DIARY

Book 260

May 4 - 9, 1940
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The Secretary

Wilcox says that the attached did not come from the Treasury.

From: MR. SCHWARZ
Morgenthau Speech
Affirming Gold Policy
To Be Cabled in Full
To London, Paris, Berlin

MAY 4, 1940

American Banker Bureau
Washington, May 3.—Secretary of the Treasury Henry Morgenthau, Jr., ordered his gold policy affirming speech cabled in full to the American embassies in London, Paris and Berlin, it was learned here.

Presumably, the U. S. Ambassadors will advise the British, French and German governments that the affirmation of the gold policy puts at rest the rumors which have been circulated as to possible changes growing out of disrupted world commerce and finance.
TO Secretary Morgenthau

FROM Mr. Cochran

At 10 o'clock this morning Mr. Knox gave me the following information in regard to Italian purchases of copper.

The National City, after consulting Vice Presidents Regan and Shepard, reports no financial transactions involving copper to Italy during recent weeks.

The Chase Bank has paid $57,000 to the Texas Company of California under a confirmed credit opened by the Bank of Sicily.

Under instructions from the Italian Exchange Institute, the Chase has paid $70,000 to the Swiss Bank Corporation in New York for the account of Zurich.

Under instructions from the Banco di Lavori, the Chase paid $200,000 to Schroder for the account of the same Italian bank.

The Banco Commerciale Italiano drew a check, debiting its account with the Chase, for $50,000 payable to the Swiss Bank Corporation.

The Banco Commerciale Italiano drew a check on its account with the Chase for $75,000 payable to Ford Motor in Sao Paulo, from which it would appear that Italy is purchasing motor equipment in Brazil.
Secretary of State,
Washington.

21, May 4, 3 p.m.
FOR TREASURY DEPARTMENT.
Today's prices as follows: 204. 50; 351. 99; 523; not listed; 900 and 100; 215; 1740; 67. 25; 236.
Volume 139,225.
Market active prices irreconcilably due restored confidence in most issues following announcement of taxes.

SHOLES

PEG
MEMORANDUM FOR THE SECRETARY

This morning Colonel Teh-Chuan Kuo, Military Attache of the Chinese Embassy, brought to my office Colonel Cheng-Fu Wang and Captain H. S. Wang of the Chinese Air Corps who were interested in trying to procure a license for the manufacture in China of Hamilton propellers.

They stated that their call was not a formal one. It was explained to them the procedure necessary in getting releases of any materials of a military nature and that it would be necessary in connection with the propeller license to present a formal request to be passed on by the Army & Navy Munitions Board.

They further stated that the Chinese Air Corps was interested in procuring forgings for aviation engines but that this was a matter which would be taken up at a later date. They also stated that they have a license to manufacture Cyclone engines from the Wright Aeronautical Corporation.

[Signature]
Memos for Mrs. Hotz.

This is memo to Secretary asking for this morning.

[Signature]

Mrs. Young has copy 5/7/40
Mr. Eugene Wilson, Vice President of United Aircraft Corporation, called upon me Wednesday, and with him I discussed the possibility of providing the additional engines mentioned in the memorandum from M. Bloch-Laine.

He stated that there are no additional engines available during the period covered by the memorandum, namely July 1, 1940, to April 30, 1941. He further indicated that if any additional extensions are made to their plant, which question of extensions is now under consideration, the first delivery therefrom would be 50 engines, and they would not be available until after May, 1941.

The problem embodied in M. Bloch-Laine's memorandum was discussed in its entirety, and there does not seem to be any means by which the number of engines presently allocated to the French can be increased by Pratt & Whitney.

This matter was also discussed with General Brett. He informed me that an option for approximately 240 engines to be used on 42 Consolidated Bombers would not be exercised. Therefore, this capacity can be released to the French.
Secretary of State,
Washington.

581, May 4, 1 p.m.
FOR THE TREASURY.

The text of your speech yesterday and your instructions regarding its distribution were repeated by telegraph to the missions at Brussels, The Hague and Bern.

Reports of your speech were carried prominently in all of this morning's papers. Special emphasis was given to your comments regarding our participation in post-war economic reconstruction. LE MATIN for example headlined its story "our gold reserve will serve to repair the damages caused by the war says the Secretary of the Treasury of the United States." An exact quotation of your comments on post-war reconstruction follows this headline as it does in the other papers. There has not yet been time for your speech to be commented upon editorially by the French press.

(END SECTION ONE)
Secretary of State,
Washington

SS1. May 1, 4 p.m. (SECTION TWO)

Today's Journal Official publishes a further decree relating to the control of prices (please see Embassy's telegram 452, April 10, 6 p.m.). It provides that all wholesalers and retailers shall draw up a comprehensive statement covering the prices charged by them on May 1, 1940, for "the products, merchandise and foodstuffs" sold in their establishments. This list is to be completed by May 15 and is subject to examination at any time by price control officials. Any attempt to raise prices above those prevailing on May 1 will be subject to fine.

Bullitt

FR
Secretary of State,
Washington.

581, May 4, 1 p.m. (SECTION THREE).

In commenting on this new decree the Under Secretary of State for Economic Affairs stated in a press interview that the decree "has a twofold purpose", first of preventing any illegal increase in prices and, secondly, of providing a base on which any warranted price increases may subsequently be authorized. He said that the decree was not designed to stabilize prices at the present level particularly since prices of certain commodities such as foodstuffs might undergo seasonal declines. (END MESSAGE)

BULLITT

CSB
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Sterling again had a weak tone today. After opening at 3.48-1/8, the rate receded to a low of 3.47. The final quotation was 3.47-3/8.

Sales of spot sterling by the six reporting banks totaled £ 255,000, from the following sources:

By commercial concerns........................................ £  75,000
By foreign banks (Europe, Far East and South America)........ £ 180,000
Total........ £ 255,000

Purchases of spot sterling amounted to £ 233,000, as indicated below:

By commercial concerns........................................ £  38,000
By foreign banks (Europe and Far East)...................... £ 195,000
Total........ £ 233,000

The Chase National Bank reported that it had sold cotton bills totaling £ 3,000 to the British Control on the basis of the official rate of 4.02-1/2.

The Canadian dollar has shown a slightly easier tendency in the past few days. The closing discount for this currency today was 15-3/4%.

The other important currencies closed as follows:

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<td>Guilders</td>
<td>.5309</td>
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<td>Swiss francs</td>
<td>.2242-1/2</td>
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<td>Belgas</td>
<td>.1680</td>
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The yuan quotations received from Shanghai this morning were slightly firmer. Against the dollar, the yuan rate was 1-19/32¢, up 3/32¢, and against sterling, it was quoted at 3-5/32¢, up 1/16d.

The Federal Reserve Bank of New York purchased 60,000 belgas for account of the Bank of Latvia.

There were no gold transactions consummated by us today.
The Federal Reserve Bank of New York reported the following shipments of gold, all of which are being consigned to it:

$3,107,000 from England, shipped by the Bank of England, to be earmarked for its account.

2,950,000 from South Africa, shipped by the South African Reserve Bank, for account of the Bank of Sweden. The disposition of this shipment is unknown at the present time.

295,000 from Mexico, shipped by the Bank of Mexico, to be earmarked for its own account.

$6,352,000 Total

The Bombay spot silver quotation declined the equivalent of 3/16¢ to 42.11¢.
TO Secretary Morgenthau
FROM Mr. Cochran

At 5 o'clock yesterday evening I talked with Secretary Morgenthau in regard to the inquiry of the International Hydrographic Bureau in Monaco in regard to the possibility of earmarking gold in New York and the privilege of selling gold on that market. After explaining the case, and giving the various views, I was instructed by the Secretary to let Knoke know that he agreed with the position which Knoke and I had taken, namely, that it would not be advisable to establish the precedent of opening an earmarked account of the type under reference. I gave this information to Knoke by telephone at 10 o'clock this morning. Consequently, he said he would inform the International Hydrographic Bureau that it may not have the privilege of earmarking gold with the Federal, but may ship it to the Federal for sale if desired.

[Signature]

Regraded Uclassified
MEMORANDUM FOR THE SECRETARY

May 6, 1940

From Admiral Spear I have learned that the Rumania M.S. "Sulina" sailed from New York on April 11th to Constanza, Rumania, having loaded at New York 450 tons of aluminum ingots, 10 tons of aluminum silica, and approximately 11,000 drums of lubricating oil, as well as a mixed cargo of tires, steel sheets and bars, tin bars, aircraft parts, agricultural machinery, etc., totalling approximately 4,900 tons.

The cargo was consigned by the Rumanian Legation to the Ministry for Air and Navy, Rumania, and the Navy's information is to the effect that many of the items of cargo were covered by Navicerts.

I inquired of Mr. Wilber of the Aluminum Company of America concerning this tonnage of aluminum ingots, and he informed me that the 450 tons must have been picked up in small lots as no sales had been made by the Aluminum Company of America to Rumania, although he did say that queries have been received from the Rumanian Minister for both virgin and fabricated aluminum which they desired to purchase from his company.

He asked if any moral embargo had been placed or was pending which would affect the sale of aluminum to the Rumanian Government. I told him if I learned of anything in connection with this matter I would so inform him.
CONFIDENTIAL

May 6, 1940

To: The Secretary
From: Mr. Young

In accordance with your request, I telephoned Mr. Purvis Saturday morning to advise him that the Navy would release DuPont from supplying the 2,500,000 pounds of powder normally required from that concern. I also advised Mr. Purvis that a naval order for 565,000 pounds of powder now in various stages of production would continue to completion. I explained that that was the powder on which the Navy had deferred delivery to release 600,000 pounds to the British several weeks ago.

Mr. Purvis thanked me cordially for the information, and then he asked me whether or not I could find out two things for him, as follows: first, the production schedule for the 2,500,000 pounds of powder as established by the Navy in order that Mr. Purvis might get an idea as to how long it would take to fill such an order; and, secondly Mr. Purvis wanted to know when DuPont would be notified of the release by the Navy so that he could open negotiations with DuPont.

I called Captain Collins to find out the answers to the questions raised by Mr. Purvis. Captain Collins saw no objection to finding out the answers from Admiral Furlong and passing them on to Mr. Purvis.

I talked with Mr. Purvis this afternoon and advised him that the 2,500,000 pounds of powder was to be produced over the period of one year and that DuPont should have been informed of the release on this order by today.
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Regraded Unclassified
MEMORANDUM FOR THE SECRETARY:

Attached is a list of American vessels approved by the United States Maritime Commission for transfer to alien ownership and/or registry, together with the sales price received for each vessel, covering the period from April 1st to April 30, 1940, inclusive.

[Signature]

Attachment.
<table>
<thead>
<tr>
<th>VESSEL</th>
<th>OWNER</th>
<th>TYPE</th>
<th>GROSS TONS</th>
<th>REGISTRY</th>
<th>TRANSFEREE</th>
<th>SALES PRICE</th>
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<tbody>
<tr>
<td>VICTOR</td>
<td>Tela R. R. Co. Boston, Mass.</td>
<td>Launch</td>
<td>37</td>
<td>Honduran</td>
<td>Govt. of the Republic of Honduras</td>
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<tr>
<td>LATOUCHE</td>
<td>Alaska S. S. Co. Seattle, Wash.</td>
<td>Cargo</td>
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<td>Vicente Madrigal, Manila, Philippine Is.</td>
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<td>VICTORY</td>
<td>Interlake S.S.Co. Cleveland, Ohio</td>
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<td>Canadian</td>
<td>A. G. Campbell, Toronto, Ontario</td>
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<td>WINCHESTER</td>
<td>Cornelius Vanderbilt New York, N.Y.</td>
<td>Yacht</td>
<td>411</td>
<td>Canadian</td>
<td>S. Pearson McCurdy, Halifax, Nova Scotia</td>
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<td>ZIZANIA</td>
<td>Pan American Shippers, Inc., Miami, Fla.</td>
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<td>Santa Maria Timber Co., Panama City, Panama</td>
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<td>S. C. 260</td>
<td>H. C. Farrington New York, N.Y.</td>
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<td>82</td>
<td>Venezuelan</td>
<td>S. Plaza M., LaGuaira, Venezuela</td>
<td>3,000</td>
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<tr>
<td>SEA GIANT</td>
<td>Shipowners &amp; Merchants Tugboat Co.</td>
<td>Tug</td>
<td>508</td>
<td>British</td>
<td>Overseas Towage and Salvage Co., Ltd., London, England</td>
<td>210,000</td>
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<td>ARCADIA</td>
<td>Mrs. Margaret S. Hardwick, Brookline, Mass. (oil so)</td>
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<td>578</td>
<td>Canadian</td>
<td>Stuart E. Playfair, Toronto, Canada</td>
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<td>PRESIDENT WILSON</td>
<td>American President Lines, Ltd., San Francisco, Calif.</td>
<td>Cargo/Passenger</td>
<td>12597</td>
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<td>Berge Y Compania, Bilboa, Spain</td>
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<tr>
<td>PRESIDENT LINCOLN</td>
<td>&quot;</td>
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<td>&quot;</td>
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<tr>
<td>FORBES HAUPTMAN</td>
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<td>MEMNON</td>
<td>Columbia River Packers</td>
<td>Cargo</td>
<td>3143</td>
<td>British</td>
<td>Sir E. Hopper &amp; Co. Ltd.</td>
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<td>Shepard S.S. Co.</td>
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<td>British</td>
<td>Douglas &amp; Ramsey</td>
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<td>Glasgow, Scotland</td>
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<td>SABINE</td>
<td>Sabine Transportation Co., Inc.</td>
<td>Tug</td>
<td>188</td>
<td>British</td>
<td>Overseas Towage &amp; Salvage Co., Ltd.</td>
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<td>AZTEC</td>
<td>Mrs. Alice E. Burrage</td>
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<td>808</td>
<td>Canadian</td>
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<td></td>
<td>Priobard Oil Corp. of Del.</td>
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<td>CURACAO</td>
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<td>MUNAMI</td>
<td>McCormick S.S. Co.</td>
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<td>2594</td>
<td>French</td>
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<tr>
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<td>BROOKINGS</td>
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<td>Cargo</td>
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<td>St.Sc.</td>
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<td>WEST PLANter</td>
<td>Wallingford S.S. Co.</td>
<td>Cargo</td>
<td>2609</td>
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<td>Silverado S. S. Co.</td>
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<td>(joint owners)</td>
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<td>WALLINGFORD</td>
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<td>VAMAR</td>
<td>Vamar SS. Co., Inc.</td>
<td>Cargo</td>
<td>598</td>
<td>Panamanian</td>
<td>Sociedad Navigacion</td>
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<td>Jersey City, N.J.</td>
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<td>Dos Oceanos, S.A.</td>
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<td>REGISTRY</td>
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<td>SALES PRICE</td>
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<td>Nabesna</td>
<td>Portland SS. Co. Portland, Ore.</td>
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<td>2151</td>
<td>French</td>
<td>Compagnie Generale Transatlantique</td>
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<td>W. M. Tupper</td>
<td>Santa Ana SS. Co. Seattle, Washington</td>
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<td>Compania Escandinava De Vapores, S.A., Panama City, Panama</td>
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<td>Eldorado</td>
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<td>Wm. C. T. Hwang Shanghai, China</td>
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<td>Bureka</td>
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<td>Transpacific SS. Co. S. A., Panama City, Panama</td>
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<td>West Isleta</td>
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<td>Cargo St.Sc.</td>
<td>5680</td>
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MEMORANDUM FOR THE SECRETARY:  

Shipping Situation  
The export cargo situation at New York as indicated by the statistics of the Association of American Railroads is practically unchanged.

The Port of New York Authority reports that the clearances of vessels from New York for foreign ports were practically the same in number during March 1940 as last year. To Europe for instance, there were 116 sailings this year and 111 last. South America had 11 more and there were fewer sailings to Asia and Africa.

Still jittery from the widespread demoralization due to the Scandinavian situation, the foreign trade fraternity received another shock in the announcement that all British shipping had been excluded from the Mediterranean.

One beneficial effect so far as American shipping is concerned is the announcement by American underwriters that the rate on cargoes carried on American vessels to and from Italian ports will be 1½% and 4% on belligerents and neutrals other than American.

Carloadings for the week ended April 27th increased 16,000 cars over the previous week and about 60,000 over the same week a year ago. Confirming that the downward trend has been reversed is the fact that every category, from miscellaneous freight to livestock, showed an increase.

Exports to France from last September through March increased 134% over the corresponding period of the previous year and during the first three months of this year were 249% higher than the previous year. Exports to the United Kingdom are still larger than to any other country and for the first three months of 1940 were 45% greater than in the first quarter of 1939.
Machinery exports in March were only exceeded in value by the all-time record attained in December 1920.

Chemicals sold abroad in first quarter this year were valued at $61,000,000, compared with $37,500,000, in 1939.

The British government has awarded an order to the American Car & Foundry Company for 30,000 tons of shell steel. This is believed to be the first order of any magnitude in machined steel. Scrap iron and steel, pig iron, billets, steel plates, etc., continue to move heavily and the export business in these items constitutes a good percentage of the total steel output of the country.

The Chrysler Corporation have set up a special division to handle the manufacture of bomb fuses, shells and cartridge cases. It is indicated that this is primarily for United States government orders but it would seem reasonable to believe that Chrysler anticipates some foreign business in munitions.

There is little activity in chartering, due to the prevailing uncertainty.

Grain trading from the Plate to Antwerp is reported to have been done at the rate of $22.50, a new low. With little nearby space from North Atlantic ports to Antwerp available, the rate is strong at 75¢ but may weaken due to a vessel being offered for a full cargo of 35 loads at that rate.

An oddity in the news is the disclosure that the American-flag steamers *GOLDEN SWORD* and *WACOSTA* (Waterman) have been chartered and placed on berth from United States North Atlantic ports to Spain and Portugal in competition with the Maritime Commission America France Line, operated by the United States Lines. The vessels
will be run in the service of the Cia Espanola de Navegacion Maritima. In answer to the question as to why the charter of these vessels received the sanction of the Maritime Commission, it is stated that the charters were not to the alien Spanish company indicated but to Garcia & Diaz, the agents of the Spanish company, Garcia & Diaz being alleged to be an American company.
Mrs. Klotz:

I think Purvis or Ballantyne and Harry White should receive this information as soon as possible.

5/6/40
May 6, 1940

To: The Secretary

From: Mr. Young

Mr. Joseph Green of the State Department called me this morning to report on the study which had been made unofficially by the Army and Navy Munitions Board concerning five alloys in which the Anglo-French Purchasing Board was interested, namely, cobalt, carbon black, columbium, tantalum, and industrial diamonds.

Mr. Green informed me that he had held a meeting of the committee which does the work for the Army and Navy Munitions Board the end of last week, and that this committee could see no reason for placing a moral embargo on any of the above alloys. The committee's studies brought out the fact that in no sense could any of these be classed as strategic or critical raw materials.

Mr. Green went on to say that the United States was the largest supplier of three of these alloys and that the only one with respect to which there could be any doubt was industrial diamonds. In the case of the latter, however, the present United States supply of industrial diamonds is sufficient to last for two or three years even in the event of a complete blockade.

The committee stated that the Army and Navy Munitions Board would be definitely open to criticism if any of these alloys were placed under a moral embargo and that there was no adequate justification for taking such action.
May 6, 1940

To: The Secretary
From: Mr. Young

When I talked with Mr. Purvis on the telephone this afternoon, he informed me that Mr. Gwatkin, who is in Washington today, will be in New York City tomorrow morning and is leaving on the clipper Wednesday.

Mr. Purvis said that he would stay in New York tonight and talk with Mr. Gwatkin there tomorrow morning, which would leave Mr. Purvis free to fly to Washington Tuesday afternoon in case you wished to see him.

7F
MAY 6 1940

My dear Mr. Berle:

In the absence of the Secretary, I have pleasure in acknowledging the receipt of your letter enclosing a memorandum dated May 1 of your conversation with the Canadian Minister, and other documents, relating to the Order in Council issued by the Government of Canada on April 30, 1940, constituting a foreign exchange acquisition order.

The Treasury will be happy to have Messrs. Cochran and Bernstein be of any possible assistance in such conversations as your Department may have in regard to the above-mentioned subject.

Sincerely yours,

(signed) D. W. BELL

Acting Secretary of the Treasury

The Honorable
Adolf A Berle, Jr.,
Assistant Secretary of State,
Department of State,
Washington, D. C.

Reg:ccc:5, H. M.

(Init.) H. M. G.
Secretary of State,
Washington.

1121, May 6, 5 p. m.

FOR TREASURY FROM BUTTERWORTH.

(1) The financial newspapers today comment on the Secretary of the Treasury's speech on gold noting that the statement assures no change in the official American buying price of gold. Einzig of the FINANCIAL NEWS also notes the Secretary's belief that the only threat to the future value of gold would be the emergence of one or two dictatorships ruling most of the world and characterizes his belief that this will not happen as "implying a compliment to the Allies but harmful for the cause of democracy since it leads to the conclusion that the Allies are capable of preventing Nazi world conquest without American support, financial or otherwise. The FINANCIAL NEWS also features an article suggesting the desirability of stepping up gold production by taxation in South Africa designed to encourage mining of highest rather than lower grade ores.

(2)
No. 1121, May 6, 5 p. m., from London

(2) With reference to my 1105 of May 3, 1 p. m., the financial editor of the NEWS CHRONICLE in discussing the fall of the Chinese dollar and the anxiety of the control committee "to continue their watch of this crucial market" concludes: "If the fund is nearing exhaustion may I suggest that the United States might spare some of their redundant gold to replenish it."

(3) The city marks time under the influence of the Mediterranean as well as the Norwegian situation, stock market business being unusually small.

KENNEDY

CSB
Secretary of State,

Washington.

22, May 6, 5 p.m.

FOR TREASURY DEPARTMENT.

Today's prices as follows: 203; 349.75; 515; not listed; 993; 213.50; 1730; 66.75; 233.50. Volume 89,300.

Market slightly depressed awaiting further adjustment and political developments.

SHOLES

HPD
Secretary of State,
Washington.

583, May 6, 6 p.m.
FOR THE TREASURY.

Commenting on your statement involving the ability of the majority of nations to maintain their independence and on brief cabled reports concerning various speeches given at recent meeting of the Academy of Political Sciences in New York today's AGENCE ECONOMIQUE ET FINANCIERE states

"these new manifestations in the United States against the autarchic regimes have been received with the utmost satisfaction in Paris and London because the post-war problems can easily be resolved if America - with all the power which its gold/credit give it - lends an effective aid to the reconstruction of the world after our victory."

(END OF SECTION ONE)

BULLITT

Regraded Unclassified
583, May 6, 6 p.m. (SECTION TWO)

Frederic Jenny devoted his article in last evening's LE TEMPS to an appraisal of the latest changes in the exchange control regulations (Please see Embassy's telegrams Nos. 566, May 2, 7 p.m. and 579, May 3, 8 p.m.); he said that "Until recently Frenchmen possessing holdings abroad or in foreign currencies were able to administer these holdings with a relative amount of freedom. In principle they had the power to carry on transactions in their foreign exchange with other foreign exchange and to invest their available funds in such foreign exchange as they wished."

BULLITT
Secretary of State, Washington.

583, May 6, 6 p.m. (SECTION THREE)

Measures to restrict this relative freedom of action he stated have been the subject of study for several times past and "pending the drafting of definitive texts" temporary restrictive measures in the form of notices to "approve intermediaries" were put into effect on April 12. (Please see Embassy's telegram No. 467, April 12, 7 p.m. and Dhavernas' remarks in this connection as given in the Embassy's telegram No. 566, May 2, 7 p.m.). Jenny pointed out that the latest regulations modify to a certain degree the notices of April 12 since "liberty of action is suppressed with respect to only one part of the foreign exchange holdings namely those whose utilization abroad is not limited by foreign monetary controls" (i.e., "Class A foreign exchange").

BULLITT

LIS
Secretary of State,  
Washington.  

563, May 6, 5 p.m.  (SECTION FOUR)  

He said that the latest exchange control regulations do not relate to exports of capital as such since "neither the arbitrage of certain foreign currencies against others nor the free investment of the funds held by Frenchmen in foreign exchange nor in general the modifications introduced with respect to the employment of French holdings abroad comprise export operations. That these latest measures tend to do is to create a (begin underlining) blocking (end of underlining) of the holdings in question."  

