying the attitude of the "National Government" towards third powers and their nationals that "we shall respect all the legitimate and equitable rights and interests of friendly nations on the sacred principles of equality, reciprocity and mutual respect and it is our sincere hope that we shall be able to number all nations in the ranks of our friends. It is my hope that with the return of the National Government to its capital the powers will realize that Chungking has now

been

- 4 -

been reduced to the status of a regional refugee regime. Certainly we expect the cessation of active sympathy and support towards that peace disturbing regime. The Chungking Regime will sooner or later sink all prejudices and cooperate with us in readjusting the present situation. It is therefore improper for others to interfere in China's internal affairs and put obstacles to the realization of permanent peace in East Asia". Mr. Wang also referred to currency matters and in this connection is reported to have stated "I can assure you that it will be our policy to maintain a stable currency the details of which are now being worked out by the Ministry of Finance. Every effort will be made to save the people from losses in consequence of the depreciation of the dollar and the present confusion of the currency system. It is our aim to devise a currency system which will both meet the requirements of the Chinese people and satisfy the needs of legitimate foreign trade".

Various meetings, parades and theatrical programs are planned for today but the rainy weather may dampen curiosity. A number of Japanese and foreign correspondents who arrived late last night because their train was partially derailed just outside of Nanking, were present at the inaugural ceremony.

Repeated to Peiping, Chungking and Shanghai, airmail to Tokyo.

McL

STANTON

No. 294

Rangoon, Burma, March 30, 1940.

STRICTLY CONFIDENTIAL

SUBJECT: Proposed highway to connect with Yunnan-Burma railway, providing means for movement of construction materials; survey being made, and Chinese labor for road work offered; boundary settlement has bearing on question of rail connection; reported new highway in China to connect with Irrawaddy River port of Bhamo.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D.C.

Sir:

I have the honor to report that there has been a renewal of interest here in the question of a connection with China's Yunnan-Burma railway, if the construction of that line is continued. A survey is now being made to determine the cost of improving a road which extends from a point above Lashio, the terminus of the Burma Railways in the Northern Shan States, to Kunlong, on the Salween River, where there is a ferry across that stream, and of building a road from the river to the Burmo-Chinese border. The distance from Lashio to Kunlong is about 110 miles, and it is 12 to 14 miles from the river to the frontier.

An improved highway would enable China to obtain through Burma materials for the new railway, and later would provide a road link for freight between the railheads, in the event the Burma Railways did not extend the Lashio branch to the border.

The present road to Kunlong is in fair condition for a part of the distance, but the entire road is motorable only in the dry season.

Offer

- 2 -

Offer of Chinese Labor for Road Work in Burma.

The road survey now being made, which Chinese here understand was approved by London, is a result of a recent visit to Rangoon of C. N. Yang, director of railways in the Chinese Ministry of Communications, and C. Y. Tu, director of the Yunnan-Burma railway. The two Chinese officials saw the ranking British officials in Rangoon, and officers of the Burma Railways, but they received no encouragement in connection with the question of the construction in Burma of a railroad to connect with China's Yunnan-Burma railway, which has been surveyed to a point on the border not far from Kunlong. Mr. Yang is said to have pointed out that unless materials for the western half of the railway in China could be obtained through Burma, it would mean increased construction difficulties and great delay, and he is said to have offered to supply the labor necessary to provide a road over which materials could be moved, in the event a rail extension from Lashio was out of the question.

Boundary Settlement Said to Be Involved.

According to the statements of Chinese to whom Mr. Yang talked before leaving Rangoon, the proposed determination of the Burmo-Chinese boundary in the Wa States, which has not yet been accepted by either Government, and the reported existence of mineral deposits in the area under dispute, were mentioned at his talks with British officials, and he gained the impression that there was no likelihood of any action in regard to a rail extension from Lashio to the Chinese border until the boundary question was definitely settled (reference

despatch

Regraded Unclassified

- 3 -

despatch no. 182, of May 19, 1939).

The Administrative Vice Minister for Foreign Affairs of China, Mr. T. K. Tseng, who recently returned to Rangoon after a stay of several weeks in Chungking, is authority for the statement that nearly a year ago the Chinese Government informed the British Government that it was ready to settle the Burmo-Chinese boundary question, but that no steps in that direction have yet been taken. The final report of the Boundary Commission was signed on April 24, 1937, and immediately thereafter it was submitted to the British and to the Chinese Governments.

British Rails Available for Burma Link.

The Chinese Vice Minister is also authority for the statement that about two years ago the Chinese Government purchased in England 7,000 tons of rails, or sufficient for the construction of 210 kilometers (130 miles) of railroad, and that because of the war in China the rails were not shipped. There was now a proposal, he said, that the rails be shipped to Burma and delivered at Lashio, and that if the Burma Government were willing to use them for the construction of the Burma link of the Yunnan-Burma railway, the rails be made available for that purpose. He expressed the opinion that China might build the roadbed for the new line between the Chinese border and the Salween River, and that it might cooperate, if asked to do so, in the building of the rest of the line.

Mineral Resources of Wa States.