He stated: "This new idea is no less clear in the provisions taken to limit in certain regards freedom to carry on operations in France with the various foreign stocks and bonds which are designated as 'D securities'."
Secretary of State,
Washington.

583, May 6, 6 p.m. (SECTION FIVE)

Henceforth securities of this category must obligatorily be exchanged on the Bourse and they shall no longer be bought from Frenchmen by foreign physical persons (begin underlining) even though domiciled in France (end underlining).

Jenny maintained that the foregoing steps have been taken by the "responsible authorities" in order to prevent
(a) "the composition of French holdings abroad from undergoing any modifications of a nature as to lessen their quality in the eyes of the state" and (b) "certain foreign exchanges or securities from leaving the national patrimony"; he said "It is fully evident that the measures which have just been introduced are measures of conversion taken with a view to an eventual requisition designed to increase the foreign exchange resources of the state.

BULLITT

LIS
Secretary of State,
Washington.

583, May 6, 6 p.m. (SECTION SIX)

The fact that they have been taken does not necessarily mean that such a requisition is imminent. But it signifies that the Government envisages the eventual possibility of one and that in view of this eventuality it has desired to take precautions necessary to prevent either a decrease in (brought?) the value of the elements liable to be bought in by it or their escape from the zone in which requisition is possible. (Please see Embassy's telegram No. 522, April 24, 10 a.m.)

This latter restriction Jenny stated, explains the distinction drawn between French and foreign residents of France. The French authorities can not requisition the holdings of residents of foreign nationality and hence they do not wish foreigners to acquire from French nationals valuable foreign securities and exchange.

BULLITT

II'S
Secretary of State,

Washington.

533, May 6, 6 p.m. (SECTION SEVEN)

Jenny is somewhat critical of the latest regulations. "It is evident that the superimposition of the new rules on the old ones does not simplify either the control of exchange or the formalities connected with it". He then stated: "Generally speaking the distinctions between French and foreign residents between residents and non-residents between 'Class A foreign exchange' sterling exchange and 'Class B foreign exchange' finally between 'D securities' and other securities distinctions which overlap and crisscross each other are going to be a source of endless complications.

BULLITT

His
Secretary of State,
Washington.

583, May 6, 6 p.m. (SECTION EIGHT)

Jenny observed that the "blocking" system which has just been adopted was undoubtedly inspired by measures taken in London at the end of August with the result that the French system is now more or less similar in this respect to the British system. He then said that the new French regulations go even further than the British in regard to the distinctions drawn between nationals and foreigners as concerns stock exchange operations and stated "we may ask ourselves whether it was absolutely necessary to push things so far."

Jenny said that the "Class B foreign exchange" is not affected by the new regulations since "the requisition of such exchange whose use abroad is very limited would be of little value to the state and the same applies to the securities issued or quoted in the countries in which these currencies are used." He also pointed out that sterling exchange and securities are not to be "blocked" since
#583, May 6, 6 p.m. (SEC EIGHT) from Paris

since the French Government by virtue of the Franco-British accord of December 4 can obtain with francs as much sterling as it desires.

(END OF SECTION EIGHT)

BULLITT

LMS
Secretary of State
Washington

563, May 6, 5 p.m. (SECTION NINE)

In conclusion Jenny praised the establishment of "professional accounts" in foreign exchange. He said: "The idea of these French accounts in foreign exchange which up to a certain point can be considered as the equivalent of foreign accounts in France is indeed a happy one. The new method will lighten materially the task of the Foreign Exchange office and facilitate foreign commercial exchanges above all if the creation of these professional accounts is, as we have reason to hope, a sign of an evolution towards a more liberal concept of French foreign commerce, that is to say, towards a system approaching as much as possible the one set up from France -- British commercial exchanges."

The market was irregularly lower today in view of uncertainties regarding the intentions of Italy.

(END OF MESSAGE)
This list is complete to date. Mr. White suggests that it would be well to send copies to the members of the Banking and Currency committees of the House and Senate and of the Coinage, Weights and Measures committee of the House.

From: MR. SCHWARZ
MEMORANDUM

The Secretary's speech on gold was sent out on Friday to Cabinet officers, members of the Federal Reserve Board, heads of independent establishments, Mr. Welles, Mr. Noble, Mr. Feis, Dr. Goldenweiser, and to Mr. White's list of economists and others, all told numbering about 400 copies.

On Saturday copies were mailed to names furnished by the Department of Commerce representing trade journals and papers 2,100

to names furnished by the Department of Agriculture representing weekly agricultural papers 650

and to names furnished by Mr. Mayl representing a mailing list of newspaper editors 800

Total 3,950
FOR IMMEDIATE RELEASE

GOLD, AND THE MONEY OF THE UNITED STATES

An Address by Henry Morgenthau, Jr., Secretary of the Treasury
Washington, D. C., Friday, May 3, 1940

One thing you will hardly need to be told about our monetary system; that is, that the American dollar is the soundest unit of currency in the world. Its value is unquestioned here at home and it is not questioned anywhere else in the world. It is a solid rock of strength and stability amid all the monetary confusion created by aggression and war. It is more than a domestic currency; it has become in the last few years more and more an international currency. People throughout the world who are driven by disaster and fear to hoard currency prefer to hoard the currency of the United States, when they can get it.

We have tried through many means to facilitate stability in the currencies of the world. An outstanding example is the Tripartite Accord which we initiated in September 1936. In all, six of the leading democracies of the world have subscribed to the principles of that Accord. Unfortunately, the progress we were making in the field of international finance and trade has been interrupted by the cataclysm in Europe.

One of the most striking developments of these recent years has been the universal confidence in the American dollar
as one of the very few certain things in a highly uncertain world.

Some of our citizens who admit the strength of the dollar and the world's confidence in our currency now suggest that confidence in our dollar has resulted in this country receiving too much gold.

During the last 6 years we have acquired about $10 billions of gold from abroad.

Why has so much gold come to the United States?

In the first place, we have exported many billions of dollars' worth of goods and services in excess of the amounts we have imported. Secondly, large amounts of foreign funds have come to this country to be placed and kept on deposit with our banks. Foreigners have sent their funds here for safekeeping because of the peace, stability, and security which this country enjoys.

Thirdly, foreigners have made large investments in American industries because they regard American business as a safe and profitable investment. Finally, Americans have been withdrawing their funds from abroad and liquidating their foreign investments in large sums because they prefer the dollar to any other currency.

It is for these reasons that we have had so large a favorable balance of payments; it is for these reasons that gold has come and is continuing to come to the United States.
Gold moves from country to country not as a commodity but as a means of payment, the one final medium through which international settlements are made.

The continued acceptance of the gold that comes here is the only sound course of action open to us. There are, it is true, other courses of action theoretically possible, but they would all have disastrous consequences.

Take, for example, the proposal so frequently made to us that we stop buying gold. It has the charm of simplicity. All that we have to do is to issue an appropriate Treasury order. But let me tell you what I think would happen. Dollars abroad would instantly become very scarce and more costly, and the foreigner would find it much more expensive to buy American goods. For example, the British pound, the Canadian dollar, the French franc, the Dutch guilder would at once sharply depreciate. A chain of forces would be set in motion which would disrupt our trade, seriously discourage what remains of world commerce and remove from world finance the strongest element of stability.

The cessation of gold purchases would have the following three immediate effects of great importance to us:

Firstly, the sale of American products in foreign markets would be made much more difficult. This would not apply so much to war materials, which foreign countries want so urgently, but it would hit hard our export of hundreds of agricultural
and industrial commodities not vital to the conduct of the war. We would lose heavily in the very markets we will badly need when the war is over.

Secondly, there would result an immediate flood of imports of cheapened foreign goods, which would deal an even more serious blow to labor, industry and agriculture in America. The very items which compete with our domestic products would deluge our home markets. Meat and dairy products, textiles and hundreds of other articles would at once be subjected to greatly intensified competition from abroad.

Thirdly, Americans who have investments abroad would find that they had suffered substantial dollar losses overnight just as foreigners with investments here would find that they had windfall gains overnight.

So you see this simple remedy is, in effect, a proposal that would completely disrupt our foreign exchanges and our trade and greatly increase unemployment in this country. And so with the other naive proposals which some well-meaning citizens suggest as a remedy for our accumulating gold stocks.

Shall we follow their advice and cut the price for gold? A moderate cut would be ineffective, and a cut in price sufficiently large to have a significant effect on the gold inflow would introduce the same conditions as would follow prohibition of gold imports. This also would cause a serious decrease in our trade and a big increase in unemployment.
Shall we, as some have suggested, discriminate against certain countries in our purchases of gold? Such a policy would not even have the virtue of effectiveness. The active cooperation of practically the entire world would be required to prevent any one country's gold from entering the world's markets and reaching the United States. Obviously this would be impossible even in normal times, let alone at a time such as this. Besides, the value of gold is proportionate to its unqualified use and acceptance as an international medium of exchange. To limit its acceptance would mean to reduce its usefulness.

There is yet another alternative which has always been open to us. Instead of taking gold we could have granted credit. Americans could again have accumulated huge unsettled claims abroad. We have had experience with that system -- extensive experience -- in the decade that ended with the economic collapse of 1929. It is doubtful that Americans would want to repeat that experience.

For the excess of goods we shipped and for the dollar credits we granted we have taken gold in the last six years instead of promissory notes. The phrase "good as gold" still has real meaning in the world. I prefer the gold to pieces of foreign paper. I think most Americans agree with me.

Our gold policy is carefully adjusted to the realities of a complex world situation. There have been many glib
suggestions for changing that policy. Examination of each of these suggestions has revealed, as in the examples I have mentioned, that in the effort to remedy fancied evils they would bring on real disaster.

Of course, should basic conditions alter, should we be confronted with new and unforeseen economic and political developments, the government will necessarily take such action as will best protect American interests. It is to be prepared for such contingencies that the powers with respect to gold operations have been kept flexible. The Treasury is constantly observing, analyzing and studying the course of events in their relation to monetary problems in which this country is interested. But nothing has yet appeared which would warrant any change in our gold policy.

There is only one sound way in which we can work to reduce the inflow of gold and to promote the return of at least a part of the wealth it represents to useful service in the lands from which it came. That way is to do everything in our power to contribute to the return of peace to the world and to encourage reconstruction and the restoration of normal trade. With the restoration of enduring peace and economic stability abroad the gold problem will solve itself. Our great export surplus will drop -- not because we shall sell less abroad but because we shall buy more. Foreign capital will be gradually repatriated -- not because we drive it out
but because it is attracted home by the reemergence of security abroad. Our investors will once again invest their funds abroad — not because of the scarcity of opportunity at home but because of greatly enhanced opportunities for sound and profitable investments in other lands. And finally our tourists will spend hundreds of millions more in foreign countries.

These are the developments which will automatically and gradually direct the flow of gold away from the United States. These are the developments upon which we must concentrate. We must concentrate on the promotion of further recovery here and peace and security abroad not in order to correct the gold situation, but because prosperity, peace and security are in themselves the supreme ends of governmental policy. That their attainment will also solve the world's gold problem is only a by-product, but an important one.

I should like finally to turn to the question of the continued usefulness of the gold we have and the gold we are going to get. This is a matter that is troubling some people.

Let me reassure you once and for all. As long as there are independent nations, and as long as there is international trade in goods and services, so long will it be necessary to settle international balances. Gold is the international medium of exchange par excellence. Its acceptability is universal; its utility as international money survives changes in economic systems. It is used and needed just as much by
the freest democracies as by the most rigid dictatorships — as much by capitalist economies as by socialist economies. It is the refined instrument of international exchange of goods and services, as well as an essential ingredient in the more complex international financial transactions — an instrument that has functioned without challenge for hundreds of years. Every foreign country wishes it had more of it; no foreign country likes to lose any of it; all countries accumulate it as soon as they can afford to do so. And the fact that some countries find it possible to conduct their international trade without gold does not mean that they prefer to do so any more than people reading by candlelight do so because they prefer candles to electricity.

Gold does not lose its value because some countries are forced to resort to clearing arrangements, barter, import controls, and other substitutes. All these substitutes are admittedly worse alternatives. They are methods of conducting trade and finance which will only be adopted when a country does not possess adequate gold holdings. Governments resort wholly to these substitute methods for keeping a country's balance of payments in equilibrium only during times of great and prolonged stress and instability, and only when for one reason or another they have been unable to prevent the loss of most of their gold holdings. All countries would like to have more gold, and the countries which have the least are, you will find, countries which are striving most to add to
their gold holdings. They do so because they know that an adequate supply of gold promotes economic strength and furthers financial stability.

To be sure, if the political picture of the world should undergo a drastic change in the future, so that instead of fifty or sixty independent nations there should exist only one or two groups dominated by ruthless powers, then international trade and finance may assume the character of domestic trade. There would cease to be independent monetary systems, as there would cease to be independent foreign policies. Balances between countries would be settled as balances between our states are now settled -- that is, by transfers of deposits. Under such circumstances it might well be that gold would no longer be needed. But under those circumstances life would be so different that the possible loss in the value of gold would, I am sure, be the least of our troubles.

Certain governments may boast of the day when independent democracies will disappear. I, for one, have no fears that such boasts can be made good. I am as confident that gold will continue to be used as the medium of international payments as I am that the majority of nations will succeed in maintaining their independence. With the return of peace and of normal economic and political relationships, the present barriers to the free flow of goods, capital, and services will be gradually lowered, and gold will inevitably play its indispensable role in making that result possible.
One word more — the exchange we made and are making in return for gold is a good bargain for us. It has enabled us to increase employment and recovery. It has made possible the utilization of labor, capital, machinery and resources that would otherwise have been idle. We have expanded our exports and encouraged our domestic industry. And, moreover, we have at the same time acquired the safest physical asset in the world.

There are some sincere people who have been disturbed by stories that this country had a monetary policy that threatens to cause loss to the nation. If you meet such people I hope you will reassure them. You may tell them that the greatest and richest country of the world has the best and soundest monetary system and that there is no reason to fear that it will not remain sound.

We can feel entirely comfortable in the possession of a supply of gold with which we can meet future demands on our monetary system without any shock to our economy. We can be prepared also to play the part we ought to play in the reconstruction of the world that must follow the senseless destruction of war.

—oo—
MEMORANDUM

May 6, 1940

To: Mrs. Klotz

From: Mr. Murphy

We have been advised that the President is leaving Hyde Park this afternoon at three o'clock, via Pennsylvania Railroad, and will arrive in Washington tonight at ten o'clock.
According to Work Projects Administration reports, 2,093,000 persons were employed during the week ended April 24, 1940, a decrease of 25,000 from the 2,118,000 persons reported for the previous week, and of 195,000 from the 2,288,000 persons reported for the end of March.
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Source: Work Projects Administration.
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Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.
WORK PROJECTS ADMINISTRATION

Number of Workers Employed
United States

Monthly W.P.A. Employment

Weekly W.P.A. Employment

MILLIONS OF WORKERS

1935 1936 1937 1938 1939 1940 1941
1935 1936 1937 1938 1939 1940 1941

MILLIONS OF WORKERS

Jan 1939 Jul 1939 Jan 1940 Jul 1940 Jan 1941

MILLIONS OF WORKERS

Jan 1935 Jul 1935 Jan 1936 Jul 1936 Jan 1937

Jan 1935 Jul 1935 Jan 1936 Jul 1936 Jan 1937

Jan 1935 Jul 1935 Jan 1936 Jul 1936 Jan 1937

Regraded Unclassified
Secretary of State
Washington

1209, May 6, 5 p.m.

My report 1279 of April 24, 1940.

The Ministry of Labor has released figures covering unemployment in the Reich up to April 10, 1940, which were published in WIRTSCHAFT UND STATISTIK No. 7/8. On that date, the number of unemployed was 105,000, but only a few of these jobless workers, the Labor Ministry states, could be considered as fully employable. The majority of the latter consisted of workers who happened to be unemployed on the census day because they were shifting from one job to another.

According to the Ministry's reports, the total number of unemployed rose mainly as a result of the severe winter from 128,000 in December to 256,000 in January. The majority of these unemployed followed outdoor occupations, notably the building trades. In February the labor offices were successful in providing other work for some of these unemployed so that the total fell to 137,000 in March.
Secretary of State,

Washington.

48, May 6, 6 p.m.

Department's 25, March 23, 5 p.m.

Danish Charge d'Affaires requests that a license be issued to the Guaranty Trust Company of New York to pay 7 checks, each in the amount of $225, drawn by the Danish Ministry of Finance in favor of Royal Danish Legation, Ankara.

Please expedite reply.

MACHURRAY

JRL:IBS
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Legation, Bern, Switzerland
DATE: May 6, 1940, 5 p.m.
NO.: 31
CONFIDENTIAL.
I refer to Legation's despatch no. 1222 dated February 8, 1940 and Legation's despatch no. 1336 dated April 30, 1940, reporting imports into Switzerland of bars of gold from the U.S.S.R. which were valued at ninety-five million francs, and from Germany which were valued at forty-one million francs, during the first three months of 1940, and reshipment to the U.S.

Today I have learned, on excellent authority, the following:

1. The Government of Switzerland has received complaints on this traffic from French authorities.

2. Earlier this year the National Bank of Switzerland endeavored, without success, to dissuade the Swiss Bank Corporation from handling transactions in Russian gold from Germany.

3. Delegation of subsequent reshipments is now contemplated by the Allied authorities. I gather that the mere possibility of the contemplated action may have effect.

HARRISON

EA: MSG
Secretary of State
Washington

1210, May 6, 6 p.m.
By 1164, April 30, 9 a.m.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S INFORMATION.

Announcement was made in yesterday's press of the forthcoming flotation of 500,000,000 marks of "Prussian consols" at 59 3/4 bearing 4% interest to be amortized at the rate of 2% a year plus interest savings making a maturity of approximately 28 years. The new bond issue is for the purpose of consolidating medium and short term debts of the Prussian State and the press emphasizes that it does not represent an increase in the Prussian debt which has shown little change in the past few years.

This bond issue is of interest chiefly because of its terms which are considerably more favorable to the issuer than the 4 1/4 -- 5 year bonds sold at 99 which have been issued by the Reicha Government since the middle of March. (The latter now listed on the exchange were today quoted at
-2-#1210, May 6, 6 p.m. from Berlin.

at 99 3/4). This loan represents a further step towards lower interest rates on public loans presaged by general developments in the money market and in particular by the recent reduction in the Reichsbank's rediscount rate.

KIRK

NK
LMS
CONSIDERING,

That by Decree N° 60.569, of April 18th, 1940, it was resolved to momentarily suspend the activities of accounts, the transferring of funds, and remittance of securities to the Kingdoms of Denmark and Norway, with a view to avoid the complications which might arise from such operations, owing to the abnormal situation in which both countries at present find themselves;

That, while this situation is existing, and not allowing a return to a normal system of payments with the Kingdoms of Denmark and Norway, it is advisable to adopt measures which may permit the execution of operations which cannot be postponed, and that, on account of their disposition, can be effected without causing the perturbations or complications, which by the above-mentioned Decree has been meant to be avoided;

That the Central Bank of the Argentine Republic is in a condition to consider and duly analyze the cases which may present themselves and to resolve the situations set down.

THE PRESIDENT OF THE ARGENTINE REPUBLIC

DECREES:

Article 1st. Give power to the Central Bank of the Argentine Republic to authorize the execution of the operations.
to which the Decree II 50,569 refers, and which, on account of their dispositions cannot be postponed, and may be susceptible to being effected without causing the perturbations or complications which have been meant to be avoided by said Decree.

Article 2nd. The Central Bank of the Argentine Republic will inform the Executive Power, through the Ministry of Finance, of the application of the present Decree.

Article 3rd. The present Decree will be legalized by the Secretaries of State of the Departments of Foreign Affairs and Worship, and of Finance.

Article 4th. To be communicated to whom it corresponds, published, delivered to National Registry and Official Bulletin, and recorded.

DEGREE II 61,707

Signed: ORTIZ

Countersigned: P. Groppo

" J.M. Cantilo

IT IS A COPY.

It is a translation
August 6th, 1940
Sterling fell more than six cents to a new seven-year low today, as the foreign exchange market reacted to the possibility of a shift in the scene of war and the prospect of an English cabinet crisis. Prior to the New York opening, a quotation of 3.47-3/16 was received from Amsterdam. The first rate in our market was 3.46-1/4, and by noon-time it had moved off to 3.45-1/4. The volume of trading was much smaller during the afternoon session, and due to the pronounced reluctance of buyers, sterling declined sharply to close at the low of 3.41.

Sales of spot sterling by the six reporting banks totaled £685,000, from the following sources:

- By commercial concerns: £191,000
- By foreign banks (Europe, Far East and South America): £494,000
- Total: £685,000

Purchases of spot sterling amount to £415,000, as indicated below:

- By commercial concerns: £188,000
- By foreign banks (Europe and South America): £227,000
- Total: £415,000

The following reporting banks sold cotton bills totaling £12,000 to the British Control on the basis of the official rate of 4.02-1/2:

- £5,000 by the Chase National Bank
- 3,000 by the National City Bank
- 1,000 by the Bank of Manhattan
- Total: £12,000

The Guaranty Trust Company reported that it had purchased £8,000 for forward delivery from the British Control at 4.03-1/2. The funds will be used to pay for shipments of rubber.


The belga weakened to close at a low of .1677.

The other important currencies closed as follows:

- Guilders: .5309
- Swiss francs: .2242-1/2
The yuan quotations received from Shanghai today revealed a further improvement. The rates were 4-13/16¢ against the dollar, and 3-5/16d against sterling.

We sold the following amounts of gold to the banks indicated, to be added to their earmarked accounts:

$1,500,000 to the Central Bank of Uruguay
510,000 to the National Bank of Belgium
$2,010,000 Total

The Federal Reserve Bank of New York reported that the National Bank of India, Bombay, shipped $490,000 in gold from India to the Chase National Bank, New York, for sale to the U. S. Assay Office.

In a report from the Federal Reserve Bank of New York showing deposits for the account of Asia as reported by the New York agencies of Japanese banks on May 1, such deposits totaled $50,281,000, an increase of $4,734,000 since the last report as of April 24. Included in this total were $29,360,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, and deposits of $11,477,000 made by the head office and Japanese branches. The last-mentioned item experienced an increase of $6,756,000 during the week ended May 1. The overdraft of the head office and Japanese branches on the books of Yokohama's New York agency was $92,909,000, an increase of $8,154,000 since April 24.

The Bombay spot silver quotation worked out to the equivalent of 42.36¢, up 1/4¢. We learned that on Saturday there was a speculative flurry in silver in the Bombay market on news of British precautions in the Mediterranean.

There was no change in the silver prices fixed in London. The spot and forward quotations were 21-1/16d and 21d respectively. The U. S. equivalents were 32.90¢ and 32.52¢.

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 nine purchases of silver totaling 1,254,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented sales from inventory, and the remaining 1,054,000 ounces consisted of new production from foreign countries, for forward delivery.

By telephone this morning Mr. Knake told me that as of May 4, the Chase Bank reported the following balances with it:

State Bank of Russia, cash account, $3,500,000
State Bank of Russia, letters of credit, $6,900,000
Amer. cash account, $1,100,000
Amer. letters of credit, $1,800,000.

CONFIDENTIAL
The general tendency has been for the Russian balances to decline and for activity to let up, especially since Russian copper purchases have apparently ceased. This has resulted in the cancelling of letters of credit for this purpose. During the week from April 29 to May 4 there was paid into the account of the State Bank of Russia $1,500,000 by the Swiss Bank Corporation, New York. During this same week there was paid out $750,000 to Amorg, $540,000 to letters of credit and $315,000 transferred to Narodny in London. During the week April 20 to 27 there was no important in-payment. The out-payments included $1,500,000 to Amorg and $530,000 to letters of credit. During the week April 12 to 20 there was an in-payment of $1,700,000 from Zurich and out-payments of $500,000 to Amorg and $275,000 to letters of credit. Mr. Knoke is now making a general examination of the Russian account for the past several months, paying particular attention to the in-payments from the Swiss Bank Corporation and the Rotterdam Bank. His first impression is that these represented the proceeds of sales of gold received from Russia.
TO
Secretary Morgenthau

FROM
Mr. Haas

Subject: The Business Situation, Week ending May 4, 1940.

Conclusions

(1) Despite the fact that no dynamic influence capable of initiating a strong business upturn has yet appeared, various evidences suggest that a gradual improvement in business activity is about to get under way:

(a) Business indices have moved sidewise for a month or more. The New York Times index has held for 5 weeks within a 1-point range.

(b) New orders for steel and textiles have again increased, and our weekly new orders index in the last four weeks has averaged 5 per cent higher than in the previous four weeks.

(c) Steel activity increased last week in all important districts, and the scheduled rate for this week is up 4.0 points further to 65.8. Steel scrap prices have shown a general improvement for the first time since last November.

(d) Despite the depressing influence of recent war news, which is tending to restrain business initiative, our index of confidence has begun to improve. New security floatations have also increased markedly in the past month, an indication of reviving business confidence.

(2) While the rate of national income payments declined in March, this was due largely to a decline in farm income. Despite this downturn, national income remains not far from the peak reached last December.
The present outlook

Business has reached a stage where basic conditions favor a reversal of the recent declining trend, but no dynamic influence capable of initiating a strong business improvement has yet appeared. Furthermore, sentiment among business men remains confused and cautious, owing to the depressing uncertainty created by recent war developments, which is having its effect in retarding business improvement.

Nevertheless, evidences appearing in various quarters suggest that a gradual increase in industrial activity is about to get under way, and it is quite possible that April may have marked the low point of the recent business setback. Some evidence in this direction is given by the steadiness of weekly business indices during the past month. (See Chart 1) The New York Times index has held for 5 weeks between 92.8 and 93.8, and Barron’s index has held for 4 weeks between 99.5 and 100.5. Prices of industrial raw materials (shown on the chart), which reflect changes in industrial demand, have shown some increase above the low level of early April.

New orders increasing

Further evidence pointing to an improving business trend is given by our weekly index of new orders. (See Chart 2) The composite index rose sharply during the last week of April, due to increases in steel and textile orders, which more than offset some decline in other orders. The composite weekly index last month continued to show seasonal improvement, averaging 8 per cent higher during the 4 weeks of April than during the previous 4-week period.

Of especial significance in the present situation is a substantial improvement in steel orders, which apparently began even before the resounding of the recent $4.00 price cut on steel sheets. Although the upward revision of prices was announced in the afternoon of April 24, new orders reported by the United States Steel Corporation for the week ended April 25 increased to 53 per cent of capacity from 41 per cent the previous week.

Since buyers were allowed several days to cover at the lower prices, a substantial volume of new business has been booked, according to trade reports. The Iron Age says that the improved orders of the past week have raised total steel sales for April above the March level.
The improvement in orders, however, has been much more moderate than that resulting from the temporary price cut in May 1939, partly because steel companies are said to require strictly that delivery on the low-price orders be made by June 30. Since the automobile companies do not yet know fully what steel specifications will be required for the 1941 model cars, it is probable that present orders will be mostly limited to those required for completing the runs on 1940 models. The recent bunching of orders, of course, will be at the expense of new steel business that would otherwise have been placed during the summer months.

As an immediate consequence of the improvement in orders, steel activity increased last week in practically all districts, raising the industry operating rate 1.8 points to 61.8 per cent of capacity. Operations this week are scheduled at 65.8 per cent, a further increase of 4.0 points. (See Chart 3) It will be noted that some districts, such as Youngstown and Philadelphia, have already shown extensive improvement. The rate at Pittsburgh, the most important steel district, has increased for three weeks in succession and is scheduled for a further increase during the current week. The rate at Buffalo this week will be 7 points higher, since the Bethlehem Steel Company last Friday put three additional open-hearth furnaces into operation.

Reflecting an increased demand for steel-making materials, scrap prices have shown further improvement. (Refer to Chart 3) The Iron Age composite price of steel scrap has gained 30 cents a ton in the past two weeks, the first increase since early last November.

Confidence index improving

Despite the depressing and confusing influence of recent war news, which is tending to hold back business initiative, there is evidence in financial and trade circles that a general improvement in domestic business is looked for in the months immediately ahead. As a consequence, investment buying in recent weeks has been directed in somewhat greater volume toward second grade bonds, to take advantage of an improved outlook for corporation profits, rather than toward high grade bonds for safety. The relatively greater increase in prices of second grade bonds has brought an appreciable rise in our "index of confidence." (See Chart 4)
A marked increase in the volume of new financing likewise appears indicative of increased public confidence. Total financing during April increased to a total of $303,000,000, according to Journal of Commerce compilations, as compared with $143,000,000 in March. While the new issues so far have been largely for refunding purposes, there has been an appreciable amount of new capital issues. Stock financing in April totalled $77,000,000, as compared with $23,000,000 in March.

National income lower in March

The adjusted index of national income declined to 87.0 in March from the February figure of 88.4. This is equivalent to a reduction in the annual rate to $71.0 billions, as compared with $72.2 billions in February.

An analysis of the figures, however, shows the decline to have resulted almost entirely from factors not related to the business trend, chiefly to a reduction in Government payments and crop loans to farmers. Leaving out farm income, the index of nonagricultural income was reduced only to 88.3, from 88.8 in February.

Farm income in March was affected by a reduction in Government payments to $67 millions, as compared with $95 millions in February. A decline in income from farm marketings, after seasonal adjustment, was due in part to a smaller amount of corn placed under Government loan in March, and in part to a smaller than usual increase in marketings, while prices of several farm products were lower.

In Chart 5, upper section, we show the trend of farm income (including Government payments) by months this year, in comparison with other recent years. The sharp decline in farm income has had some influence on retail sales of merchandise in rural areas, which appear to have shown less than the usual increase during March. (See lower section of chart).

In April, the Bureau of Agricultural Economics expects income from farm marketings to follow the usual seasonal decline, and some improvement in economic conditions affecting the demand for farm products is expected by summer.
Sales level supported by high national income

The national income so far has remained close to its peak reached last December. On a seasonally adjusted basis, the March figure is only 2.6 per cent lower than the December peak, while nonagricultural income is only 1.8 per cent below. These moderate reductions contrast with a 20 per cent decline in the FRB index of industrial production.

The well-maintained national income goes far toward explaining the current high "offtake" of manufactured goods in the face of declining business activity. An important supplementary factor, however, has been the increased exports of manufactured goods in recent months, which have provided valuable support at a critical time.

In Chart 6, which compares our index of sales with the "sales equivalent of national income", we indicate by a shaded area the part contributed by export sales to the total sales index, from January 1939 through March 1940.

Sustained employment in aircraft, machine tools, and shipbuilding

While total employment in manufacturing industries declined contra-seasonally in March, resulting in the layoff of 55,000 workers (a decline of 0.7 per cent from the February total), the aircraft, machine tool and shipbuilding industries all continued to take on additional workers. The last named industry has reached the highest level of employment since 1921, and the other two industries have attained the highest levels ever recorded. Since these industries as such are generally excluded from the usual indexes of industrial production, it is interesting to note the gains that they have made in the past year, as reflected in the following employment and payroll comparisons:

<table>
<thead>
<tr>
<th>Per cent gain March 1939 to March 1940</th>
<th>Employment</th>
<th>Payrolls</th>
</tr>
</thead>
<tbody>
<tr>
<td>All manufacturing</td>
<td>+6.8</td>
<td>+11.8</td>
</tr>
<tr>
<td>Aircraft</td>
<td>+114.3</td>
<td>+106.6</td>
</tr>
<tr>
<td>Machine tools</td>
<td>+55.1</td>
<td>+92.5</td>
</tr>
<tr>
<td>Shipbuilding</td>
<td>+33.0</td>
<td>+40.7</td>
</tr>
</tbody>
</table>
An encouraging feature is that all three industries have tremendous backlogs on hand, thus practically assuring continued support from these industries for many months. Recent private estimates have placed the backlog in the aviation industry at around $700,000,000. As of March 1, merchant vessel tonnage under construction was 74 per cent above March 1, 1939, and only 16 per cent below the boom levels of May 1920. In addition, a heavy United States Navy program has been under way for some time. The index of machine tool builders' activity in March exceeded slightly the previous peak established in December 1939 and January 1940, and was 59 per cent above the index for March 1939.

**Commodity prices lower**

Prices of foodstuffs as a group were substantially lower last week, led by a sharp drop in wheat prices, while basic industrial materials met good support after their decline of the previous week.

The decline in wheat prices has been due, in an important degree, to the liquidation of speculative holdings accumulated during April. On the strong wheat market which developed during that month, farmers sold a considerable volume of loan wheat in advance of the April 30 deadline. While this wheat was being hedged by merchants, it appears that speculative buying of futures prevented the hedges from depressing the market. The extent of this buying is suggested by a contraseasonal increase of 33.5 million bushels in the outstanding open interest in wheat futures during April. Now that the market situation has turned somewhat less bullish, the increased speculative account is beginning to be liquidated.

Sugar futures were lower last week on estimates by the Department of Agriculture indicating that the world supply of sugar is the second highest on record.

Though prices of industrial materials as a group were little changed, futures of hides and copper were lower. Hides were strongly influenced by an estimate that boot and shoe production had declined sharply in March. Copper futures were lower largely because of fear of interruption of exports to Italy, which totalled 15,998 tons in the first three months of the year.
Spot prices of silk and burlap were higher. Silk prices responded to a report that United States mill takeings in April were slightly above March and more than the trade expected. Commentators believe that the closing of the Mediterranean to British merchant ships should have little effect on burlap prices in the United States, because most supplies destined for this country recently have not been going through the Mediterranean.

**Current business news**

The New York Times index of business activity for the week ending April 27 was again virtually unchanged, showing a decline of only .1 from the previous week. This slight decline was caused almost entirely by a greater than seasonal decrease in electric power output, which more than offset gains in five other components. The most important gain after weighting occurred in "all other" carloadings, which advanced chiefly because of marked gains in loadings of ore following the opening of shipping on the Great Lakes.

In connection with the decline of .5 in the index of automobile production, as a result of a slightly greater than seasonal downturn in actual production, it is encouraging to note that the decline of 2,100 passenger cars and trucks in that week compares very favorably with the drop of 15,220 in the same week last year. High retail sales continue to support automobile production. General Motors sales during the second period of April increased to a daily average of 6,300 units, versus 5,900 in the first period.

Latest F. W. Dodge data indicate that the recent encouraging showing of private construction activity became even more marked in April. Residential construction during the period April 1-22 showed a gain of 17.5 per cent over the corresponding period of 1939, while nonresidential construction (excluding public works and utilities) recorded a gain of 2.0 per cent. If the figures for the final period of the month should continue at the level thus far reported, private construction activity for the full month would total a little over $200,000,000 and reach a new high for the entire recovery period, the best previous figure being $195,000,000 for April 1937.
INDICES OF NEW ORDERS
Combined Index of New Orders and Selected Components

Percentage Points

Total (combined index) 1000 = 100
Total excluding Steel and Textiles
Steel Orders
Textile Orders

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

Regarded Unclassified
STEEL OUTPUT AND SCRAP PRICES
Ingot Output in Percent Capacity
WEEKLY

PRINCIPAL PRODUCING DISTRICTS

*Largely due to reduction in capacity.*
INDICES OF SALES AND SALES EQUIVALENT OF NATIONAL INCOME

1936 = 100, SEASONALLY ADJUSTED

SALES, DOLLAR VOLUME

EXPORT SALES

SALES EQUIVALENT OF NATIONAL INCOME

PERCENT

120
110
100
90
80
70
60
50

1933 1934 1935 1936 1937 1938 1939 1940

PERCENTAGE POINTS

DEVIATION OF SALES FROM SALES EQUIVALENT OF NATIONAL INCOME

+10
0
-10
-20

1933 1934 1935 1936 1937 1938 1939 1940

* REPRESENTS OFFSET OF MANUFACTURED GOODS

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

Regraded Unclassified
Mr. Knese telephoned me at 10:45 this forenoon to give me the following information in regard to transactions with Italy, as reported by the Chase Bank for May 4:

Chase paid Swiss Bank Corporation, Zurich, $50,000 by order of the Italian Exchange Institute.

Chase paid $210,000 to Swiss Bank Corporation, Zurich, by order of the Banco di Roma.

Chase paid $59,000 to Socony Vacuum, by order of the Bank of Sicily, for the account of the Petroleum Institute at Rome.

Under confirmed credit opened by the Italian Exchange Institute, the Chase paid Metal Traders $155,000, covering 600 tons of copper.

The Banca Commerciale Italiana of New York drew a check on Chase for $85,000 to the order of the First National Bank of Huston. This may have been for oil.

The Banca Commerciale Italiana drew a check on Chase for $98,000 in favor of Socony Vacuum.

The Chase reported as follows with respect to operations on letters of credit issued by the Chase on behalf of the Italian Exchange Institute, all transactions covering copper:

March 4 - Paid Mines Products $1,474,000
March 11 - Paid Mines Products $322,000
March 21 - Paid Mines Products $235,000
April 13 - Paid American Metal $145,000
April 17 - Paid Entex Limited, London (a metal concern) $51,000
April 19 - Paid Mines Products $137,000
April 26 - Paid American Smelting and Refining $124,000
May 1 - Paid Kennecott Copper $315,000
May 1 - Paid Kennecott Copper $248,000 (These two items were previously reported in the total of $763,000.)
May 4 - Paid Entex Limited, London, $155,000.
The Chase reported that during the whole period under review they made no clean payments (non-documentary) to copper people directly or to New York banks for the account of copper people, in behalf of Italy. The above figures confirm that Italy has been buying copper and petroleum extensively. There is no knowledge in banking circles as to whether these purchases have been made solely for Italy's account or partly for Germany.

The Federal Reserve Bank itself today has a cabled instruction from the Banca di Italia, dated May 4 to pay Chase $83,000 for the account of the Italian Exchange Institute. Since the balance of the Bank of Italy with the Federal was only $87,000, the net balance is now reduced to $4,000.
3 am
5-5-40

Dear Mrs. Klitz:

Please tell Nan Bell
I sent enough money
to move all of the
remaining gold
out of N.Y. City to
Kentucky. He should
speak to me Tuesday

Best Regards, [Signature]
Excerpt from transcript of nine-thirty group meeting held in the Secretary's office on May 7, 1940:

Bell: I have some statistics on that gold matter, if you would like to have them. You sent a note from Chicago about checking the gold quarter balance.

H.W. Jr: I said I forgot I was Secretary of the Treasury for two days and my son said, "No, daddy, you got up at 3:00 o'clock in the morning and wrote a note." I got to worrying about three or four billion dollars worth of gold lying in New York.

Bell: Seven.

H.W. Jr: And Greenland how many hours off?

Bell: Well, this is the situation. We have capacity in Fort Knox for about 15 billion dollars in gold and we have down there about 5½ or over, so that we can still store about 9 billion and a half in gold. We have in New York on May 3 seven billion nine, but there is maybe a half billion of that in the works, refining and so forth, so we have somewhere in the neighborhood of 7½ billion that we could ship. We have money in the budget that would enable us to ship slightly over a billion dollars, so that there is something over 6 billion that will remain there.

H.W. Jr: How much will it cost?

Bell: It will cost about a billion and a quarter - a million and a quarter to ship the six billion dollars down there.

H.W. Jr: Well, I want to ask - I want enough money to ship 9 billion dollars.

Bell: Nine billion dollars?

H.W. Jr: Sure, for the fiscal year.

Bell: Everything that comes in.
H.M.Jr: Right. I want to write a letter to the President and get him to okay it.

Bell: I suppose you have quite a lot of gold in Philadelphia, also.

H.M.Jr: We haven't.

Bell: Haven't we?

Graves: No.

H.M.Jr: Well, I would ask for enough to move ten.

White: Isn't the quarter percent automatically supposed to be used for that?

H.M.Jr: No. It never has, Harry.

White: I thought it was supposed to cover expenses.

Bell: A quarter percent goes into the Treasury now.

White: But you spoke of an appropriation.

Bell: This means an appropriation and we put in, as I recall, a half million dollars to make up the two hundred and we had a hundred thousand hanging over and this gives us about $315,000.

H.M.Jr: I think you are wrong. Is there a dollar for me to move any gold today?

White: I was under the impression that we spoke of that quarter percent purchase and selling price to cover expense.

Bell: Handling charges.

White: Well, I thought handling charges --

H.M.Jr: In and out of New York.

White: I didn't know that handling charges were confined to that.

H.M.Jr: Yes, Harry.
Bell: Handling charges are supposed to be the mint charges, but even though we get the quarter of one percent, it goes into Treasury as miscellaneous receipts and we would still need the appropriation.

White: Would you, if you regarded handling charges --

Bell: Yes. The mint expenses come out of an appropriation.

White: And that quarter percent is treated, then, as purchase profit?

Cotton: Why should it cost a million dollars to move a billion dollars? That seems high.

Bell: Well, it costs about 195 --

H.W. Jr: It goes to the Post Office, that is who gets it. They move it. We pay the Post Office, for it goes parcel post insured, doesn't it?

Schwarz: Registered.

H.W. Jr: We went over and over this originally and when we got all through and done, it was the most economical and safest way to send it, parcel post, insured. There is a whole company of soldiers goes with it and Secret Service. They have a chartered train and everything else. I would like to have enough for ten. I will take it over to the President myself. Would you fix it up today, Dan?

Bell: Yes, sir.

H.W. Jr: It is the height of stupidity when it costs a million and a half dollars not to remove ten billion dollars to a place of safekeeping.

White: I was still a little bit troubled how you would justify a handling charge and then have a separate appropriation.

Gaston: It is like all other Government charges, ninetenths of them go into receipts and then they have to be appropriated out, no matter what the basis for the charge is.

White: All right.

Bell: The only exception is silver.
EXCERPT FROM GROUP MEETING OF MAY 7
9:30 a.m.

Bell: You asked me to bring up this letter from Pinsent and the action that the British contemplate taking Thursday of this week.

H.M. Jr: Do I have to do anything, Dan?

Bell: I don't believe the Treasury needs to do anything, do you, Merle?

Cochran: I would say, "No comment."

H.M. Jr: Wonderful! Can I have it back?

Bell: Yes, sir.

H.M. Jr: This is a memorandum from Pinsent, May 4, 1940, to me. Will you (Mr. Cochran) tell Mr. Pinsent, "No comment"?

Cochran: Yes, sir.

H.M. Jr: Have you given a copy of this to Mr. Hull?

Cochran: No, sir, I haven't. I asked Pinsent last night - I said, "Have you taken this up with any other department? Have you mentioned it to Mr. Hull or the SEC?" He said, "No." They treated it as a matter between the Ministers of Finance.

H.M. Jr: Hull - and a letter to go with it - and one to Mr. Jerome Frank.

Cochran: You want them taken over?

H.M. Jr: No.

Cochran: They are trying to get decisions today.

H.M. Jr: Just call them up and tell them I have no comment.

Klotz: Can I have that back when you are finished?

Cochran: You keep this if you wish, because I have a copy of it.
H.M.Jr: One to Mr. Hull and one to Jerome Frank, and you might as well send one to Mr. Eccles, too. Don't you think Eccles? No?

Cochran: We haven't been consulting him, but I did mention those two to Pinsent last night.
We are faced by a serious problem arising from the German invasion of Denmark and Norway which might in certain circumstances become immensely more acute. The Germans may lay hands on large quantities of securities saleable primarily in the London market, and it is obviously essential to exercise every measure of precaution to prevent Germany from obtaining finance by engineering sales through neutral intermediaries.

After full consideration we find that the only practicable method is to make all sales of securities in the United Kingdom by non-residents subject to license. Such license would normally be given when it is shown to the satisfaction of the Treasury that no benefit direct or indirect is likely to accrue to the enemy.

We have prepared the necessary regulation and may put it into force at very short notice. It would be accompanied by a public statement to the effect that licenses to sell would normally be granted, as stated above.

The Chancellor of the Exchequer would like to add as a personal message that he trusts that Mr. Morgenthau will realise the importance of securing the ends towards which this step is directed, which justify the measure of inconvenience to which non-residents will inevitably be put.

We should appreciate a very early reply as the regulation may in fact be made on the 9th instant.

May 4th, 1940
PARAPHRASE

A telegram (no. 151) of May 7, 1940, from the American Embassy at Peiping reads substantially as follows:

Present slump in foreign exchange value of Chinese national currency at Shanghai was reflected in Peiping on May 6 in the following unprecedented open market quotation for Federal Reserve currency: buying and selling rates for United States dollars one equaled respectively Federal Reserve Bank dollars 22.35 and Federal Reserve Bank dollars 25.10. This circumstance is due to the decision made recently by Shanghai control banks to cease their support of the Chinese national currency and to the reported exhaustion of the British stabilization fund, in the opinion of the manager of the National City Bank in Peiping. The Federal Reserve Bank dollar in Peiping is now at a nominal three percent discount against north China "Fapi".
May 7, 1940.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Sullivan

SUBJECT: Relationship of Appropriations to Budget Estimates as of May 7, 1940.

1. Bills passed by Senate and House and signed by the President are below budget estimate by ............... $111,807,826

3. Bills passed by Senate and House and now in conference because the two branches do not concur in amount show:

(a) House figure is below budget estimate by ......................... 88,977,834

(b) Senate figure exceeds budget estimate by ....................... 159,964,058

4. Bills passed by House and not yet voted upon by the Senate are below budget estimate .............................. 69,675,361
INSERT TELEPHONE CONVERSATION WITH ATTORNEY GENERAL BOB JACKSON BETWEEN PAGES 11 & 12, MEETING OF MAY 7, 1940, 11:00 A.M.
Present: Mr. Helvering  
Mr. Gaston  
Mr. Sullivan  
Mr. Foley  
Mr. Wenche1  
Mr. Bell  

H.M.Jr: All right, go ahead.

Helvering: Mr. Secretary, I wanted to make a report on the progress we have made in the Annenberg case. Immediately after Mr. Annenberg plead guilty, the Court stated it wanted to make a report back in two weeks as to what progress we might make with a settlement as to tax liability. I don't know why that was done, but he deferred sentence, as you know, until the 23rd of this month.

(Mr. Bell entered the conference)

H.M.Jr: I thought this was important enough, Dan, that you ought to know about it.

Helvering: Well, these various companies owned by Annenberg were 84 in number, scattered over the United States, and there had been no cooperation on the part of the Annenberg interests with our investigators to get at tax matters. When this order was issued he plead guilty and I called the auditors and the special agents down to my office and Mr. Wenche1 and I had a talk with them and I told them I wanted them to have the tax set up in excess of 20 million dollars.

H.M.Jr: And you (Sullivan) laughed at me when I said the policy of the Treasury is to ask four times what we expect and settle for 25 cents on the dollar.

Sullivan: I am still laughing. You have only heard part of his story.

Foley: Fifty cents on the dollar.

H.M.Jr: Twenty-five cents on the dollar.

Helvering: In that computation there were many duplications of unexplained items which were charged in one
or more companies. I told them I wanted every one of those ferreted out and taken out of the computation. Then there were a lot of unexplained items which, like some attorneys' fees and expenses that run into considerable money, needed only a matter of explanation. Some attorneys' fees were allowable deductions and some of them were not. Well, they couldn't get explanations on all of these so they left them in. We got him down to what they presented to me when they started the conference a week ago Monday, and that was a net tax figure of 11 million 734 thousand.

In the hearings there were some other items explained, like the Cecilia Company. We assessed them a tax of 351 and charged fraud on that item. I don't believe there is any fraud in it. I don't think Mr. Wenchel does and I don't think the Department of Justice does, so that was a considerable item of penalty.

Then there is a Canadian corporation or a holding company in this country which supplies the money to the Canadian corporation, which, by the way, they had taken Section 220 and extended it back over the old years and it brought up a tax of more than the income of the company. On that, Mr. Secretary, I just told them to make an arbitrary adjustment on that and told them that that looked so ridiculous on the face of it - and I don't think it could be done anyhow, so that cut off another six hundred thousand dollars.