At a recent session of the House of Representatives

- 4 -

the Counsellor to the Governor of Burma, replying to a question, again stated that the Government of Burma had not embarked on any scheme for rail communication with China. Burma has no funds available for the extension of the Lashio branch of the Burma Railways to the Chinese border, and British officials here say that they see little possibility of such a line proving commercially important to Burma, at least for many years. Coal of good quality is said to exist in Yunnan, within 400 miles of Lashio, but there is doubt that it could be placed in Burma at a cost that would enable it to compete with Bengal coal from India. There are conflicting reports concerning the importance of the mineral resources of the Wa states, but if some of the reports are to be believed, mining development in that area might provide considerable revenue for a railroad tapping it. In the last fiscal year shipments made over the Lashio branch by the Burma Corporation, Limited, operating the old Baldwin lead-silver mines in the Northern Shan States, gave the Burma Railways 4½ percent of all their freight and 10 percent of all their freight revenue, and the old Panglong mines in the Wa States have been described by some who have seen them as potentially greater properties than the Baldwin mines. The present route between the Kunlong ferry and the Chinese frontier passes to the north of the Wa States, and the northern Wa-State area is entered over a road and trail extending south from a connection with it.

Rail Link Depends on British Government.

According to opinions expressed in official circles

here

Reggraded Uclassified

-5-

here, the construction of the Burma link of the Yunnan-Burma railway depends on whether or not the British Government decides that "wider considerations" justify it. Since the railway project was launched in China, there has been doubt on the British side that the Chinese seriously considered the completion of the line, and the skepticism of the British has been shared by some of the Chinese officials, the number including the Chinese Vice Minister now in Rangoon (reference despatch no. 162, of March 24, 1939). Mr. J. F. Freeman, an American advisor on the staff of the Central Bank of China, who is now at this port in connection with silver shipments from China, says that in Chungking it is considered that the Yunnan-Burma railway could not be completed in time to be of any benefit in the present war, and that the project is classed as one of secondary importance. But Mr. Yang and Mr. Tu told British officials in Rangoon that they had orders to complete the line in two and one-half years, and that this could be done if they were enabled to obtain materials through Burma, but not otherwise.

Contract for Yunnanfu-Suifu Railway.

The Chinese Vice Minister for Foreign Affairs reports that on December 11, 1939, a contract for the financing of the Yunnanfu-Suifu railway in China, involving credits of 480,000,000 French francs (about \$10,750,000 at present exchange), was submitted to the French Government. It was originally provided that the contract should be signed within six weeks, but later the time was extended to six months, and when the Vice Minister left Chungking it had not been signed. He says that it

- 5 -

is the intention of the Chinese Government, in the event the contract is signed, to ask the British Government if it desires to participate in the financing, and at the same time to take up with it the question of financial assistance for the Yunnan-Burma railway. Foreign credits for the purchase of materials and other supplies for that line are required. The construction of the two railways in China, and an extension of the Burma Railways to the border, would give Rangoon rail connection with the Yangtze River. The Vice Minister also reports that the contract submitted to the French Government provides for mineral-prospecting rights in a zone extending for 150 kilometers on either side of the railway, and that after it was submitted an amendment to include some operating rights as well was asked.

New Road Into China From River.

According to reports received here by the Irrawaddy Flotilla Company, the British concern operating vessels on the Irrawaddy and other rivers in Burma, work has started on a road planned to provide a connection between the Irrawaddy River port of Bhamo and the Yunnan-Burma highway in China, following the old caravan route through Tengyueh, China. It is said that several thousand men are at work on the road between Bhamo and Tengyueh, and that surveys are being made between Tengyueh and Paoshan, on the Yunnan-Burma highway. The distance is estimated to be 300 miles or more. Some local Chinese authorities along the old caravan route are reported to be particularly interested in the project. A good road from Bhamo to a connection with the Yunnan-Burma

highway

Highway in China would be of distinct advantage to Irrawaddy River traffic, and would enable the Chinese Government to use the river to a much greater extent, if it desired to do so. It is realized, however, that such a road could not be built within a short time, unless special interest was taken in it and very large working forces provided.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

1. In quintuplicate to Department.
2. Copy for Embassy, London.

Copy

HSM

Peiping via N. R.

Dated March 31, 1940

Rec'd 6:35 a.m.

Secretary of State,

Washington.

101. March 31, noon.

The "Provisional Government" and the "United Council" were dissolved here yesterday, following which the "North China Political Affairs Commission" was formally inaugurated. The new commission will take over those matters previously handled by the "Provisional Government" and will have jurisdiction over Hopei, Shantung and Shansi Provinces and the special municipalities of Peiping, Tientsin and Tsingtao. It is reported that the Commission is empowered to conduct negotiations with Japan, "Manchukuo" and "Meng-chang" for the settlement of local cases and also to dispose of local cases involving foreign interests. It is understood that the "Federal Reserve Bank" will not be affected by the announcement of the new Nanking Government's proposal to establish a central bank.

The inauguration of the new Commission was marked by an almost complete absence of the usual celebrations. There were no parades or public meetings and the inaugural ceremonies

- 2 -

ceremonies were attended only by the officials concerned. The Chinese national flag, with white sun and blue sky, was flown over a few "government" buildings, with banner attached bearing the characters meaning "peace", anti-Comintern and national construction".

A further report on the new Commission will be sent tomorrow.

Repeated to Chungking, Shanghai. By air mail to Tokyo.

McL

LOCKHART