We had conferences lasting Monday, Tuesday, Wednesday, Friday and Monday of this week. Yesterday afternoon the conferences were with the chief attorney for Mr. Annenberg. Mr. Wenchel and myself and Mr. Kirkland. He had made an offer when we started these conferences shortly after I gave him this 11 million figure. He had made an offer of two million and a half. Well, I told him that we weren't going to consider that at all.

Foley: Frivolous.
Helvering: Yes, I told him it was frivolous and so forth. I think what he hated was when I told him it wasn't an honest attempt. Well anyway, we thrashed out over several days these various items and taking the indictment figure on Moe Annenberg, which amounts to four million 422 thousand in the previous years before the indictment years, that amounts to something like 937 thousand, and with these various corporations, we have reached a figure of something a little in excess of nine million dollars. I can give you the exact figure.

H.M.Jr: I am going to interrupt you. Do you expect me to say yes or no today?

Helvering: No, I just wanted to know what you thought.

H.M.Jr: Because I told Bob Jackson I wouldn't make any commitment until I sit down with him personally. I am not going to do anything until I sit down with Bob Jackson. Nine million how much?

Helvering: There may be 30 or 40 thousand, because there are two or three items not yet computed, but I gave in round numbers yesterday nine million 200 thousand as a basis with which we - if he could arrange for his clients to talk about that, we would talk to them about it. Nine million 200 thousand. The figure is nine million 167 thousand.

H.M.Jr: For my purposes, nine million plus.

Helvering: Yes.

Wenchel: This has been reported or will be reported to Mr. Jackson just as soon as he gets in town. Sam Clark will report it.

H.M.Jr: Let me just start. Are you (Sullivan) for the nine million plus figure?

Sullivan: Yes, I am, sir.

H.M.Jr: Are you recommending it?
Sullivan: Yes, I am. I haven't heard anything about this until this morning, but if that is what they figure out as what he owes, that is what I think he ought to pay.

H.M. Jr: How about you?

Foley: That is probably a little above what you are going to get, Mr. Secretary.

H.M. Jr: That is beside the point. If we can get nine million plus, do you think it is a good settlement?

Foley: Oh, sure I do.

H.M. Jr: Do you know much about this, Herbert?

Gaston: I don't know anything of the figures on the thing. I am just taking what Guy says there. There will be probably some corrections of fact later on, but I think we should stick pretty determinedly for what the facts show.

Helvering: Well, I want to make this as a lump sum --

H.M. Jr: Bell wants to know whether this includes the penalty.

Helvering: Yes.

Bell: That is the total amount due, then?

Foley: It would be an over-all settlement, including the year '33.

Helvering: Yes. Now, we don't want to make this, as I say -- whoever mentioned the adjustments. I want to make this as a lump sum settlement and of course their privilege of their suggesting and sending out the tax on these companies, because some of them pay better than others, so I want to --

H.M. Jr: Are you going to get a lien on the Philadelphia paper?
Helvering: They say they can't pay any such sum.
H.M.Jr: What?
Helvering: They say they can't pay any such sum, although he did in his computations get up to --
Wenchel: Five million and a half.
H.M.Jr: How about a lien on his Philadelphia paper?
Helvering: Of course, if they can get all the money and pay it, we will have no chance to do that.
H.M.Jr: If you can't?
Helvering: They will have to put up a collateral.
H.M.Jr: The Philadelphia paper is a good bargain.
Helvering: They say not; they say it is a white elephant.
Wenchel: They made $385,000 for the last year, clear.
H.M.Jr: He paid 15 million for it.
Wenchel: No, that is what they say, but our figures don't show it.
H.M.Jr: What do you think he paid?
Wenchel: Somewhere between 11 and 12.
H.M.Jr: I think if he can't pay it, it would be nice to have a lien on that.
Helvering: Well, of course if he comes in and says to us - if he agrees --
Wenchel: We are only carrying it at six and a half million.
H.M.Jr: I still say it is a good asset.
Bell: 385 net? Four percent net, that is a nine million dollar investment.
H.M.Jr: How much?
Hull: Nine million.

Gaston: If you get Justice to ease up on the wire services, they would probably be willing to sell it for the nine million they can make in a few months.

H.M. Jr: Sammy Klaus says that racing sheet is a good profit even when it is run honestly. I think he says it makes a million and a half a year, even when it is run honestly, so --

Helvering: Of course you must take into consideration, Mr. Secretary, these companies and Annenberg himself paid 10 million dollars over these years already.

H.M. Jr: Well, let me - if this is what this meeting is for and if everybody is in agreement - you started with 20? Did you tell them 20?

Helvering: Oh, no.

Sullivan: That is why I was correcting you on that. You notice the way they started.

Foley: They started around two and a half.

H.M. Jr: Where did you start?

Helvering: They knew that the agents could put it up to about 23 million dollars. They knew that. Of course, they knew also it was erroneous.

H.M. Jr: Why did you want to see me this morning?

Helvering: Well, because I can't talk settlement to them unless I know that the figure that I am talking about is agreeable.

H.M. Jr: You can't talk settlement to them on the nine million plus until I have talked to Bob Jackson.

Foley: Finally.

H.M. Jr: No, I mean at this stage.
Helvering: Well, of course we have not finally closed. I made it very distinct to him that any figure we suggested had to be approved all along the line.

H.M.Jr: No, but at this point - is Jackson in town?

Foley: He was supposed to get back to town this morning. Guy is higher than the Justice figures, Mr. Secretary, so you don't have to worry with being lower than they might be.

H.M.Jr: Well, I made the offer to sit down with them and I want to keep my offer. I am going to say to them that you are sitting down with the attorneys this afternoon --

Foley: No, tomorrow.

H.M.Jr: Why all the hurry today, then?

Helvering: Well, I have got --

H.M.Jr: What are you going to do this afternoon?

Helvering: I have got to make all these new computations on these companies now, in order to --

H.M.Jr: Our figures are roughly nine million two and I want to know -- and that is an over-all figure.

Helvering: Yes.

H.M.Jr: Lump sum figure.

Helvering: All the last years excepting '39.

H.M.Jr: From when to when?

Helvering: From 1923 --

H.M.Jr: Through '38.

Helvering: Yes.

Bell: '39 isn't settled yet.
Wrenchel: No, it has to be litigated. Of course, Justice would be willing to accept six million.

Helvering: Well, I think that only means up to '36, wasn't it?

Wrenchel: I --

H.R. Jr: See if I have learned my lesson. You want to sit down with Kirkland tomorrow and you want to be prepared to say that the Treasury is willing to settle for '23 to '38, inclusive, for nine million two, approximately.

Helvering: Yes.

H.R. Jr: A lump sum figure.

Helvering: Yes.

H.R. Jr: I want to ask the Attorney General if that figure is agreeable. Is that right?

Foley: That is right.

H.R. Jr: Has anybody in the room here got any doubts?

Foley: The only doubt I have is that you're going to get nine, two. I don't think you are going to get it, but I think it is a very good figure to use as a basis for compromise.

Helvering: We would get a darn sight more than nine million two if we would litigate this thing clear through two or three years from now.

Bell: Why don't you think we will get it, Ed?

Foley: I don't think he can raise it. There aren't many people in the country that can raise that money just like that.

Wrenchel: He can raise somewhere between six and seven million in cash and that is all.

H.R. Jr: We can reach Jackson through the telephone company or at the Bank of Jamestown, New York.
Foley: There aren't five people in the country that can put their money up that way.

Sullivan: I can't.

Welvering: Well, I am in no frame of mind to accept less than nine million dollars at all.

Jr: Good for you.

Foley: I think Guy has done a swell job and I think if Justice had conducted these negotiations as they wanted to do, I don't think we would be anywhere near nine million dollars. I think they would be coming to us with a figure of around six million and recommending that we accept it. Maybe less than that.

Bell: Justice would be doing that?

Foley: Sure. Sam Clark came over to me and he wanted to have these negotiations over in Justice and I told him that we wanted them in Guy's office. They claimed that this was their case and we referred it to them and it was a litigation and it was up to them and I said that Guy knew more about these things than he did or I or anybody else, and I didn't think the lawyers ought to negotiate this at all. I thought Guy ought to go ahead.

Welvering: We have included a net worth of 18 million dollars.

Gaston: What we referred to them was a criminal case.

Wenchel: I saw in the Philadelphia Record it was six and a half million.

Foley: They were nice people.

Wenchel: Oh, yes.

Welvering: Of course, you know, Mr. Secretary, that several millions of that is in properties that we have taken a very great reduction on, but very good properties, like in Milwaukee an office building and a theater that are worth about two and a half or three million dollars.
Wenchel: Without a mortgage on it.

H.M. Jr: In Milwaukee?

Helvering: Yes. He has got stuff in New York and --


H.M. Jr: This is his own?

Helvering: No, that is what we set up. His comes within 16 million. They admit it is 16 million, without knowing what we had estimated.

Foley: What do you mean, 16 million?

Wenchel: 16 million net worth. They just threw that, "We are only worth 16 million."

H.M. Jr: What is in New York on East 59th Street?

Wenchel: I didn't hear the question.

Foley: What is the property in New York on East 59th?

Wenchel: That is pretty well run down. The land is the value. They are ramshackle buildings. I think they are 20 feet wide.

H.M. Jr: I am sorry to keep you waiting.

Wenchel: Without knowing our estimate, they threw that out.

H.M. Jr: You feel kind of tough, do you?

Helvering: No, but I know - no, I don't know, but I am convinced in my own mind if we litigated this over two or three years time we could get more money than this.

Sullivan: I don't think just because he is going to jail is any reason why we should give him any more discount than the ordinary person.

H.M. Jr: What I didn't understand when I talked with Sam Klaus, Campbell says we are so anxious to
settle this before the judge's sentence. What have the two got to do with each other?

Wolvering: I don't know.

Jr: Is that to make a record for William Campbell?

Foley: No, I don't think so - I think it is entirely the judge's own doings. I don't think Bill has any part in it.

E. Jr: It is the judge?

Wolvering: Yes, I think so, from what I hear. There is no doubt but what we can conclusively prove many, many fraudulent transactions in this case. They have asked us to accept what they did in '36 as taking effect in '26, for instance, and stuff done in '26 taking effect in '23. We have absolute proof on the manipulation in Annenberg's office of where he changed those things. They didn't keep very good records, because some of the people that were in their organization when the transaction was finally worked out weren't in the organization when they had taken the stock back at all. There are many cases like that. Some of the people that took the stock back, Annenberg didn't even know at that time. We can conclusively prove that.

E. Jr: That is nice.

(Telephone conversation with Bob Jackson follows;
Wenckel: Just for the record, they would settle the whole works for six million, Justice, including '38.

H.M. Jr: O.K., gentlemen.
Secretary of State,
Washington.

1134, May 7, 6 p.m.
FOR TREASURY FROM BUTTERWORTH.

The reduction of unemployment as shown by the April 15 figure to 973,000 the lowest level since 1920, though indicating an improvement in the absorption of labor into the nation's war effort is regarded as by no means satisfactory, especially in view of the attention drawn to the deficiencies of the Government's training plans by an announcement that training courses in engineering for unemployed are to be reduced from six to three months duration in order to speed up the supply of skilled engineering workers. The shortage of labor in key trades has long been causing anxiety, and a Financial News editorial today notes that to reach the maximum effort would require something like 2 million extra workers in the metal trades alone while the Government centers can now, even with the shortened course, train only a paltry 80,000 per annum.

WNC
KENNEDY
Secretary of State,
Washington.

23, May 7, 5 p.m.
FOR TREASURY DEPARTMENT.

Today’s prices as follows: 203.50; 350; 517; not listed; 1003; 215.50; 1720; 66.75; 235.25. Volume 107,400.

Market firmer in moderate trading awaiting further developments.

SHOLES

RR
Another sharp drop in sterling occurred today. After opening at 3.41, the rate declined by stages to a new low of 3.37-1/4 in the early afternoon. The closing quotation was 3.37-1/2.

As shown by the turnover figures given below, there was an expansion in the volume of business transacted in the sterling market. Foreign banks’ selling orders totalled £ 541,000, and of this amount, £ 296,000 were sold for account of banks located in Iran. It was also reported that the New York agencies of Japanese banks were sellers of sterling today.

Sales of spot sterling by the six reporting banks totaled £ 817,000, from the following sources:

By commercial concerns: ............................................................... £ 276,000
By foreign banks (Near East, Europe, Far East and So. America) £541,000

£ 817,000

Purchases of spot sterling amounted to £ 701,000, as indicated below:

By commercial concerns: ............................................................. £ 324,000
By foreign banks (Europe, South America and Far East) £ 377,000

£ 701,000

The following reporting banks sold cotton bills totaling £ 31,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 14,000 by the Irving Trust Company
6,000 by the Chase National Bank
6,000 by the Guaranty Trust Company
5,000 by the National City Bank

£ 31,000 Total

The Guaranty Trust Company reported that it had purchased £ 12,000 for forward delivery from the British Control at 4.03-1/2. The funds will be used for payments of jute and rubber.


The guilder rate was steady in the neighborhood of .5309 until the late afternoon, when it moved off to .5308. Acting under instructions from the Netherlands Bank, the Federal Reserve Bank purchased 550,000 guilders in our market for the Dutch bank’s account. The final rate for this currency was .5308-1/2.
The belga continued to recede today, reaching a low of .1672-1/2. At the close, it was quoted at .1673.

The other important currencies closed as follows:

Swiss francs  .2242
Canadian dollars  16-7/8% discount

While the pence rate for the yuan was unchanged today at 3-5/16d, the quotation for that unit against the dollar, at 4-3/4d, was 1/16d lower as a result of the lower dollar-sterling rate.

We sold $200,000 in gold to the National Bank of Belgium, to be added to its earmarked account.

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

$10,000,000 from the Bank of France
1,500,000 from the Bank of Portugal
$11,500,000 Total

The Federal Reserve Bank of New York reported the following shipments of gold, all of which are being consigned to it:

$12,452,000 from Canada, shipped by the Bank of Canada, Ottawa, for its own account, for sale to the U. S. Assay Office.
5,031,000 from England, shipped by the Bank of England, for its own account.
2,250,000 from England, shipped by the Bank of England, for account of the
Swiss National Bank.
1,024,000 from England, shipped by the Bank of England, for account of the
Bank of Portugal.
$21,517,000 Total

The disposition of the last three shipments listed above is unknown at the present time.

The State Department forwarded to us a cable stating that the Netherlands Bank shipped $3,670,000 in gold from the Netherlands to the Federal Reserve Bank of New York. The disposition of this shipment is unknown at the present time.

The Bombay spot silver quotation was unchanged at the equivalent of 42.36d.

In London, the spot and forward fixing prices for silver both declined 1/16d to 21d and 20-15/16d respectively. The U. S. equivalents were 32.33d and 31.95d.
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 ten purchases of silver totaling 1,405,000 ounces under the Silver Purchase Act. Of this amount, 450,000 ounces represented sales from inventory, and the remaining 955,000 ounces consisted of new production from foreign countries, for forward delivery.

On the report of May 1 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 $19,350,000, an increase of $392,000 in the short position. The net changes in the positions are as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Short Position April 24</th>
<th>Short Position May 1</th>
<th>Increase in Short Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>$6,305,000</td>
<td>$7,591,000</td>
<td>$1,286,000 (Decrease)</td>
</tr>
<tr>
<td>Europe</td>
<td>8,542,000</td>
<td>7,203,000</td>
<td>1,339,000 (Decrease)</td>
</tr>
<tr>
<td>Canada</td>
<td>250,000 (Long)</td>
<td>34,000 (Long)</td>
<td>216,000 (Decrease in Long Position)</td>
</tr>
<tr>
<td>Latin America</td>
<td>621,000</td>
<td>585,000</td>
<td>36,000 (Decrease)</td>
</tr>
<tr>
<td>Japan</td>
<td>3,251,000</td>
<td>3,299,000</td>
<td>48,000 (Decrease)</td>
</tr>
<tr>
<td>Other Asia</td>
<td>504,000</td>
<td>708,000</td>
<td>204,000 (Decrease in Long Position)</td>
</tr>
<tr>
<td>All Others</td>
<td>15,000 (Long)</td>
<td>2,000 (Long)</td>
<td>13,000 (Decrease in Long Position)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$18,958,000</strong></td>
<td><strong>$19,350,000</strong></td>
<td><strong>$392,000</strong></td>
</tr>
</tbody>
</table>

It will be observed that the increase in the sterling short position was more than offset by a reduction in the short position for European currencies. The latter change mainly reflected a decline in the New York banks' guilder commitments, which fell $1,129,000 to $3,532,000.
GROUP MEETING  

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

H.M.Jr:  
Norman?  

Thompson:  
I have four or five pieces here for your signature. I will give them to McKay.  

H.M.Jr:  
O.K.  

Bell, Colonel Dasher is coming in at 10:30. I would like you to sit in on it. They are about to complete a confidential report on Housing, Budget.  

Are you (Foley) ready on the Housing legislation; are you up on that?  

Foley:  
We have been looking at it, yes.  

H.M.Jr:  
Know it all?  

Foley:  
Well, if you will tell me when, I will.  

H.M.Jr:  
Now. Is Steagall reelected?  

Foley:  
That is today, isn't it?  

H.M.Jr:  
I thought it was the 5th.  

Foley:  
No, I think the primary is today.  

H.M.Jr:  
Check that first, will you?  

Foley:  
Yes, sir.  

H.M.Jr:  
Check that first and as soon as he is reelected, I want to have a meeting at the house. In the
meantime, let's find out - can you have our man on the Hill find out where the trouble is, who is giving the trouble and all the rest of that?

Foley: Sure.

E.M.Jr: Dan?

Bell: Ted Goldsmith, the gentleman who writes the weekly letter on financing concerning the Treasury and Federal Reserve Board and so forth, would like to get some information on Allied purchases and get permission to go to the Allied Commission to get some figures so that he can write a special letter on that. He thinks it might be rather important.

E.M.Jr: He doesn't need our permission.

Bell: Well, he would like to talk to someone in the Treasury.

E.M.Jr: No.

Gaston: The same request came to me from Bob Kintner, saying the identical thing, and he asked permission to talk to Harry Collins.

Sullivan: Goldsmith was in to see me, the same fellow, and I think what provoked us was that he had a release from Commerce which indicated that business was going down and down and down.

E.M.Jr: Thomas?

Sullivan: Yes.

Schwarz: Commerce.

E.M.Jr: Oh, Commerce.

White: That is New Hampshire for Commerce.

Sullivan: I think what he wanted --
H.M.Jr: Harry, when he says "Thomas" and "Commas", he means "Commerce."

White: Yes.

Sullivan: Well, it is Harry Hopkins' department.

H.M.Jr: Well, we understand.

Sullivan: Do you remember him?

H.M.Jr: Yes. I see he went to a ball game.

Sullivan: He had this release which I thought was pretty bad news and they seemed to indicate that one pretty spot in the picture was this export business and he seemed to think if that were played up it would be a good antidote for that sort of stuff they are handing out over there.

H.M.Jr: Well, the longer I am in office the longer I realize that it is a mistake to give any of these people special treatment. Any of them could walk across the street and see Mr. Ballantine, Secretary-General for the Allied Purchasing Commission, with offices in Washington.

Sullivan: They won't give out a thing.

Schwarz: They will give some stuff now. They are talking more than they were.

H.M.Jr: I refuse to do it.

Sullivan: I didn't think it would be a good idea to give it to one man, but I thought in a press conference it might be given out to everybody. I think it might have a stimulating effect.

H.M.Jr: The best answer to all of this is that steel went up four points last week. That is the answer. I am not worrying.

Bell: Well, we have no objection to their going to other people.
But I don't want to introduce him. He can walk over there and see Mr. Ballantyne, Secretary-General.

We are not sending him.

No.

I have some statistics on that gold matter, if you would like to have them. You sent a note from Chicago about checking the gold quarter balance.

I said I forgot I was Secretary of the Treasury for two days and my son said, "No, daddy, you got up at 3:00 o'clock in the morning and wrote a note." I got to worrying about three or four billion dollars worth of gold lying in New York.

Seven.

And Greenland how many hours off?

Well, this is the situation. We have capacity in Fort Knox for about 15 billion dollars in gold and we have down there about $\frac{3}{4}$ or over, so that we can still store about 9 billion and a half in gold. We have in New York on May 3 seven billion nine, but there is maybe a half billion of that in the works, refining and so forth, so we have somewhere in the neighborhood of $\frac{7}{2}$ billion that we could ship. We have money in the budget that would enable us to ship slightly over a billion dollars, so that there is something over 6 billion that will remain there.

How much will it cost?

It will cost about a billion and a quarter - a million and a quarter to ship the six billion dollars down there.

Well, I want to ask - I want enough money to ship 9 billion dollars.
Belli: Nine billion dollars?
H.M.Jr: Sure, for the fiscal year.
Bell: Everything that comes in.
H.M.Jr: Right. I want to write a letter to the President and get him to okay it.
Bell: I suppose you have quite a lot of gold in Philadelphia, also.
H.M.Jr: We haven't.
Bell: Haven't we?
Graves: No.
H.M.Jr: Well, I would ask for enough to move ten.
White: Isn't the quarter percent automatically supposed to be used for that?
H.M.Jr: No. It never has, Harry.
White: I thought it was supposed to cover expenses.
Bell: A quarter percent goes into the Treasury now.
White: But you spoke of an appropriation.
Bell: This means an appropriation and we put in, as I recall, a half million dollars to make up the two hundred and we had a hundred thousand hanging over and this gives us about $316,000.
H.M.Jr: I think you are wrong. Is there a dollar for me to move any gold today?
White: I was under the impression that we spoke of that quarter percent purchase and selling price to cover expense.
Bell: Handling charges.
White: Well, I thought handling charges --
In and out of New York.

White: I didn't know that handling charges were confined to that.

H.M. Jr: Yes, Harry.

Bell: Handling charges are supposed to be the mint charges, but even though we get the quarter of one percent, it goes into Treasury as miscellaneous receipts and we would still need the appropriation.

White: Would you, if you regarded handling charges --

Bell: Yes. The mint expenses come out of an appropriation.

White: And that quarter percent is treated, then, as purchase profit?

Bell: Why should it cost a million dollars to move a billion dollars? That seems high.

Bell: Well, it costs about 195 --

H.M. Jr: It goes to the Post Office, that is who gets it. They move it. We pay the Post Office, for it goes parcel post insured, doesn't it?

Schwarz: Registered.

H.M. Jr: We went over and over this originally and when we got all through and done, it was the most economical and safest way to send it, parcel post, insured. There is a whole company of soldiers goes with it and Secret Service. They have a chartered train and everything else. I would like to have enough for ten. I will take it over to the President myself. Would you fix it up today, Dan?

Bell: Yes, sir.

H.M. Jr: It is the height of stupidity when it costs a million and a half dollars not to remove ten billion dollars to a place of safekeeping.
White: I was still a little bit troubled how you would justify a handling charge and then have a separate appropriation.

Gaston: It is like all other Government charges, nine-tenths of them go into receipts and then they have to be appropriated out, no matter what the basis for the charge is.

White: All right.

Bell: The only exception is silver.

You asked me to bring up this letter from Pinsent and the action that the British contemplate taking Thursday of this week.

H.M. Jr: Do I have to do anything, Dan?

Bell: I don't believe the Treasury needs to do anything, do you, Merle?

Cochran: I would say, "No comment."

H.M. Jr: Wonderful! Can I have it back?

Bell: Yes, sir.

H.M. Jr: This is a memorandum from Pinsent, May 4, 1940, to me. Will you (Cochran) tell Mr. Pinsent, "No comment"?

Cochran: Yes, sir.

H.M. Jr: Have you given a copy of this to Mr. Hull?

Cochran: No, sir, I haven't. I asked Pinsent last night - I said, "Have you taken this up with any other department? Have you mentioned it to Mr. Hull or the SEC?" He said, "No." They treated it as a matter between the Ministers of Finance.

H.M. Jr: Hull - and a letter to go with it - and one to Mr. Jerome Frank.
You want them taken over?

No.

They are trying to get decisions today.

Just call them up and tell them I have no comment.

Can I have that back when you are finished?

You keep this if you wish, because I have a copy of it.

One to Mr. Hull and one to Jerome Frank, and you might as well send one to Mr. Eccles, too. Don't you think Eccles? No?

We haven't been consulting him, but I did mention those two to Pinsent last night.

I have a letter for signature approving a form for a bond.

I called up Pinsent Sunday and asked him whether he wanted the Treasury to help him get this through the House. He said he wished we would and he was afraid to ask us, so I said we would get behind it.

Anything else, Dan?

Nothing.

Harold?

Harry?

Here is a brief memorandum on the Mexican settlement of the Sinclair Oil, if you are interested in it.

I am not.

Here is a brief memo describing the British budget, what they have done and how they are operating.
Send it to the house, will you?

You may have noticed that the British Treasury announced that the Anglo-Chinese stabilization fund has been compelled to leave its support and the yuan has dropped a cent and a half.

Here are those monthly charts on the changes in trade which cover the first....

Let me have them. Thanks. What else?

That is all.

I have nothing.

Have you got my list for me?

It is on the way down. Norman Thompson has one list and we have another.

Did they go out?

Here is a list of the material that went out and here is a copy of the releases that went out. It simply cut out the first two paragraphs of your introduction.

How about Harry White's list?

We have that.

800 daily newspapers.

No, but Harry White's list.

They already have it.

That newspaper list, they were addressed to chief editorial writers of the various newspapers.

I don't know whether I am right or wrong. I wish you would think about it and ask me again to-morrow whether you think it would be good or bad to have the thing printed up and as we send out a circular - we are in the process of mailing a circular now, a baby bond circular - not to
mail it separately, but this would go with the baby bond circular. Think about it.

Gaston: I told Jim to go ahead and have it printed up and then we would take up the question of whether we would make it a separate mailing issue or not.

H.M. Jr: I wouldn't.

Gaston: I was in favor of it and he was not and then he told me we had another mailing going out in which we could include it. He was in doubt as to its relationship to baby bonds and I showed him how it had a very close relationship.

H.M. Jr: As to the advisability of stuffing it in --

Gaston: It is being printed for that purpose.

H.M. Jr: How many?

Gaston: I don't know about the number. It is a very large list.

Bell: We have a specially prepared envelope that would be the same size.

H.M. Jr: Think it over. I am not sure. I have never done it.

White: Supposing prices rise sometime within the next ten years to 25 or 50 percent. People will have bought bonds and might claim that that was one of the reasons why they got them, the assumption that this would stabilize the dollar and they had misinterpreted it.

Gaston: Even if we don't --

White: It is almost like a government promise with respect to the stability of price level.

Gaston: We can use those printed copies for mailing. We will have many requests, whether we use them for that purpose or not.
H.M.Jr: Well, I am just offering this. Think about it. We will talk about it again tomorrow. I am not sure.

Anything else, Chick?

Schwarz: No.

H.M.Jr: Merle?

Cochran: The European markets are pretty nervous this morning. Sterling has gone down to a new low of 3.37 technicians. The lowest it had been was 3.41 and 3.42.

H.M.Jr: How would the American Banker know that I had a copy of my speech cabled to London and Paris and Berlin?

Cochran: Who?


Chick, how would they know that?

Gaston: He may have connections in our telegraph office.

H.M.Jr: Look into it, Chick, please.

What else, Merle?

Cochran: Dietrich came back yesterday. He had been out a week on account of illness and unless you have some objection I would like to let him go again for ten days, beginning tomorrow.

H.M.Jr: I would like to say hello to him while he is in.

Cochran: All right, sir.

H.M.Jr: Here is a thing that will open both of your (Sullivan's) eyes.

Sullivan: They are working on Scalise.

H.M.Jr: Oh, they are working on him?
Sullivan: Yes.
H.M.Jr.: Anything else?
Sullivan: No, sir.
Foley: We won the British-American tobacco case in the Supreme Court yesterday. They denied certiorari on gold.
H.M.Jr.: Is that why Basil isn't here today?
Foley: It might have something to do with it.
Sullivan: He is in. I talked with him this morning.
Foley: Somers put your speech in the Record on Friday.
H.M.Jr.: Somers?
Foley: Yes, and Wagner had it but didn't put it in yesterday. He wasn't there when they cleaned up. Somers wants to come in and talk to you a little bit about the silver bill, that Townsend bill that is coming over from the Senate and may go to his committee and it may go to the Ways and Means. From our standpoint, I think it would be better if it went to his committee, because I think he is willing to sit on it, but he would like to come down and talk to you a little bit about it.
H.M.Jr.: When would he like to come?
Foley: Any time at your convenience, sir.
H.M.Jr.: 11:00 o'clock tomorrow.
Foley: All right, we will let him know.

The Senate Judiciary Committee yesterday reported out the Walter-Logan bill. I think if we want to get an exception for the Treasury so that our finances won't be involved, Dan and I had better go down and see Pat Harrison and ask him if he won't introduce an amendment on the Floor to give us an exception. I think he might do that for us.
Would you be willing to go?

Surely.

Isn't your veto position stronger if you don't do that?

I think that is so, Harry, but I don't think we ought to just rely on a veto. Suppose the political situation is such that the President feels that he can't veto it. I think we ought to take care of ourselves now. Right?

Yes. In any other year we could do it that way.

You have got a point there, but I think we can't take a chance, Harry.

I should think you could find that out ahead of time.

Every indication points to a veto, but you never can be sure and I don't see why we should rely entirely on that when we can get exception, probably.

In connection with the Norwegian money, the Bank of Norway and the government funds, Bernie had a conference yesterday with Berle over in the State Department and Berle is prepared to write the Bank in New York, the Federal Reserve Bank in New York --

Do you mind? I came down with Bell. Bell said it is all under control and I don't have to bother much. If you have any doubts, will you talk to Dan?

I have no doubts. I just wanted to tell you it looks as though both the State Department and the Federal Reserve Bank in New York are satisfied to give the Minister power to withdraw the funds.

Dan thinks that it is a break for us that the State Department goes directly to the Federal Reserve of New York.
Foley: That is right, and keeps us out of it. There is no responsibility in so far as we are concerned. We have control through the licenses. We will know how the disbursements are made.

You wanted me to speak to you about the Jesse Jones legislation.

H.M. Jr: Yes, but not now. Keep after me. The preferred thing - out.

Bell: Is that the 700 million, is that the reduction of the capital?

H.M. Jr: Yes.

Foley: That is involved. It is the legislation he left here the other day.

Bell: I will have a report on that today, won't I?

Foley: The report is on my desk. I made some changes on it before I came in here.

H.M. Jr: Do you gents want to see me today?

Bell: Today or tomorrow. Today, probably, because they are calling for it in the Budget.

H.M. Jr: 3:30?

Bell: That will be all right.

H.M. Jr: 3:30. What else?

Herbert?

Gaston: Huntington Cairns went out to see Bill Johnson last night. His injuries are pretty serious. He was in an automobile wreck, you know, a week ago Sunday and he has an apparently fractured sacroiliac, which will permanently handicap him in movement, probably. He is tied up for a little while yet.

Clint Mosher was in to see me the other day. You mentioned the U. S. Housing Authority. He
had just been let out by Straus' organization. He is in desperate need of a job.

H.M.Jr: Herbert, please don't wish any more of these kind of people on me. I want to get some person that I would like to pick. I don't want any more newspaper men of that type and the type of that other man shoved on me. Don't get me started.

Gaston: All right.

H.M.Jr: I would like to pick one person myself. Well, don't get me started.

Gaston: All right.

H.M.Jr: I took the other person against my better judgment and when I want to get somebody that - nobody had an idea of how to merchandise my own talk and it is a pretty bad comment on the whole thing. Nobody had any suggestions on how to get it out or who to send it to, not one. If it is unfair, you say so, Chick, but not a single person had any suggestions and I had to do it. I had to give the suggestions. I had to see to the whole thing myself, and I had to do everything but lick the stamps. I don't want any more pet notions.

Did you make a single suggestion?

Schwarz: I was ---

H.M.Jr: Or anybody in your shop?

Schwarz: I was told to maintain the columnar dignity of the Treasury.

H.M.Jr: By whom? By me?

Schwarz: That is right.

H.M.Jr: In regard to that talk?

Schwarz: Yes.

H.M.Jr: When did I ever say that to you?
Last Thursday evening.

In regard to what?

In regard to the talk.

Now listen, I never used that language in my life. Columnar dignity of the Treasury?

That is right.

Never used that language in my life; never used such words.

Those things are a matter of policy in how to merchandise a talk.

I would like to have somebody push something at me once and have me say, "No, you are going too far," instead of having to push things at your office all the time. I never used such language in my life. I don't want any more people like that. I am sorry you brought it up.

I am sorry I did, too, but I thought you might be interested. Ernest Lindley also called up in his behalf.

Well, I am sorry you brought it up.

What else?

Nothing else.

O. K.
Prepared by: Mr. Murphy
Mr. Lindow
Mr. Tickton
Mr. Haas
To: Secretary Morgenthau
From: Mr. Haas
Subject: Developments in the High-grade Securities Markets

SUMMARY

(1) Domestic securities markets were quiet last week, the yields of Government, corporate and municipal securities moving within a narrow range (Charts I and II).

(2) British and French Government internal securities were not greatly affected by the war developments last week. Norwegian and Italian Government dollar issues, however, moved to new low levels for the year.

(3) One of the most significant phenomena noted in the capital markets during recent years has been the rapid growth in the extent to which investments are being made through the medium of financial institutions rather than directly by individual and corporate savers. Since 1933, for example, individuals and corporations (other than financial institutions) have not purchased, on net balance, any part of the increase in the outstanding volume of public securities. They have, as a matter of fact, disposed of a portion of their previous holdings of such securities (Charts III and IV).

This institutionalization means that borrowers must now look to banks and insurance companies for the bulk of their new money requirements. As long as the present situation continues, the volume of risk capital is likely to continue to remain relatively small.

I. Domestic Securities Markets

High-grade securities markets were quiet last week. Prices of long-term Government, corporate and municipal issues fluctuated within a narrow range, our averages of the yields of
representative issues moving not more than 2 basis points during the entire week (Charts I and II). Market interest centered on the price fluctuations of foreign bonds listed on the New York Stock Exchange and in the successful bond offering of the Union Pacific Railroad Company (see our memorandum of May 2, 1940).

II. Foreign Securities Markets

War developments last week caused further declines in the prices of European government dollar securities listed on the New York Stock Exchange. Norwegian and Italian Government issues moved to new low levels for the year while Danish issues stood slightly above previous low levels. Prices of representative issues at the close on Monday of this week and last week are shown in the following table. For perspective, prices on April 8, and 9, 1940 -- before and after the German invasion of Norway and Denmark -- are also shown.

<table>
<thead>
<tr>
<th>Country</th>
<th>Issue Year</th>
<th>Monday April 8</th>
<th>Tuesday April 9</th>
<th>Monday April 29</th>
<th>Monday May 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>4-1/4's of 1965</td>
<td>71</td>
<td>41</td>
<td>33-1/4</td>
<td>23-1/8</td>
</tr>
<tr>
<td>Denmark</td>
<td>4-1/2's of 1962</td>
<td>39-7/8</td>
<td>23</td>
<td>21-3/4</td>
<td>20-3/4*</td>
</tr>
<tr>
<td>Belgium</td>
<td>6's of 1955</td>
<td>100-1/8</td>
<td>90-1/2</td>
<td>88-1/4</td>
<td>88-3/4</td>
</tr>
<tr>
<td>Italy</td>
<td>7's of 1951</td>
<td>62</td>
<td>57-1/2</td>
<td>52-5/8</td>
<td>48-1/2</td>
</tr>
</tbody>
</table>

* Saturday, May 4.

British and French Government internal securities were not greatly affected by developments during the week. British 2-1/2 percent consols closed at 75-1/8 on Monday, to yield 3.35 percent, up 3/4 point for the week. French Government 3 percent perpetual rentes closed at 74-85, to yield 4.04 percent, as compared with 75.15 a week ago.
III. Institutionalization of Investment

One of the most significant phenomena noted in the capital markets during recent years has been the rapid growth in the extent to which investments are being made through the medium of financial institutions rather than directly by "primary savers". The "primary savers" -- individuals and corporations who save out of income and invest their savings directly in securities -- no longer constitute, on net balance, an important source of investment funds. They seem to have been replaced by institutional investors -- principally banks and insurance companies -- into whose hands they have placed their funds for investment.

This new development in the capital market is an important one because it means that at the present time borrowers of capital must look to institutions rather than to individuals for the bulk of their new money requirements. These institutions, because they place the emphasis on the preservation of capital as against capital appreciation, are attracted primarily by high-grade bonds rather than by equity or other risk securities. The fact that they are now a major source of investment funds means that as long as the present situation continues the volume of risk capital is likely to continue to remain relatively small. What to do about this absence of risk capital is one of the important unsolved problems of our recovery.

The statistical facts relating to the institutionalization of investment that has been going on in the security markets since 1933 are not complete. We have only a limited amount of data, for example, on the ownership, by major classes of investors, of some of the securities outstanding during the period. These data are discussed in the sections that follow. Conclusions with respect to the entire capital market can be drawn from this information, however, because such information is sufficiently broad to imply the nature of the data that are missing.

(a) Public Securities. Our data on the ownership of public securities -- the term is used here to include all securities issued by the Federal Government and its agencies and by State and local governments -- are relatively complete for the period since 1933. They are shown by gross amounts in Chart III, and in the form of cumulative changes in the holdings of the various classes of investors in Chart IV.
It is apparent from the chart that individuals and corporations (other than banks and insurance companies) have, as a class, disinvested a large volume of open market issues of public securities since 1933 — a period during which the outstanding volume of such issues increased rapidly. They have offset these disposals to a limited extent by the purchase of restricted issues, mainly of United States Savings bonds, as is shown in the following table:

<table>
<thead>
<tr>
<th>FUNDS DISINVESTED</th>
<th>(Millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm loan obligations</td>
<td>405</td>
</tr>
<tr>
<td>Other United States obli-</td>
<td>1,010</td>
</tr>
<tr>
<td>gations* (open market</td>
<td></td>
</tr>
<tr>
<td>issues)</td>
<td></td>
</tr>
<tr>
<td>State and local obliga-</td>
<td>2,842</td>
</tr>
<tr>
<td>tions</td>
<td>4,257</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FUNDS INVESTED</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Savings bonds</td>
<td>2,436</td>
</tr>
<tr>
<td>Postal Savings and Adjusted</td>
<td></td>
</tr>
<tr>
<td>Service bonds</td>
<td>318</td>
</tr>
<tr>
<td></td>
<td>2,754</td>
</tr>
</tbody>
</table>

| NET DISINVESTMENT          | 1,503                 |

* Includes direct and guaranteed issues and FHLLB and FNMA debentures.

(b) Corporate Securities. Our data on the amount of corporate securities outstanding and the ownership thereof are quite fragmentary so that the changes in the holdings of the various classes of investors cannot be traced in detail. We do have some data, however. These point to the conclusion that individuals and non-financial corporations by disposing of part of their corporate security holdings have, as a class, added to their funds available for investment and that these funds, as in the case of those derived from the liquidation of public securities, have been placed in the hands of institutions for investment.
The supply of corporate securities outstanding in the market has declined since the middle of 1933. This follows from the facts that (1) there has been no positive increase in the supply of such securities arising from new money financing since that time*, and (2) there have been substantial decreases in the supply due to reorganizations, bankruptcies, reacquisitions at a discount by borrowers, operation of sinking funds, etc.

Institutional investors hold about $1-1/4 billions more of corporate securities now than they did in 1933. Banks hold about $1-1/2 millions less than they did in 1933, largely as a result of the disposal of second-grade securities as the banks turned to Governments. The 37 large life insurance companies for which we have data increased their holdings of corporate securities, on the other hand, by $2.3 billions during the period, largely as the result of privately obtaining the placement of the entire amount of many refunding issues.

The net conclusion from the foregoing is that public and corporate securities have been removed on balance from the portfolios of individuals and corporations (other than banks and insurance companies). This net disinvestment has permitted these individuals and corporations to accumulate funds available for investment. To these have been added the new savings made during the period. The gross amount of these accumulations has been either (1) hoarded, (2) invested in tangible assets, or (3) placed in the hands of institutions for investment. No data are available as to the amounts that were directed to each of these alternatives, but we know from the experience of the institutions themselves that the last of these alternatives has been extremely popular.

* Figures supporting this statement appeared in our memorandum of June 5, 1939 entitled "No New Money (Net) Raised by Securities Issues, 1933-38, Except Through United States Obligations". The developments since 1938 have not changed the conclusions presented in that memorandum.
Chart 1

Comparative Yields of Average of All Long Term U.S. Treasury and Average of High Grade Corporate Bonds

[Graph showing weekly and daily quotations for Long Term Treasury and Corporate bonds, with a spread between the two.]
Chart II
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND DOW-JONES AVERAGE OF MUNICIPAL BONDS
Yields Based on Saturday Quotations

- Long Term Treasury* (10 years or more in earliest call date)
- Twenty 20-Year Municipal Bonds
- Differential

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

Regraded Unclassified
HOLDINGS BY PRINCIPAL CLASSES OF INVESTORS OF THE OUTSTANDING VOLUME OF PUBLIC SECURITIES

As of June 30, 1933 to 1936 and March 31, 1940

- Government Agencies and Funds
- Business
- Individuals and Non-Financial Corporations
- All Active Banks

**Legend:**
- Includes all exempt issues of the Federal Government, its agencies and instrumentalities and of State and local governments. Excludes issues held by the Treasury.
- Includes the small amounts held by financial corporations other than banks and insurance companies and amounts held by tax exempt institutions.
- Includes Adjusted Service and Postal Savings Banks.
CUMULATIVE CHANGES IN THE HOLDINGS OF THE PRINCIPAL CLASSES OF INVESTORS IN PUBLIC SECURITIES

As of June 30, 1933 to 1939 and March 31, 1940

DOLLAR BILLIONS

1933 1934 1935 1936 1937 1938 1939 1940 1941 1942

-14 -12 -10 -8 -6 -4 -2 0 +2 +4 +6 +8 +10 +12 +14

-14 -12 -10 -8 -6 -4 -2 0 +2 +4 +6 +8 +10 +12 +14

Individuals and Non-Financial Corporations
(U.S. Savings Bonds, etc., etc.)

Insurance Companies

Government Agencies and Funds
(Including Federal Reserve Banks)

All Active Banks

Includes issues of the Federal Government, its agencies and instrumentalities, and of States and Local Governments. Excludes issues held by the Treasury.

Includes issues held by financial corporations, other than banks and insurance companies, and issues held by tax exempt institutions.

Includes Federal Home Loan and Federal Mortgage Banks.

Office of the Secretary of the Treasury

Regraded Unclassified
May 7, 1940
9:10 a.m.

H. M. Jr.: Hello.

Operator: Mr. Harold Smith.

H. M. Jr.: Thank you.

O: Go ahead.

H. M. Jr.: Hello.

Harold Smith: Hello. We've got that memorandum ready to cart over to you.

H. M. Jr.: Which one is that?

S: The one on housing.

H. M. Jr.: Oh, goody.

S: Now, what I -- what I may have to have is an interpretation of it. (Laughs)

H. M. Jr.: Yeah.

S: I'm not sure that I understand it myself.

H. M. Jr.: Uh-huh. Well, what do you -- do you want to send it over by hand, or.......

S: Yeah, I'll send it over to you.

H. M. Jr.: And then if I......

S: A copy of it. Now, there's some -- there are some references there to a statement that Currie made to the President and some observations on that -- this is really a memorandum to the President sent over here for some observations.

H. M. Jr.: Right.

S: Now, I'll send that over to you and you use it for your own personal information. Insofar as the other references are concerned, why you can forget those.
H.M.Jr: Will you mark it Mrs. Klotz and send it to her so that I get it right away. Mrs....
S: Mark it for whom?
H.M.Jr: Mrs. Klotz -- K-l-o-t-z. If they deliver.....
S: All right.
H.M.Jr: If they deliver it into her hands she'll bring it right in.
S: All right.
H.M.Jr: Now, Harold -- hello?
S: Yeah.
H.M.Jr: I want some more help. I've been out in the field. I visited Dayton yesterday, the Air Corps....
S: Yes.
H.M.Jr: And from what I see -- I may be all wrong -- but I'm willing to make a bet with knowing very little that I doubt if in two to three years we will properly equip an army, as I understand it of 453 thousand. Hello?
S: Yes.
H.M.Jr: I understand from Bell that you have a man over there by the name of Colonel Dasher.
S: Yes.
H.M.Jr: ......who they tell me is a whiz.
S: Well, he knows a lot about it, of course.
H.M.Jr: I wondered if you'd be willing to send him over here and I'd like to tell him what I'd like to have -- find out for the President and me. See?
S: Yes.
H.M.Jr: To sum up, what I'd like to know is how much money would it take and what is the time factor involved.
to properly equip the Army of 483 thousand.

S: All right. When do you want him to come over?

H.M.Jr: Well, if he could be here at eleven-thirty.

S: I'll check and let you know, or let your secretary know.

H.M.Jr: All right. If I don't hear I'll take it he's here.

S: All right.

H.M.Jr: But I'm terribly disturbed.

S: Yes.

H.M.Jr: And they tell me that this -- for instance this Garand rifle that you hear so much about......

S: Yes.

H.M.Jr: ...... -- in the first place the Rifle Association says it's no damn good, which may or may not be true.

S: Yeah.

H.M.Jr: But they tell me that Remington Arms say they can't produce 65 thousand under three years.

S: Um-hm.

H.M.Jr: Now, the thing that I'm interested in is, one, the money, and two, the time factor involved.

S: Yes.

H.M.Jr: If they had the money how long would it take them before they could have the Army in an all-around fighting organization.

S: Yes.

H.M.Jr: Now, just between us -- to illustrate the height of stupidity, at Cabinet meeting the President got
into an argument with the V.P., and the V.P. said, "Well, how much money do you need?" Well the President said I said this morning we don't need any more, and he turned to Woodring and said, "Do we?" "Oh, yes," says Woodring, "we desperately need 500 thousand blankets."

S: Yes.

H.M.Jr: Well now, if I was in charge the last thing I'd do is to order blankets because you can get those in a month, can't you?

S: I would think so.

H.M.Jr: I mean, they may not be just to the Army's specifications but certainly this country can turn out a half a million blankets in a month or two.

S: Yes.

H.M.Jr: And I don't think -- and that was the only thing that Woodring said we needed.

S: Yes.

H.M.Jr: Now, can you imagine anything more stupid?

S: No, I can't, and I have other examples of similar stupidity.

H.M.Jr: Now, what I'm doing I'd like to do in conjunction with you and -- and for the President and for nobody else, do you understand?

S: Yeah.

H.M.Jr: But I am terribly worried and I think -- I just don't think that the Army -- Woodring gives him any information and what he gives him I think is misinformation.

S: Yeah. Well, I think that -- my impression is that they're spending the money about as fast at the present time as they can profitably do so, but I can't prove it and I think the -- when you get right down to it, -- the weakness is in administration.
We've seen a great many examples of it. The kind of thing you don't talk about but......

H.M.Jr: I know.

S: ......it's there nevertheless, evidence of it. Well, I'll get Dasher over.

H.M.Jr: You -- you get him over and when he comes over maybe he could bring over that housing memorandum. That would be time enough.

S: All right.

H.M.Jr: How would that be?

S: Yes. All right.

H.M.Jr: What?

S: All right, I'll take care of it that way. I may want to check it before hand.

H.M.Jr: And if he could be made -- is he very busy right now, Dasher?

S: Well, I'll have to check this morning. All the boys are pretty busy, you know......

H.M.Jr: I know.

S: ......right now.

H.M.Jr: But if the President is going to do anything about this at this Congress we'll all have to move damn quick.

S: That's right. All right, sir.

H.M.Jr: Thank you.

S: Goodbye.
Hello.

Summer

Welles: Good morning, Henry.

W. W. Jr: How are you?

W: Fine. Henry, I want to speak to you a minute about this Ward passport matter in which you were interested.

W. W. Jr: Yes, he's outside now.

W: This is the situation: If the General Motors Company will tell us that Mrs. Ward is a salaried employee of the General Motors on their payroll and is doing bona fide work for them, Mrs. Shipley, the head of our Passport Division, will grant her the visas as in the case of her husband.

W. W. Jr: Yes. Well, supposing......

W: That is the only -- that is the only point. You understand we are simply swamped with requests of this kind all the time and we have to keep to our regulations, but in this case, as I have told you, if it really is a bona fide case and she is on the payroll and they will tell us so, there won't be any difficulty.

W. W. Jr: Well, who should tell Mrs. Shipley so that she will believe it? I mean, he's......

W: Would you hold the wire just one second?

(Mr. Welles talks aside to Mrs. Shipley)

Mrs. Shipley is here with me and she says that all that she needs is to have it in writing from the head of the personnel division of the company, Mr. Harvey.

W. W. Jr: Mr. Harvey?

W: Yeah.
All right. Now, let me ask you this, if there's any other trouble -- I mean, it's important enough to me that I'd be willing to put her on the Treasury payroll.

That you'd be willing to put her on the Treasury payroll.

Yeah, if I......

I don't think we have to go that far.

Yeah, but I mean supposing General Motors didn't. You see what I'm after in return for this, I want a weekly report of what he's going to see.

Yes, I understand.

That's my interest.

Yeah.

But if -- if the other thing doesn't work, I'm going to -- if I put her on our payroll that would clear it up, wouldn't it?

Why, of course, then she'd be a government employee going for government business.

Yes.

But I'd much rather not do that, Henry, because she's a Canadian by birth.

Oh, I didn't know that.

Yeah.

Well, then I'll get something in writing -- a telegram or something to Mrs. Shipley -- a telegram within the hour.

All right, Henry.

I'm ever so much obliged and that thing in regard to Norway......

Yes.
H.M.Jr: Bell and Foley and everybody say it's all right and when he's ready to draw his check, as I understand it is 800 thousand, he'll get the money.

W: Fine. I just wanted to make sure last night that you personally were satisfied with it, that's all.

H.M.Jr: Well, on Bell's and Foley's say-so I am.

W: All right, Henry.

H.M.Jr: Thank you.

W: Goodbye.
May 7, 1940
11:03 a.m.

H.M.Jr: Hello.

Ruth B. Shipley: Hello.

H.M.Jr: Mrs. Shipley......

S: Yes.

H.M.Jr: Henry Morgenthau, Jr.

S: Yes.

H.M.Jr: Are we all right now on Mrs. Ward?

S: I guess you're all right. I'm embarrassed and I expect to be for the next fifteen years but I'll -- they are to send me a telegram and Harvey, the personnel man, is to take in a letter to the New York office and we'll get going then.

H.M.Jr: And --but you're going to get the kind of telegram mentioning the salary and all that?

S: Yes.

H.M.Jr: Have you talked to him?

S: Yes, he -- Mr. Anderson in Mr. Sloan's office has just hung up.

H.M.Jr: Oh. And you're all set.

S: Yes, I've told him what I need and I've told him I would like Mr. Harvey, the director of their personnel, to confirm it in a letter because it is with him I usually deal.

H.M.Jr: Fine. Well, then I can tell Mr. Ward his worries are over?

S: (Laughs) His worries will never be over until he has but the passport worries will be over just as soon as the New York office gets an instruction, which ought to be in the course of the day after I get the telegram, and then they can take her passport in up there and have it fixed.
H.M.Jr: Well, will you let Mrs. Klotz know during the day?
S: I think the people up there are going to do it, Mr. Sloan's office.
H.M.Jr: Oh.
S: The passport isn't -- I haven't the passport.
H.M.Jr: Oh.
S: It has been put in order for Italy and Switzerland, which was according to the rule and which she could have, and she has it.
H.M.Jr: Oh, does that let her go to France? That's where she wants to go.
S: No, it didn't, but she'll have to bring that in and have it fixed up in New York.
H.M.Jr: But the release has to come from you personally.
S: Yes. As soon as I get the telegram I'll release it to New York.
H.M.Jr: That's all I wanted to know.
S: Yes.
H.M.Jr: Thank you.
Hello.
The Attorney General is out of the city until the end of the week. I have his office on the line.

Well, tell them I want to talk to him wherever he is. It's important, if you please.

All right.

Wherever he is I want him.

All right.

Hello.

I have Mr. Robert Jackson, the Attorney General.

Thank you.

Go ahead, please.

Hello.

Hello.

Hello, Bob.

Yes.

This is Henry talking.

How are you?

Fine, how's spring up in Jamestown?

Oh, it's fine. I just got in from a long ride over the hills.

Jealous as hell.
J: Oh, it's grand up here.

H.M. Jr: Well, you've got sense. Bob, I have my men here on the Annenberg case and Guy Helvering is recommending that he go ahead and be permitted to settle in a lump sum for 9 million 2 more or less, approximately 9 million 2. You remember at Cabinet I said I wouldn't....

J: Yes.

H.M. Jr: ......do anything until I spoke with you or sat down with you.

J: Yes.

H.M. Jr: If you are not familiar with it and wanted to check with Sam Clark, I think it's important enough you do. I think we're about 3 million above what your boys had in mind but you'd better ascertain that for yourself. And I'd like to know whether 9 million 2 would be agreeable to you personally.

J: Well, I think I can answer that off-hand.

H.M. Jr: O. K.

J: I think it is.

H.M. Jr: All right.

J: I don't -- there's no such settlement ever been made in history.

H.M. Jr: Yeah.

J: And of course the situation is that I told Sam that even if we had some difference of opinion, we haven't any figures to back any other opinion up with.

H.M. Jr: I see.

J: We should be guided by your figures in the matter.

H.M. Jr: All right. Well, the Commissioner feels very strongly about it and he feels that if he doesn't get it, why over a course of several years' litigation he can get more.
J: Yeah.

H.M.Jr: And he feels that -- oh, it's 9 - 2 more or less -- in that range there that that's what we ought to get and he wants to make it a lump sum rather than break it down.

J: Yes.

H.M.Jr: And that's from '23 to '38, inclusive.

J: Uh-huh.

H.M.Jr: But Guy is feeling very tough today.

J: (Laughs) Well.......

H.M.Jr: And he thinks.......

J: ......I think that if that's -- figure is satisfactory to you it's certainly all right with us and we're not going to -- we're not going to try to make any adjustment of it that isn't on your figures.

H.M.Jr: Right. Well now, just a minute. Guy says he wants to tell me one thing. Would you mind waiting a minute?

J: Yeah, sure.

H.M.Jr: Just a second.

(Brief pause.)

Oh, Guy said that I said from '33 to '38 -- or '23 to '38 -- from '23 to '38, inclusive.

J: Yeah.

H.M.Jr: He says your boys figure it shouldn't go beyond '36.

J: Oh, yes. Um-hm.

H.M.Jr: So he just -- but anyway, 9 million 2 would be O.K. with you?
J: Oh, yes. Oh, yes.
H.V. Jr: Well then, we don't have to sit down together on this.
J: No, I think that's all right.
H.V. Jr: And before they take less than 9 million I'll call you again.
J: Yes, all right. Fine. I'll be down there tomorrow.
H.V. Jr: I'll give him a couple hundred thousand dollars to play with, how's that?
J: Well, I'd give him a little discount for cash.
H.V. Jr: (Laughs.) All right.
J: (Laughs.) I tell you, we always figure, you know, that cash is a little better than promises.
H.V. Jr: I see. Well, that's what I tried to tell them the other day. I'd rather take gold than pieces of paper.
J: Yes, yes.
H.V. Jr: All right, Bob.
J: All right, fine.
H.V. Jr: Thank you.
J: Goodbye.
May 7, 1940
3:51 p.m.

H.M.Jr: Hello.
O: Go ahead.

Louis Compton: Yes, Mr. Secretary. Yes, sir.

H.M.Jr: I find that our letters crossed -- I just have one from Edison which says, "Dear Henry: Will notify Captain Puleston anytime we get anything from our Naval Attache in London we think might possibly be of use to you in your Department. May I ask you to reciprocate?" And so forth. "Signed, Charles Edison." So that takes care of that.

C: I see. Well, I -- I didn't know that that letter had been written, and I checked then with Anderson and he -- he and I have a definite understanding of the whole thing.

H.M.Jr: Well, I didn't know......

C: So I think it will be all right now.

C: Yes, I see.

H.M.Jr: So I didn't want to seem as though I was......

C: All right. Fine, Mr. Secretary.


C: Not at all. Goodbye.
May 7, 1940

Dear Bill:

This will introduce to you Mr. Carl Ward who is heading a mission for General Motors to improve French aviation production on the invitation of the French Government.

I have asked Mr. Ward to give me a weekly report on what he sees with his own eyes and I would like to have this forwarded to me by diplomatic pouch. I intend to restrict his report to the President, General Arnold, Admiral Towers and myself.

I feel sure that you, yourself, will enjoy meeting Mr. Ward and I would appreciate your giving him every possible assistance.

With kind regards,

Yours sincerely,

(Signed) H. MORGENTHAU JR

Honorable William C. Bullitt,
American Ambassador to France,
Paris, France.

Copy to Ambassador Bullitt via diplomatic pouch
Copy to Mr. Ward
Humanitarian Minister, where the palace was procured.

interested to think that we have any interest in the matter, and that if you were greatly
impressed from the matter, and that if you were greatly
he, I think, addressed me that most of the Australians were
an interested to consider. After the records, the
up to that time, humanitarian had been secured.

expert would be made.

Secretary of State for War assured that no such re-
request was to be repeated to Government. Mr. Green
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Secretary and that the humanitarian and that the humanitarian
was referred by the humanitarian
He said that he had been approached by the humanitarian

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and that it had been arranged before the Colliery Com-
Commission. He, Green, said to know that the humanitarian
Commission, the humanitarian considered humanitarian
so

FROM: Mr. Green

TO: Secretary

May 7, 1940

CONFIDENTIAL
May 7, 1940

AMBASSADOR BULLITT
PARIS FRANCE

VIA U.S. NAVY MOST SECRET CODE
FROM SECRETARY OF THE TREASURY

BLOCH LAINE INFORMS ME THAT THEY HAVE NO ENGINES
FOR THEIR NEW BLOCH BOMBER AND HAS ASKED ME TO
ASSIST HIM TO GET ENGINES AT ONCE PERIOD PLEASE
SECURE FIRST HAND INFORMATION AS TO THEIR TOTAL
ENGINE NEEDS PERIOD WHEN WILL FIRST BLOCH BOMBERS
BE READY TO LEAVE FACTORY AND HOW MANY PER MONTH.

HENRY MORGENTHAU JR
May 7, 1940

AMBASSADOR BULLET
PARIS FRANCE

VIA U.S. NAVY MOST SECRET CODE
FROM SECRETARY OF THE TREASURY

BLOCH LAINE INFORMS ME THAT THEY HAVE NO ENGINES
FOR THEIR NEW BLOCH BOMBER AND HAS ASKED ME TO
ASSIST HIM TO GET ENGINES AT ONCE PERIOD PLEASE
SECURE FIRST HAND INFORMATION AS TO THEIR TOTAL
ENGINE NEEDS PERIOD WHEN WILL FIRST BLOCH BOMBERS
BE READY TO LEAVE FACTORY AND HOW MANY PER MONTH.

HENRY MORGENTHAU JR
May 7, 1940

AMBASSADOR BULLITT
PARIS FRANCE

VIA U.S. NAVY HOST SECRET CODE
FROM SECRETARY OF THE TREASURY

BLOCK LAZNE INFORMS ME THAT THEY HAVE NO ENGINES FOR THEIR NEW BLOCK BOMBER AND HAS ASKED ME TO ASSIST HIM TO GET ENGINES AT ONCE PERIOD PLEASE SECURE FIRST HAND INFORMATION AS TO THEIR TOTAL ENGINE NEEDS PERIOD WHEN WILL FIRST BLOCK BOMBERS BE READY TO LEAVE FACTORY AND HOW MANY PER MONTH.

HENRY MORGENTHAU JR
May 7, 1940

EXTRA CONFIDENTIAL.

My dear General:

I would appreciate if you would arrange that the enclosed message be sent in most secret Navy code to Ambassador Bullitt via the United States Naval Attaché in Paris and also instruct the Naval Attaché to handle the return message from Ambassador Bullitt to me.

Yours sincerely,

General Edwin H. Watson,
The White House.
May 7, 1940

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The White House.
May 7, 1940

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Yours sincerely,

General Edwin M. Watson,
The White House.
May 7, 1940
10:15 a.m.

Present:

Captain Collins
Captain Puleston
Mr. Young

HM, Jr: Incidentally, Collins, make a note that that memorandum you gave me that has to do with French engines for French planes, I gave that to Brett and he said that he would have an answer for me in a day or two, so I have not got it. You had better give me another copy.

I want to dictate this and then you fellows can fix it up in your language. I want to send a message to Bullitt, through the Navy. I will have to clear it with General Watson and have him send it over, because I want it in Navy code, but I want it in language the Naval Attache can make sense of it.

"Ambassador Bullitt.
Via U. S. Navy secret code.
From Secretary of the Treasury.

Bloch Line informs me that they have no engines for their new Bloch bomber and has asked me to assist him to get engines at once. Please secure first-hand information as to their total engine needs. When will first Bloch bombers be ready to leave factory and how many per month."

I just want to make sure the French are not lying. Does that make sense?

Captain Puleston: Yes. You could shorten it a little if you wanted.

HM, Jr: I would not bother. As I understand it, they have a machine in Paris, as well as in London, a decoding machine, so it's not a matter of words.
Captain Fuleston: Oh, yes!

HM, Jr: And then I want to send an accompanying letter to General Watson.

"Extra Confidential.

My dear General;

I would appreciate if you would arrange that the enclosed message be sent in most secret code to Ambassador Bullitt via the United States Naval Attache in Paris and also instruct his Naval Attache to handle the return message from Ambassador Bullitt to me."

All right, Miss Chauncey, if you will get that right off.    000-000
MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Sullivan

Conferences re prospective contracts with the Anglo-French Purchasing Mission:

<table>
<thead>
<tr>
<th>Name</th>
<th>Company/Position</th>
<th>Date</th>
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<tbody>
<tr>
<td>Charles J. Stilwell</td>
<td>Warner and Swasey Company</td>
<td>1940</td>
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<td>L. D. McDonald</td>
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<td>January 31</td>
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<td>Mr. Berna</td>
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<td>W. R. Ellis</td>
<td>Hercules Powder Company</td>
<td>February 1</td>
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<td>E. B. Morrow</td>
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<tr>
<td>John A. Graves</td>
<td>Attorneys for Hercules</td>
<td>February 13</td>
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<td>Robert N. Miller</td>
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<td>Homer Hendricks</td>
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<td>Gordon Simpson</td>
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<tr>
<td>William J. Kelly</td>
<td>Machinery and Allied Products Institute</td>
<td>April 10</td>
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<tr>
<td>Messrs. Koehler and Compton</td>
<td>Attorneys for Glen L. Martin</td>
<td>March 21</td>
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<tr>
<td>Robert M. Gaylord</td>
<td>Ingersoll Milling Machine Company</td>
<td>April 10</td>
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<td>Arthur Ballantine</td>
<td>Anglo-French Purchasing Mission</td>
<td>April 30</td>
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<td>S. M. Simpson</td>
<td>Wright Aeronautical Corporation</td>
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<td>George Montgomery</td>
<td>Spence, Windels, Walser, Hotchkiss and Angell</td>
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<td>Mr. Gordon</td>
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<td>Mr. Van Anda</td>
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<tr>
<td>Kenneth MacDonald</td>
<td>Allison Motors Company</td>
<td>May 1</td>
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<tr>
<td>Paul Shorb</td>
<td>Attorney</td>
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Contractors who have consulted the Internal Revenue Bureau re tax features of contracts with foreign governments:

| Company/Position                     | | Date       |
|-------------------------------------||------------|
| Dates: December 5, 1939, January 16 and 30, 1940 and February 8, 1940. | |            |
Colt's Patent Fire Arms Manufacturing Company
In re: Sales of guns to England
Date: March 25, 1940.

Curtiss-Wright Airplane Corporation
In re: Sale of airplanes to foreign governments.
Dates: November 29, 1939, April 27 and April 30, 1940.

Douglas Aircraft Corporation
In re: Sale of airplanes to France.
Date: February 7, 1940.

The E. I. duPont deNemours and Company, Inc.
In re: Sales of military powder to foreign governments.
Dates: August 9 and December 11, 1939.

General Motors Corporation (Allison Engineering Division)
In re: Sales of airplane engines to foreign governments.
Dates: April 29 and May 2, 1940.

Hercules Powder Company
In re: Sales of military powder to the English.
Dates: December 5 and 7, 1939, February 1 and 2, 1940, and March 2 and 6, 1940.

Glen L. Martin Company
In re: Sales of airplanes to foreign governments.
Date: April 17, 1940.

United Aircraft Corporation (Pratt and Whitney Division)
In re: Sales of airplane engines to France.
Dates: October 11, 1939, November 21, 1939 and March 29, 1940.
PARAPHRASE

A telegram of May 7, 1940, from the American Ambassador to the American Consulate General at Shanghai at Chungking reads substantially as follows:

Instructions are being given to the general manager of banking department of Central Bank to extend to the manager of the American Express Company an invitation to join the unofficial consultative committee, according to information now received by the American Ambassador from the Ministry of Finance, which asks that the same information mentioned in Chungking's telegram of April 25 be confidentially conveyed to the manager of the American Express Company at Shanghai.
MEMORANDUM FOR THE SECRETARY:

Shipping Situation

Aside from the fact that the Pacific Coast freight and charter market remained firm although spotty, there was very little that could be reported with the hope of maintaining a degree of consistency. For instance, the large number of Norwegian ships caught in neutral ports by the blitzkrieg, thus distressed, could easily push rates down if made available for charter, yet on the other hand not all these ships may be made available for charter and the proposition of more business offering than ships to handle it could easily put rates inordinately high.

Last week, however, neither of these extremes developed, although late in the week it was reported that between 10 and 12 distressed Norwegian vessels had been chartered for very short terms at lower than going rates. These charters were not regarded as a true rate indication, although in theory they did tend to weaken the structure. Owners on the Pacific Coast were not anxious to make commitments in view of the unpredictable state of affairs.

With the latest war move, business from the Pacific toward Europe was practically finished, except for such cargoes as were still being taken by the British lines under orders from the British ministry of shipping. Buying of California products (canned goods, dried and fresh fruits), listed as "luxuries", had dropped to the merest trickle. Some lumber and grain was moving from Pacific Northwest ports.

In the Oriental route space continued tight, due to the shortage of ships. Scrap was a little weaker on the berth and was offering lightly at $12 for rails, $14 for loose. Chartering was slow and the last f.i.o. scrap fixture was reported at $14. Lumber to Japan was quoted at $18 and to China between $20 and $21, with not much activity. Cotton was dull as was general cargo.

In the Australian route lumber showed considerable improvement, and berth contract rates were increased. Open rates on lumber from British Columbia were quoted at $35 U.S. currency and up to $55-50 Canadian currency. Fixtures were estimated in the neighborhood of $55. General cargo business was still inactive due to the strict licensing system effect in the Antipodes.
Intercoastal business was beginning to react to seasonal easiness, although the space situation was still so tight that the development was only in evidence to the most exacting observer. This trade is expected to be easier for the next several months, both east-bound and westbound. Eastbound lumber space still presented an insurmountable problem for lumber shippers.

Despite some reportedly low-rate fixtures of distressed Norwegian tonnage on the Atlantic, Pacific Coast time charter rates remained firm. It was reported that $5.50 was offering freely, although no new fixtures were disclosed.

A little out of the ordinary was the report that some grain had been offered out of B.C. for South Africa at between $20 and $25. Lumber was offering at between $40 and $45, it was reported.

[Signature]
To: Federal Reserve Bank of New York.

$153.

By order of our Minister of Finance request you to open credit of $6,360,000 in favor of The Netherlands Minister in Washington. This credit is valid until further notice and may be disposed of by drawing not to exceed $132,500 each month. In case balance our dollar account not sufficient to cover said drawings you are authorized to take over as much gold from our gold account as necessary for the purpose.

(Signed) De Nederlandsche Bank
STEEL OUTPUT AND SCRAP PRICES

Ingot Output in Percent Capacity

WEEKLY

U.S. Average

Scrap Prices

Ingot Output

PRINCIPAL PRODUCING DISTRICTS

Pittsburgh

Ingot Output

Scrap Prices

Philadelphia

Ingot Output

Scrap Prices

Cleveland

Ingot Output

Scrap Prices

Wheeling

Ingot Output

Scrap Prices

Chicago

Ingot Output

Scrap Prices

Youngstown

Ingot Output

Scrap Prices

Buffalo

Ingot Output

Scrap Prices

Birmingham

Ingot Output

Scrap Prices

* Largely due to reduction in capacity.
May 8, 1940.

DISTRIBUTION.

President
Secretary of War (Attention of General Arnold)
Secretary of Navy (Attention of Admiral Towers)
Assistant Secretary of War Louis Johnson
Assistant Secretary of Navy Louis Compton
Captain Collins for himself and each member of the Liaison Committee (three copies)
Mr. Philip Young
Mr. Purvis (By hand from Secretary Morgenthau at lunch)
VALUE OF AIRPLANES AND AIRPLANE ENGINES PURCHASED BY ENGLAND AND FRANCE
## Estimated Value of Airplanes and Airplane Engines Purchased by England and France

(In millions of dollars)

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Treasury Department, Division of Research and Statistics, May 6, 1940.

Regraded Unclassified
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(In millions of dollars)

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Treasury Department, Division of Research and Statistics, May 6, 1940.
VALUE OF AIRPLANE ENGINES PURCHASED BY ENGLAND AND FRANCE

MONTHLY NEW ORDERS

MONTHLY DELIVERIES

TOTAL NEW ORDERS AND DELIVERIES TO DATE

NEW ORDERS

DELIVERIES

UNFULFILLED ORDERS

PRIOR TO MAR. MAR. APR. MAY JUNE JULY AUG. SEPT. OCT. NOV. DEC. 1940

DOLLARS MILLIONS

Regraded Unclassified
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(In millions of dollars)

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Treasury Department, Division of Research and Statistics, May 6, 1940

Regraded Unclassified
NUMBER OF AIRPLANES PURCHASED BY ENGLAND AND FRANCE

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MONTHLY DELIVERIES

TOTAL NEW ORDERS AND DELIVERIES TO DATE

NEW ORDERS

DELIVERIES

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<td></td>
<td>3,424</td>
<td>3,678</td>
<td>4,013</td>
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<td>Unfilled Orders:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>England</td>
<td></td>
<td>2,609</td>
<td>2,568</td>
<td>2,549</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
<td>6,648</td>
<td>6,435</td>
<td>7,779</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>9,257</td>
<td>9,003</td>
<td>10,328</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Treasury Department, Division of Research and Statistics, May 6, 1940.
A confidential telegram (no. 209) of May 8, 1940, from the American Ambassador at Chungking reads substantially as follows:

When commenting, during the course of a call on May 7, on the recent drop in the exchange value of the Chinese dollar, Dr. Arthur Young (Financial Adviser to the Chinese Government) said that on the evening of May 1 the stabilization fund withdrew support temporarily from the Chinese currency. This action was taken on account of the fact that the drain of exchange and the speculative position had shown that the stabilization fund was not large enough for the aggressive operations required to repurchase the currency in substantial amounts. The Central Bank, the Bank of China and the Hong Kong Tokyo (?) Bank contrived, nevertheless, to get together for the fund some new resources so that operations to support the market and to reduce fluctuations might continue. In this way it would be possible to meet the immediate emergency, Dr. Young thought, but the effectiveness of the war effort would be progressively diminished and China's economy would be disorganized by the strain unless
a substantial amount of help was received from the outside (Dr. Young said in response to an inquiry that he had in mind a contribution to the stabilization fund) and unless the Chinese Government took firm action inside China.
ITALIAN STOCK PRICES
(Milan)
Dec. 31, 1927 = 100

Weekly

Daily
1940
1940

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

Regraded Unclassified
A telegram of May 8, 1940, from the American Consulate General at Shanghai to the American Ambassador at Chungking reads substantially as follows:

The manager of the American Express Company remarked that he would be pleased to become a member of the unofficial consultative committee, when, on May 8, information in regard to the committee (see telegram of May 7 from the Ambassador at Chungking to the Consulate General at Shanghai) was brought confidentially to his attention.
MAY 8 1940

Sir:

Reference is made to Mr. Bailey's letter of April 29, 1940, transmitting for the comment of this Department a draft of a proposed bill "To authorize the purchase by Reconstruction Finance Corporation of stock of Federal Home Loan Banks; to amend the Reconstruction Finance Corporation Act, as amended; and for other purposes," and an alternative draft of the proposed legislation to provide for a reduction in the capital stock of the Federal Farm Mortgage Corporation.

Section 1 (a) of the proposed bill would authorize the Reconstruction Finance Corporation, upon approval of the Federal Loan Administrator, to purchase at par any of the stock of the Federal Home Loan Banks owned by the United States, and would authorize the Secretary of the Treasury to sell such stock to the Reconstruction Finance Corporation. The Secretary of the Treasury holds $124,741,000 of the capital stock of the Federal Home Loan Banks and although existing law provides for the retirement of the stock held by the Secretary of the Treasury, there is no provision authorizing the transfer or sale of such stock. The Treasury does not have any objection to Section 1 (a) of the proposed bill.

Under existing law the Reconstruction Finance Corporation may, upon the request of the Secretary of the Treasury, make with the approval of the President, subscribe for preferred stock in banks or insurance companies, or make loans secured by such stock. Section 1 (b) of the proposed bill would permit such purchases of preferred stock and such loans to be made upon the approval either of the Secretary of the Treasury or the Federal Loan Administrator. The reason for this change in the law is not apparent. The existing provisions of law in this respect were enacted in 1933 as part of the emergency banking legislation. The machinery established at that time for providing banks with needed additional capital funds has worked satisfactorily. The Treasury is aware of no compelling reason why the set-up should be changed at this time and recommends against the proposed change.

File to Mr. Thompson

By Messenger
National banks can now make "real estate loans secured by first liens upon approved real estate, including improved farm land and improved business and residential properties" if the amount does not exceed "50 per centum of the appraised value of the real estate offered as security" and for a term not more than 5 years. Certain exceptions are made. For instance, the foregoing limitations and restrictions do not apply to real estate loans which are insured under the provisions of Title II of the National Housing Act. Another exception is that a real estate loan may be made "in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or more of the principal of the loan within a period of not more than 10 years." It is the underlined 40 and 10 in the preceding sentence which would be changed by the proposed bill. The 40 would be changed to 60 and the 10 to 15. Thus, national banks would be permitted to make real estate loans of longer maturity than at present, provided the higher amortization is included.

Prior to the amendment of the Federal Reserve Act, national banks could not make real estate loans. Their power to do so has been progressively liberalized since that time and there is a substantial body of opinion to the effect that it has been already too greatly liberalized. Accordingly, the Treasury recommends against Section 4 of the proposed bill.

The Secretary of the Treasury holds all the stock of the Reconstruction Finance Corporation, in the total amount of $500,000,000. Section 5 of the proposed legislation would authorize the Corporation, with the approval of the Federal Loan Administrator, to make payments to the Secretary of the Treasury for the partial retirement of its capital stock at par, or in payment of dividends on such stock from the earnings of the Corporation. Since, under existing law, the aggregate amount of the notes, debentures, bonds or other obligations of the Reconstruction Finance Corporation issued and outstanding is based upon the amount of the Corporation's subscribed capital, the proposed legislation provides that the aggregate amount of such obligations which the Corporation is authorized to issue and have outstanding shall not be decreased or affected by reason of the cancellation or retirement of any of the capital stock of the Corporation. From the standpoint of the Treasury there is no objection to this proposed amendment.

Section 6 provides that the aggregate amount used by the Corporation to purchase stock of Federal Home Loan Banks under Section 1,
or to retire the capital stock of the Corporation or pay dividends on such stock under Section 5, may not exceed $300,000,000, the aggregate amount to be determined by the Secretary of the Treasury. The Reconstruction Finance Corporation, with the approval of the Federal Loan Administrator, is to determine what portion of the aggregate amount determined by the Secretary of the Treasury shall be used for the purchase of stock of the Federal Home Loan Banks, the retirement of the capital stock of the Reconstruction Finance Corporation, or the payment of dividends on the capital stock of the Corporation. The Treasury has no objection to this provision.

The proposal marked "A" for reducing the capital of the Federal Farm Mortgage Corporation provides that such reduction shall be made from time to time when in the judgment of its board of directors the Corporation has resources available thereafter. Provided, That the paid-in capital of the Corporation shall at no time be reduced below the sum of $50,000,000. It also provides that such repayments shall be held in the Treasury in the revolving fund and shall be available for further subscription to the capital of the Corporation. The proposal marked "M" provides for an outright reduction in capital from $200,000,000 to $100,000,000 and the repayment to the Treasury of all amounts subscribed to the capital of the Corporation in excess of $100,000,000. The amount to be repaid under this proposal would be definitely fixed as $100,000,000.

Inasmuch as the proposed reduction in the capital of the Federal Farm Mortgage Corporation is for the purpose of repaying to the Treasury, and making available for the general use of the Government, amounts heretofore paid over to the Corporation for capital purposes, the Treasury would recommend that the necessary legislation be embodied in the form of the proposal marked "M". This will avoid placing responsibility upon the board of directors of the Corporation for the reduction in its capital stock and obviate the necessity of the directors making a determination as to whether the Corporation has resources available thereafter.

The proposal marked "M" could be amended so as to make the repayments of capital available to the Corporation if needed at a later date by adding to such proposal a provision similar to that incorporated in the last sentence of the proposal marked "A".

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,
The Director of the Bureau of the Budget,
Washington, D.C.

                                                 5/6/40
                                                 Revised 5/7/40

Regarded Unclassified
Miss Chamberlayn

Mr. Joley took original to 9th group meeting this morning.
Secrecy Morgenthau
E. E. Foley, Jr.

Bill S. 391, A Bill To Amend the United States
Housing Act of 1937.

S. 391 was passed by the Senate on June 8, 1939. In the House
it was reported out by the Banking and Currency Committee with some
amendments on July 10, 1939. There has been no action on the bill
since that date.

In brief the more important provisions of the bill are as fol-
lovs:

1. The bill authorizes the United States Housing Authority to
enter into contracts for annual contributions to public housing
agencies aggregating not more than $45,000,000 per annum in addition
to contracts heretofore authorized. Under existing law these con-
tributions which are to assist in achieving and maintaining the low rent
character of housing projects, may aggregate $20,000,000 annually.
(Section 1)

2. The bill authorizes the Authority to issue and sell $800,000-
000 of its obligations in addition to the amount heretofore authorized,
namely, $800,000,000. (Section 2)

3. The bill provides that the Authority shall not make any loan
for any project unless the political subdivision in which such project
is situated shall make a capital grant of cash, land, labor, or ma-
terials to meet not less than 10 per centum of the development costs
of such project. However, this provision does not apply until loans
made by the Authority prior to the enactment of the bill, plus the
loans made after the enactment of the bill, equal in the aggregate
$800,000,000. (Section 6)

4. Under existing law a national bank may not hold for its own
account the investment securities of any one obligor to an amount in
excess of 10 per centum of the unimpaired capital and surplus of such
bank. Certain types of securities have been exempted from this limit-
ation, chiefly direct obligations of the United States, a State or a
political subdivision thereof, and those guaranteed by the United States. The bill would except from the 10 per centum limitation obligations issued by any public housing agency, which are neither obligations of the United States nor guaranteed by the United States. The office of the Controller of the Currency has consistently opposed any such exemption on the ground that there should be no further extension of the exemptions from the limitations on securities acquired by national banks and for the further reason that such an exemption may result in national banks becoming in effect underwriters for the obligations of public housing agencies. A letter from the Secretary of the Treasury to the Bureau of the Budget, dated June 1, 1939, objected to the enactment of this provision of S. 591. (Section 11)

3. The bill would add a new title to the United States Housing Act to authorize the Authority to undertake a program of assisting public housing agencies in the development of projects for farm families of low income. Of the funds available to the Authority for loans to public housing agencies $200,000,000 would be made exclusively available for loans to assist in rural housing, and the Authority would be authorized to make annual contributions in aid of rural housing. The bill would authorize the Department of Agriculture to cooperate with the Authority in this matter. (Section 12)

The bill contains a number of other provisions relating to matters of lesser importance, including definitions of terms in the existing United States Housing Act, such as "adequate Federal rate of interest", details to be included in the Authority's annual report to Congress, and designation of types of insurers of projects developed under the supervision of the Authority.

On June 1, 1939, in reply to a request from the Bureau of the Budget, the Treasury sent to the Budget a report relative to S. 591, recommending that it be enacted, with the exception of the provision excepting obligations of public housing agencies from the limitations in the national banking laws. However, S. 591 in the form reported in the Treasury's letter to Budget, did not contain the provisions discussed in (3) and (5) above.
May 8, 1940.

My dear Mr. Volness:

I appreciate very much your sending me the statement on the capacity of Canada to export pork. I am glad to have a copy of the memorandum in question.

Sincerely,

(Signed) H. Morganhan, Jr.

Honorable Leon C. VolNESS
Assistant to the Secretary
Department of Agriculture
Washington, D.C.
The Honorable
The Secretary of the Treasury

Dear Mr. Secretary:

At the request of Secretary Wallace, I am sending you the attached statement on the capacity of Canada to export pork. This was prepared following a question you raised at lunch with the Secretary.

Sincerely yours,

Leon O. Wolcott
Assistant to the Secretary

Enclosure
CAPACITY OF CANADA TO PRODUCE AND EXPORT PORK

Prior to the outbreak of war the Baltic and Scandinavian countries, other than Denmark, were supplying the United Kingdom with about 100,000,000 pounds of cured pork annually. These shipments, about three-fourths of which originated in Poland and Lithuania, ceased on the outbreak of war. More recently, the occupation of Denmark by Germany shut off about 400,000,000 pounds of cured pork from the United Kingdom. This raises a question as to what extent Canada, the only important Empire source of pork, can and will supply this deficiency.

In 1939 Canada shipped 187,000,000 pounds of cured pork to the United Kingdom. Its exports of pork to other countries were negligible. The largest exports ever made from Canada totaled 245,000,000 pounds in 1919.

The number of hogs on Canadian farms on December 1, 1939, totaled 4,770,000 head, an increase of 34 percent over the previous year and the largest number on record. Furthermore, the number of sows bred for farrowing between December 1939 and May 1940 totaled 706,000, an increase of 25 percent over the previous year. Pigs under six months of age on December 1, 1939, totaled 3,208,000 head, an increase of 37 percent over the previous year. These increases in number, together with the possibility of somewhat earlier marketing as the result of favorable prices, point to the prospective production
In other words, Canada can supply the United Kingdom with

September 1, 1942.

Based on actual imports of coal from the United States in
the recent months the coal requirements were estimated at 250,000 pounds of coal per month for the year. Canada would require 250,000 pounds of coal per month from the United States, and it has been estimated that Canada could supply 200,000 pounds of coal per month if the United Kingdom required.

In July and August 1940, and immediately following.

The agreement concluded between the two countries under a previous treaty provided that Canada would supply 400,000 pounds of coal per month, with the United Kingdom taking no more than 250,000 pounds of coal per month. The United Kingdom received a monthly report from the United States of the amount of coal supplied by Canada. These reports have been more than 200,000 pounds of coal per month, and in July 1940 it was estimated that the United Kingdom would require 250,000 pounds of coal per month.

In order to meet this requirement, the United Kingdom has been receiving an additional 250,000 pounds of coal per month from the United States. This has been necessary due to the increased demand for coal in the United Kingdom.

1942
pounds prior to its occupation by Germany. The question of what adjustments the United Kingdom might make in its domestic production and consumption as a result of the curtailment of Danish supplies of pork will be the subject of another memorandum.

<table>
<thead>
<tr>
<th>Description</th>
<th>Unit</th>
<th>1939</th>
<th>1940 Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. hogs on farms beginning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. pigs under 6 months of age</td>
<td>Head</td>
<td>3,669,000</td>
<td>4,770,000</td>
</tr>
<tr>
<td></td>
<td>Head</td>
<td>2,340,000</td>
<td>3,206,000</td>
</tr>
<tr>
<td>No. sows to farrow in spring</td>
<td></td>
<td>822,000</td>
<td>706,000</td>
</tr>
<tr>
<td>Pork production</td>
<td>Pounds</td>
<td>776,000,000</td>
<td>1,085,000,000</td>
</tr>
<tr>
<td>Domestic consumption</td>
<td></td>
<td>836,000,000</td>
<td>835,000,000</td>
</tr>
<tr>
<td>Exports to United Kingdom</td>
<td></td>
<td>185,000,000</td>
<td>410,000,000</td>
</tr>
</tbody>
</table>

1/ December 1 previous year.
To: Secretary Morgenthau

I think you will be interested in glancing through the appended memo on the British Budget by Mr. Adler. The highlights are:

1. Revenue for this year is estimated at $5 billion, or only $500 million more than the actual revenue last year.

2. Expenditures are estimated at $10.7 billion, of which $5 billion are for war purposes. This estimate is low and conservative.

3. The estimated deficit for this year is $5-3/4 billion, as compared with an actual deficit of $3.1 billion last year. We believe the actual deficit will be substantially greater. The deficit is to be met by increased short and long-term borrowing, a new purchase tax, and probably by the realization of some of the gold profits.

4. During the last 12 months the per capita National Debt in the United Kingdom rose by $66, from $689 to $755. In the same period the United States per capita Federal Debt rose by only $17. By April 1941 the per capita national debt in the United Kingdom will be not less than $844, as compared with approximately $350 in the United States.
TO Mr. White
FROM Mr. Adler

Subject: The British Budget 1940-1.

(For convenience of interpretation, all figures in this memo are rounded off and converted into dollars at $4 = £1)

1. Revenue for this year is estimated at $5 billions, as compared with an actual revenue of $4.2 billions last year. The increased revenue is to be obtained by

a. increases in taxes on beer and spirits, tobacco, matches,

b. raising postal and telephone charges,

c. the going into effect of the increases in income tax from 35 percent to 37 1/2 percent and the reduction in the income on which surtax is payable from $8,000 to $6,000, both of which were announced last September.

On an earned income of $5,000
a married man with 2 children pays $48 or 1 percent of his income in the U. S.

a married man with 2 children pays $1,289 or 20.7 percent of his income in the U. K.

2. Expenditure for 1940-1 is estimated at $10.7 billions - or from 35 to 40 percent of the national income - as compared with an actual expenditure of $7.3 billions in 1939-40. Of this sum, roughly $8 billions are for war purposes, $1 billion for debt servicing, and $1.7 billions for civil expenditures.

The expenditure for the whole of the first seven months of war was $3.6 billions. However, the rate of expenditure rose from under $120 millions per week at the beginning of the war to $200 millions per week for the first half of March and $280 millions per week for the second half. If expenditures remain at $200 millions per week, total annual expenditures will be $10 billions, i.e., slightly less than the estimated expenditures. However, if the rate of expenditures is the same as the average during March, i.e., $240 million per week, total expenditures will be at least $12 billions, or $1.3 billions more than the estimates.

In view of the possibilities of (a) intensification of the war, and (b) sharp rises in prices, even this $12 billions estimate is low and conservative.
3. Why then did Sir John Simon budget for a volume of expenditures that seems from £2 to £4 billion less than will be conservatively likely?

a. The British Government may not be expecting the war to be intensified.

b. The British Government may believe that the British war effort will not or cannot be expanded beyond present levels.

c. It may desire to give the strong under-current of feeling that the war should be intensified a convenient outlet and opportunity.

d. The British Government may not wish to frighten the public with the prospect of serious inflation.

e. The British Government may not think it politically expedient to impose heavier burdens on the public but prefers to reserve them for some time in the current year, when they can convincingly claim that the increased war efforts demand increased tax burdens.

I believe the latter three reasons are the correct explanation.

4. The estimated deficit for this year is £5-3/4 billions as compared with an actual deficit of £3.1 billions the year before. It is proposed to meet this deficit by:

a. The imposition of a so-called "purchase" tax, which is a new variant of a sales tax. It will be imposed on all transactions between wholesalers and retailers covering all commodities except those entering into the export trade, and food, drink, fuel and other essential items in the cost of living. The object of the tax is both to yield revenue and restrict consumption. Its rate has not yet been announced.

b. Borrowing from the public and the banks through the issue of new long-term loans at a rate which Sir John Simon indicated will not exceed 3%.

c. An increase in the Treasury Bill Issue, which will be held by banks and government departments. Last year 70% of the deficit was financed by the increase in the Treasury Bill Issue.

d. The use of the gold profits of the Exchange Equalization Account.

5. The actual deficit for 1940-1 will be larger than the estimated deficit. If what is indicated above about probable expenditures is correct, it will be larger by at least £1,350,000,000. Much of this additional deficit will have to be met by borrowing, which will, of course, accentuate the upward pressure of prices unless much more drastic measures of control than have yet been taken are adopted.
6. The British National Debt rose in the past 12 months from $32.7 billions — not including other capital liabilities on Empire railroads, postal and telegraphic services, the Unemployment Insurance Fund, etc. — to $35.3 billions. The following table show the items in which there was an increase:

<table>
<thead>
<tr>
<th>Items in the National Debt which Increased 1939-40 (In millions of dollars at $ = $4)</th>
<th>March 31, 1939</th>
<th>March 31, 1940</th>
<th>Increase Mar. 31, 1940 over March 31, 1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Savings Certificates</td>
<td>1,576</td>
<td>1,736</td>
<td>160</td>
</tr>
<tr>
<td>3% Defence Bonds</td>
<td>—</td>
<td>240</td>
<td>240</td>
</tr>
<tr>
<td>3% War Loan</td>
<td>—</td>
<td>396</td>
<td>396</td>
</tr>
<tr>
<td>Other Debt</td>
<td>—</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Treasury Bills</td>
<td>3,568</td>
<td>5,712</td>
<td>2,144</td>
</tr>
<tr>
<td>Temporary Advances</td>
<td>112</td>
<td>24</td>
<td>132</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>3,080</td>
</tr>
</tbody>
</table>

7. During the past 12 months the per capita National Debt rose by $66. It increased from $689 on March 31, 1939, to $755 on March 31, 1940. In the same period the per capita Federal Debt in the United States rose by only $17 from $305.39 to $322.54. By the end of the fiscal year 1940-1 the per capita National Debt in the United Kingdom will be not less than $844 whereas that of the United States will be approximately $350.

British Budgets, 1939-41

<table>
<thead>
<tr>
<th>(In millions of dollars at $ = $4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Revenue</td>
</tr>
<tr>
<td>Actual Revenue</td>
</tr>
<tr>
<td>Estimated Expenditure</td>
</tr>
<tr>
<td>Actual Expenditure</td>
</tr>
<tr>
<td>Estimated Deficit</td>
</tr>
<tr>
<td>Actual Deficit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1939-40</th>
<th>1940-41</th>
<th>Increase 1940-41</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,980</td>
<td>4,936</td>
<td>956</td>
</tr>
<tr>
<td>4,396</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>7,732</td>
<td>10,668</td>
<td>2,936</td>
</tr>
<tr>
<td>7,263</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>3,752</td>
<td>5,732</td>
<td>1,980</td>
</tr>
<tr>
<td>3,072</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>
GROUP MEETING

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

H.M.Jr:  Straus wants us to see Rayburn for him.

Foley:   Joe O'Connell had lunch with Williams yesterday. Williams says he will vote for the bill, but he is against Straus.

H.M.Jr:  Where does that leave us?

Foley:   He will vote for the bill. You see, the bill was reported out of Committee and it is in the same shape as the other bill. They got a rule last year the same way we did and they went out on the Floor and the rule was beaten, so somebody has got to go back to the Rules Committee and get another rule and then the rule will have to be adopted on the Floor.

          Williams tells Joe that he thinks that this year the rule will be beaten even worse than it was last year, but he will vote for the rule.

H.M.Jr:  Do that again.

Foley:   The bill has passed the Senate and it has been reported out by the --

H.M.Jr:  I know it was reported out.

Foley:   By the Banking and Currency Committee. They got a rule from the Rules Committee the same as we did and the rule was beaten on the Floor. That was just before you went to Europe last year, the last couple of days.
The day before I sailed.

That is right. They have got to go back and get another rule from the Rules Committee and Clyde Williams doesn't think they can carry the rule on the Floor. He thinks they will be beaten worse this year than last year. When Steagall gets back he is going to try to get a rule. Steagall's primary was yesterday and he probably won't be back for two or three days.

Well, isn't it important to talk to Rayburn?

Yes.

As long as he is the number one boy.

Yes, he is the number one boy and I am going to have lunch today with Keyserling. Keyserling called me up.

Was that after 5:00 o'clock?

It was in the afternoon sometime.

I told Straus if he wants to get his bill through, get Keyserling off the Hill. I gathered - it was most likely my fault that the bill wasn't reported out of the Banking and Currency.

It is technically out of the Banking and Currency Committee, but it is up to the Banking and Currency Committee to get a rule. It was a very close vote when it came out and three of the members, Williams told Joe, who voted to report the bill, voted against it on the Floor. Monroney from Oklahoma, Gore from Tennessee and a fellow from Arkansas.

Yes, but the whole House is voting on that thing.

Here is a memo for you.

Now let's find out how Dan was doublecrossed.

I don't know how I was doublecrossed. I didn't get Mr. Smith, but I got Lawton and he hadn't
heard about it yet, so we looked in the Record and there it was. He said he didn’t know why he hadn’t been told by Mr. Jones. He was going to be interviewed.

H.M.Jr: Mr. Jones introduced his bill yesterday at 5:00 and doublecrossed Dan.

Bell: I am the only one in the Treasury who is doublecrossed. But Lawton suggests this, that the President send this bill up and they rewrite it as a special message. That would have to be substituted for the Steagall bill.

H.M.Jr: And not try to do it Jones’ way? “Now, we will fix it up in Committee.”

Bell: Jones will probably tell them that can be arranged in the Senate or the Committee.

H.M.Jr: Do you think the Budget will have the nerve to go through with that?

Bell: He thinks they would. The President said in his message on Thursday that it would require legislation and he would report later on that.

H.M.Jr: Have you had time to find out whether the bill is just the way Jones gave it?

Bell: No, I haven’t seen it. The title is practically the same.

H.M.Jr: I was wondering about those five or six items.

Bell: I think so. It said for the purposes of the RFC Act, and so forth.

H.M.Jr: Wasn’t Jones going to wait until he heard from you?

Bell: Oh, yes. He hasn’t had clearance from the Budget.

H.M.Jr: So you and the Budget both have been doublecrossed.

Bell: Yes. We have the report here now. It is a sort of post mortem affair.
It is terribly funny. You know what I keep saying to you.

Yes, I know.

You know why, don't you? I was ready at 3:30 yesterday.

I was, too, but then I changed my mind.

It wasn't his fault, it was mine.

Well, it was nobody's fault.

Do you want me to read this? I might as well.

Well, it is a long letter.

We are against giving the RFC power to request itself to buy preferred stock and against increasing the amortization of real estate loans from 10 to 15 years. The rest of it is favorable.

Yes.

Well, I think that --

Smith called me last night and said that he had an opportunity to discuss with the President the Virgin Islands bill and he said the President thought that the Treasury was one hundred percent right in principle, but --

But!

That is what I say.

He would appreciate it very much if the Secretary of the Treasury could see his way clear to go along with him this time and he sent the letter back to us, hoping we would rewrite the last paragraph. I told him I thought we probably would give in to that extent.

Steagall won. He will be back.
H.M. Jr: What I said the other day still holds true. I am willing to pick my fights. Who am I to fight for the taxes of the Virgin Islands?

Bell: He feels it is a bad situation down there and he doesn't think he could get any appropriations from Congress for it.

H.M. Jr: I tell you what I would like to do. I would like you to put in a letter that the President thinks in principle I am right.

Bell: He thought we ought to choose some other time for the matter, to bring it to the attention of Congress after this one goes through.

Sullivan: I have got another one for you right along the same lines.

H.M. Jr: On principles again?

Sullivan: No, this is principal and interest.

H.M. Jr: Well, there isn't going to be any on the Virgin Islands.

Sullivan: I gathered that.

H.M. Jr: You told me without mentioning any names that you had considerable opposition about my sending this letter, didn't you?

Sullivan: That is right.

H.M. Jr: So the President took it and liked it, evidently laughed and sent it back and no hard feelings, and asking us to do him a favor.

Sullivan: Yes, he is a pretty nice fellow. Why don't we do it?

H.M. Jr: All right. What else have you got?

Bell: That is all, except I would like to see you sometime today.
H.M. Jr: All right. So would Harold Graves. As you gentlemen go out, turn to the right and say something to Mr. McKay. He will put you on the list, Bell first and Graves next.

Harry?

White: We have here a list of items that you might want to glance over to consider whether you want to ask for any of it, to amplify our information which you asked for. It sounds very vague but it will be clear after you read it.

H.M. Jr: Are you sure of that?

White: If it isn't, we will write it over again. That is all.

You were interested in exports of aluminum ingots. Are you (Harris) going to report on that?

Harris: No, I think the Secretary is clear on that.

White: Oh, then it is O.K.

H.M. Jr: I was just informed this morning that the New York Times has it on the front page that the Minister of Netherlands in the United States is to be made Paymaster for his government and they have transferred six million dollars to his account. Mrle is going to go over to the State Department and find out why the New York Times gets this and I don't, particularly where Berle called him last night and asked him to watch Belgium and Holland.

Cochran: He asked how quickly we could get out an Executive Order similar to that three weeks ago.

Foley: We have it ready.

H.M. Jr: Well anyway, you are going over.

Cochran: Yes.

H.M. Jr: Anything else, Harry?

White: No, sir.
H.M. Jr: George?
Haas: I have these figures. These sheets should be pasted (handing report to Secretary).
H.M. Jr: Oh.
Haas: The other sheet we destroyed.
Bell: You knew that George and I went up on the Jones bill in the House Committee and they asked us for some yield, wasn't it, on that corporate bonds and we sent back a table and put in that yield on 3-a bonds - some smart clerk up there changed it to Agricultural Adjustment bonds. It fit into the picture, so it was all right.
H.M. Jr: What else, George?
Haas: I have nothing.
H.M. Jr: Chick?
Schwarz: I have a request from the New York Times Sunday magazine, from the American Magazine and Readers Digest wanting to do pieces on the Annenberg Case. They would like to talk to you and to Elmer Irey and to others in the Treasury, if you see fit.
H.M. Jr: Well, the judge hasn't sentenced them, has he?
Foley: The 23rd of May.
H.M. Jr: My guess would be to tell them to come around and see me on the 24th. Right?
Foley: Yes. I think Sam Klaus ought to talk to them. Sam knows more about --
H.M. Jr: How can he talk between now and the 23rd?
Foley: He couldn't. He could be here on the 24th.
H.M. Jr: All right, have Sam here on the 24th. Tell them we will be glad to see them on the 24th.
You stay afterward, Phil, because I have got some stuff.

The European stock markets are very nervous this morning and the gulden, the florin and the sterling are all under pressure. The sterling dropped from 3.37 1/2 to 3.31 1/2 in the first hour of trading.

Bernstein and I went over yesterday afternoon to see Mr. Berle. I will give you a memo on the conversation.

The more I think of the fact that the New York Times has that and I, the Secretary of the Treasury, haven't, the more annoyed I get.

I will see what it is all about.

I saw Vinson yesterday afternoon on the amendment to the Vinson-Trammell Act and he is having a hearing Monday on the proposal to appropriate money for a Federally owned and operated airplane plant and I thought that you would be interested in that, either one way or the other. He said he would be very happy to come down and discuss it with you.

When is he going to do this?

Monday. There is no bill in there. He is just going to throw this out.

I tell you, I will know better where I am at after Friday, won't we, Dan, when we hear from the Budget? Don't you think we had better wait?

I should think so.

You see, the Budget is doing some day and night work for me. Don't you think we had better wait?

I do.
H.M. Jr: I haven't gotten the stuff that I need and I am perfectly willing to let him throw it in the hopper and then after we get this report from the Bureau of the Budget, I will know better where I stand.

Sullivan: Then I will speak to you about it Saturday.

H.M. Jr: Excuse me?

Sullivan: Then I will speak to you about it Saturday.

H.M. Jr: Monday.

Sullivan: Monday?

H.M. Jr: Yes. Just let it ride; let him throw it in. I will get this stuff Friday and read it Saturday and Sunday. It will be a long report. By Monday I will know better. The Budget doesn't know that this is coming up.

Bell: Isn't there a provision in the Navy bill whereby the Navy --

H.M. Jr: Has to --

Bell: Manufacture ten percent --

H.M. Jr: Must manufacture ten percent of their planes and they do so at the Philadelphia Navy Yard. That is mandatory.

Bell: That isn't operating very well, is it?

H.M. Jr: What they are doing up there, Dan, they are taking the smallest ship they can make, the little trainer ship, a little bit of a ship, and they are making one a week or something like that. It is a little bit of a ship. They are not making any fighting ships up there. It is a yardstick theory. It doesn't amount to anything.

Sullivan: And he said he doesn't think that Yard would be enlarged to make it worth while.
No, but they are doing the minimum now.

That is right. He thinks they ought to go ahead and just make submarines.

I don't know. After I get this report from the Bureau of the Budget, I will be at least intelligent. So I would just as soon see him throw it into the hopper. It may be good as a leverage.

I think that is the way he intends it.

Can you write an answer for me on the stuff I gave you in regard to this?

I am, sir.

You are in the process?

That is right.

Do you think you can have it this afternoon?

Yes, sir.

Aye, aye, sir.

Very good, sir.

All right.

Where are you, Ed?

I have nothing.

Wonderful. Ed, I think if you stay behind a minute I will call up Nathan Straus now and let you talk to him. Don't you think so, or should we just go up to Sam Rayburn without talking to him? Let's go up to see Sam and find out where we are at. Let's go up and see Sam.

Herbert?
Gaston: Harry Analinger, with the help of the State Department and the Public Health Service, has just concluded some conferences with two representatives from Mexico and they have agreed to stop their system of dispensing narcotic drugs to addicts.

H.M.Jr: In Mexico?

Gaston: In Mexico. They have been running government clinics and dispensing narcotics to all addicts and we shut down on the supply of drugs in the United States and now they have agreed to stop. They are convinced they are wrong and we can resume the supply. They made a special request. One of them is Siurob, who I think is Commissioner of Health. They made a request to see you, but Harry convinced them you wouldn't have time. Is that all right with you? They are going to talk to me at 10:30 this morning.

H.M.Jr: Sure.

Gaston: Pegler is worth reading this morning, if you haven't read him.

H.M.Jr: Pegler?

Gaston: Will you get it for me, Chick, and send it in?

Anything else?

Gaston: I have nothing else.

H.M.Jr: O. K., gentlemen.
Mr. Secretary:

I am attaching two extra copies of this memorandum. It is my understanding that you desired one for the President and one for Secretary Hull.

From: MR. COCHRAN
Mr. Knocks of the Federal Reserve Bank at New York told me that Vice President Bovensky of the Chase Bank had approached him on the following subject. As we are aware, the Chase Bank has the accounts of the State Bank of Russia and of Astorg. The Russians have bought and paid for much American copper which is still in this country. The Russians have recently been reselling some of this metal. They are not anxious to push the sales to such a point that they hurt the copper market. The Russians have now approached the Chase Bank to see whether the Chase would make them a loan for two months of $2,000,000 against copper (10,000 tons) in the United States as collateral. The Chase considered this a good commercial transaction, but did not desire to engage therein if the Government had objections thereto.

After talking with the Secretary of the Treasury this afternoon, I telephoned Mr. Knocks that he could inform Mr. Bovensky that the Treasury interposed no objections to the transaction under reference.
Mr. Eaks of the Federal Reserve Bank at New York told me that Vice President Bovensky of the Chase Bank had approached him on the following subject. As we are aware, the Chase Bank has the accounts of the State Bank of Russia and of Austorg. The Russians have bought and paid for much American copper which is still in this country. The Russians have recently been recalling some of this metal. They are not anxious to push the sales to such a point that they hurt the copper market. The Russians have now approached the Chase Bank to see whether the Chase would make them a loan for two months of $2,000,000 against copper (10,000 tons) in the United States as collateral. The Chase considered this a good commercial transaction, but did not desire to engage therein if the Government had objections thereto.

After talking with the Secretary of the Treasury this afternoon, I telephoned Mr. Eaks that he would inform Mr. Bovensky that the Treasury interposed no objections to the transaction under reference.

[Signature]

May 8, 1940

Regraded Unclassified
Mr. Knox of the Federal Reserve Bank at New York told me that Vice President Devaney of the Chase Bank had approached him on the following subject. As we are aware, the Chase Bank has the accounts of the State Bank of Russia and of Austria. The Russians have bought and paid for much American copper which is still in this country. The Russians have recently been recalling some of this metal. They are not anxious to push the sales to such a point that they hurt the copper market. The Russians have now approached the Chase Bank to see whether the Chase would make them a loan for two months of $2,000,000 against copper (10,000 tons) in the United States as collateral. The Chase considered this a good commercial transaction, but did not desire to engage therein if the Government had objections thereto.

After talking with the Secretary of the Treasury this afternoon, I telephoned Mr. Knox that he could inform Mr. Devaney that the Treasury interposed no objections to the transaction under reference.
TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE May 8, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

At the 9:30 group meeting yesterday morning I brought up the subject of the memorandum of May 4 from the British Embassy in regard to the message from the Chancellor of the Exchequer with respect to licensing all sales of securities in the United Kingdom by nonresidents. The Secretary approved my suggestion that our answer be "no comment." I was instructed to solicit the opinion of the State Department and of S.E.C.

At 10 o'clock I telephoned Messrs. Stone and Livesay in the Department of State and Messrs. Frank and Purcell in S.E.C. in regard to the memorandum from the British Embassy, and sent them copies thereof. I explained the Treasury decision to each of the gentlemen.

Later in the day I was able to telephone Mr. Pinsent that he could reply to his Government that the Secretary of the Treasury appreciated the courtesy of the Chancellor of the Exchequer in submitting this matter to him but that, after consultation with the Department of State and the Securities & Exchange Commission, the Secretary of the Treasury had no comment to make thereon.

Mr. Pinsent considered this reply entirely satisfactory from the standpoint of his Government, and said he would transmit it immediately.
We are faced by a serious problem arising from the German invasion of Denmark and Norway which might in certain circumstances become immensely more acute. The Germans may lay hands on large quantities of securities saleable primarily in the London market, and it is obviously essential to exercise every measure of precaution to prevent Germany from obtaining finance by engineering sales through neutral intermediaries.

After full consideration we find that the only practicable method is to make all sales of securities in the United Kingdom by non-residents subject to license. Such license would normally be given when it is shown to the satisfaction of the Treasury that no benefit direct or indirect is likely to accrue to the enemy.

We have prepared the necessary regulation and may put it into force at very short notice. It would be accompanied by a public statement to the effect that licenses to sell would normally be granted as stated above.

The Chancellor of the Exchequer would like to add as a personal message that he trusts that Mr. Rognanthen will realize the importance of securing the ends towards which this step is directed, which justify the measure of inconvenience to which nonresidents will inevitably be put.

We should appreciate a very early reply as the regulation may in fact be made on the 9th instant.

(Signed) G.R.S. Pincent

May 4th, 1940

(Copy)
Mr. Knoke told me by telephone that the Chase Bank reported yesterday that it had paid under a credit opened by the Italian Exchange Institute $524,000 to the Bank of Paris in Brussels. This presumably was for Belgian copper.

The Chase paid to the Kennecott Copper, under a credit opened by the Italian Exchange Institute, $356,000.

The Guaranty Trust paid to the Credit Suisse $50,000, by order of the Bank of Italy.

The Guaranty Trust paid to the Credit Suisse, by order of the Bank of Rome, $135,000 for soya beans.

The Guaranty paid to the Bank Italo Belge in Buenos Aires $126,000 for the account of the Credito Italiano.

There is attached a clipping from the New York Times of today, May 8, which gives information of interest in regard to Kennecott's sales of copper abroad.
Kennecott Copper's First Quarter Well Ahead Of 1939 Period; Foreigners Must Pay Cash

The Kennecott Copper Corporation in the first quarter of this year had a net income of about $31,540,000 after all charges, including depreciation and estimated taxes, but before allowing for reserves for contingencies, equal to $1.19 a share on 10,621,653 capital shares. E. T. Stannard, president, told stockholders yesterday at the annual meeting held at 130 Broadway.

In the first three months of last year, Mr. Stannard said, earnings were equivalent to 27 cents a share.

Stephen Birch, chairman, said the financial position of the company is excellent, with cash and United States Government securities amounting to about $17,000,000, including sold and unsold copper inventories. He said that the total would be increased to around $100,000,000.

In reply to a question as to why the war had not had much more of an effect on copper consumption, Mr. Birch said: "England is getting all the copper it needs from within the empire at prices fixed below the market when the war started, and well below the market now."

Mr. Stannard said Kennecott had sold no copper to Russia for many months. In connection with foreign sales, he said the company was following a policy of cash payment in dollars and that it had "not lost one cent since the start of the war because of the foreign exchange situation.

The copper output of Kennecott is about 35,000 tons monthly in the United States and 11,000 tons in Chile. Of its foreign output France is taking about 8,000 tons monthly, Italy 2,000 and Japan 1,000, he said. Under the present contract, sales to France will be reduced to 6,000 tons monthly starting with June and running through August, he added.

The stockholders approved the policy of the company with respect to the directors selecting independent auditors. The vote for the plan was 6,345,540 shares, while 247,098 voted in favor of stockholders selecting the auditors.
Mr. Knoke telephoned me at 2:40 p.m. today that the Federal Reserve Bank had just received the following cablegram from Amsterdam:

"Referring to our Cable No. 153 we are informed that opening of this credit was published in United States newspapers and broadcasted. Stop Our authorities do not understand how this very unfortunate publication could take place. Stop Please cable whether you can explain." Signed Nederlandsche Bank.

Knoke had drafted a cablegram in reply to the effect that the newspaper account made no reference to the credit actually opened and definitely did not emanate from the Federal Reserve Bank of New York.

Upon meeting Mr. Moffat of the State Department in the Secretary’s outer office, I read to him the foregoing message, since Mr. Moffat is entirely informed with respect to Mr. Berle's conversations in regard to the Netherlands.

After reading this message to Secretary Morgenthau, I telephoned it to Mr. Berle's office, where his private secretary copied it for handing to him.
New lows were established for sterling and French francs this morning. Sterling, after opening at 3.37, fell rapidly in the first hour of trading to 3.31-1/2. The rate steadied during the afternoon and the final quotation was 3.32-3/4.

The New York agencies of Japanese banks were again reported to be sellers of sterling.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank totaled £ 665,000, from the following sources:

- By commercial concerns: £ 275,000
- By foreign banks (Europe, Far East and South America): £ 310,000
- By the Federal Reserve Bank (for Yugoslavia): £ 60,000
- Total: £ 665,000

Purchases of spot sterling amounted to £ 604,000, as indicated below:

- By commercial concerns: £ 325,000
- By foreign banks (Europe and Far East): £ 279,000
- Total: £ 604,000

The following reporting banks sold cotton bills totaling £ 53,000 to the British Control on the basis of the official rate of 4.02-1/2:

- £ 28,000 by the Bank of Manhattan
- £ 16,000 by the Irving Trust Company
- £ 6,000 by the Guaranty Trust Company
- £ 3,000 by the Chase National Bank
- £ 53,000 Total

Developments in the other important currencies were as follows:

The French franc moved with sterling and touched a low of .0185. The final quotation was .0188-5/8.

The guilder showed little change, but it was reported that the Dutch control operated in support of that currency in Amsterdam. It closed at .5306-1/2. While the spot quotation for the guilder held steady, the forward discount for that currency widened sharply today. For three-months delivery, a discount of 2½¢ was quoted, as against 3/4¢ yesterday.
The belga continued its downward movement and reached a low of .1867 at the close.

The Swiss franc was steady and closed at .2242.

The discount for the Canadian dollar continued to widen this morning, reaching 17-3/4% at noon. It steadied somewhat later in the day, and the final discount was 17-3/8%.

Although the Chinese yuan improved 1/32 against sterling to a rate of 3-11/32, it weakened slightly against the dollar to 4-11/16¢, due to the lower sterling-dollar rate.

The Federal Reserve Bank purchased 40,000 belgas for account of the Bank of Latvia.

We sold $3,630,000 in gold to the National Bank in Belgium, to be added to its earmarked account.

The Federal Reserve Bank of New York reported that the Spanish Institute of Foreign Exchange, Madrid, shipped $1,600,000 in gold from Spain for its own account to the National City Bank, New York, for sale to the U. S. Assay Office.

The Bombay spot silver quotation was slightly higher at an equivalent of 42.42¢.

The London fixing prices for spot and forward silver both moved off 1/8d to 20-7/8d and 20-13/16d respectively. The U. S. equivalents were 31.75¢ and 31.35¢. It will be observed that the current equivalent of silver in London, reckoned at the open market rate for sterling, is lower than the U. S. Treasury's present buying price, even when such expenses as shipping, insurance, etc. are taken into account. It is possible, therefore, that some exports of silver from London to New York may take place in the near future. On the other hand, there are several factors which tend to discourage such shipments, one of the principal ones being the present state of silver legislation now before our Congress.

Hendy 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 eight purchases of silver totaling 1,331,000 ounces under the Silver Purchase Act. Of this amount, 475,000 ounces represented sales from inventory, and the remaining 856,000 ounces consisted of new production from foreign countries, for forward delivery.
From: Spagent, Shanghai, China.
To: Secretary of the Treasury.

Message from Mr. Nicholson.

Regarding my message of April 23rd, the following are counter proposals of the Chungking Government to the British and Japanese concerning the Tientsin silver:

The silver now deposited in Tientsin belongs to the Chinese Banks forming part of the reserve for the Chinese national currency. Therefore it cannot be appropriated for any other purposes or be subject to negotiations by foreign governments in view of the difficult position of the British government. In regard to the need of relief in North China, the Chinese Government has on more than one occasion entered into negotiations with the British Government in hopes of meeting the wishes of the British Government within a possible limit on the one hand and guaranteeing Chinese legal rights on the other. The reason is not far to seek that the Chinese Government cannot allow herself to be a party to any kind of arrangements regarding the silver question either already concluded or to be concluded in the future between the British Government and any other government or governments. The following formula represents the stand of the Chinese Government regarding the matter and this Chinese stand is in response to the spirit of cooperation on the part
of the British Government. It is earnestly hoped that the
British Government will understand the Chinese position and
will carry out this formula without any change whatever.

1. Both silver dollars and silver specie now in the
Bank of Communications in Tientsin shall be deposited in that
bank and be sealed by the Chinese Government and head office
of the Bank of Communications in conjunction with the repre-
sentative of the British Consul General in Tientsin.

2. Apart from what is provided in Section 5, the
silver thus sealed shall remain in there and never be removed
in toto or in part unless it is approved and authorized by
the Chinese Government and the head office of the Bank of
Communications.

3. Before the silver is sealed the Chinese Gov-ern-
ment will authorize the Bank of Communications in Tientsin
to put aside a portion of silver equal to one hundred thou-
and pounds as a relief fund for famine as caused directly by
flood in certain districts and by drought in other districts
in North China.

4. The relief funds shall be entrusted to an inter-
national relief organization having a Chinese member and the
international relief organization together with the British
Consul General in Tientsin shall be responsible for the ap-
propriation of the fund for relief in North China.
TO Secretary Morgenthau

FROM Mr. Cochran

In a separate memorandum I have recounted the conversation which Mr. Bernstein and I had yesterday evening with Mr. Berle and his associates in regard to Canadian Foreign Regulations.

After I had returned to the Treasury Department, Mr. Berle telephoned me around 6:30 p.m. yesterday evening. He asked how long it would take the Treasury Department to get out an Executive Order of the type of that issued with respect to Denmark and Norway. I told him that this could be quickly done, certainly not later than one day. He thought that we might have to act with great alacrity, since he anticipates that if Germany is planning to enter some other country, it may profit by the lesson learned from our freezing of Danish and Norwegian assets, and endeavor through some subterfuge to get hold of the funds of the country which it intends to invade before we have a chance to freeze such funds in our country.

I told Mr. Berle that I would be very happy to watch as carefully as possible the accounts of those countries which are most likely to be invaded. In this connection, Berle told me that I should be particularly careful in regard to the Netherlands, Belgium and Hungary.

When I came into the 9:30 group meeting this morning, the Secretary told me that he had just received word by telephone from Governor Harrison to the effect that the Federal Reserve Bank of New York had been instructed from the Netherlands to open a credit for $5,000,000 in favor of the Minister of the Netherlands in Washington. The Secretary asked me if the State Department had received any information from the Netherlands yesterday touching upon this point, or otherwise of interest. I related to the Secretary my telephonic conversation of last night with Assistant Secretary Berle. I mentioned further the item on the front page of the New York Times of this morning, announcing the appointment in an emergency of Minister London as paymaster for the Netherlands in this country to look after all Dutch diplomatic and consular representatives abroad. The Secretary had not seen this item. He instructed me to call at the State Department just after the 9:30 meeting and to look over any cablegram received recently from the Netherlands.

At 10 o'clock I visited Secretary Hull's assistants. Mr. Stone, in charge of the cable files, showed me two unimportant cablegrams from our Minister at the Hague, one of them in regard to a commercial agreement with France and the other transmitting British press comments upon the Dutch situation. Stone added that a cablegram had come in late last night, of which no copies had been made, wherein Minister Gordon stated that the Dutch Foreign Office had informed him in strictest confidence that a German invasion of the Netherlands was probable within twenty-four or forty-eight hours. This information had not been given to any other foreign mission, and was to be guarded closely. A cablegram had also been received from our
Charge d'Affaires in Berlin anticipating early invasion of both the Netherlands and Belgium by Germany. When I asked Stone if any messages had been received which touched upon financial arrangements, particularly the naming of Minister London as paymaster in this country, he replied in the negative. One of the other assistants, Mr. Ranchard, hearing this conversation, volunteered that he had seen a memorandum yesterday evening from Mr. Berle on this subject. Consequently, Mr. Stone telephoned Mr. Berle's office for an appointment and I went down and waited to see Mr. Berle.

I told Mr. Berle that I had spoken to the Secretary of the Treasury in regard to our conversation of last night with respect to possible invasion of other neutral countries, and furthermore had brought to the Secretary's attention the announcement in the New York Times this morning. We were naturally interested to have all the information the Department of State might possess upon the Dutch arrangements, since these must necessarily be considered if we were called upon to freeze Dutch assets. Berle wanted me to assure Secretary Morgenthau that the State Department had not withheld any information from the Treasury. He said that yesterday it had been intimated to him that an arrangement might be made whereby Minister London would be the paying agent in this country. He said that he had received official information on this appointment only this morning, the Dutch Minister having been the visitor whom I followed in Mr. Berle's office. Mr. Berle explained that the Dutch Minister had stated that he had received an official message from his Government inquiring as to whether, in the event of blocking of Dutch funds in this country on invasion of the Netherlands by Germany, it might be possible to limit such freezing to transactions involved in occupied territories, that is, leaving free transactions between the United States and any parts of the Netherlands and its overseas colonies which were not actually invaded. Berle had replied that this was a matter on which he would have to have the opinion of the President and the Secretary of the Treasury, but that the general intent of the Administration was to block only those assets, the disposal of which might be ordered under duress.

In answer to my inquiry as to whether the Dutch Minister was to receive a full power of attorney which would permit him to dispose of all assets of the Bank of the Netherlands in this country, Mr. Berle said the Minister had not yet received any documents or direct instructions, so this point was not clear. I told him this would be of much importance to us in preparing any system for blocking Dutch assets, since the question would arise as to whether our Executive Order should be applicable only to private funds, or should definitely include the disposition of official Dutch balances handled by the Minister.

Upon my return to the Treasury Department, I reported the above information to the Secretary.

Shortly afterwards, Mr. Knox telephoned me from New York. He gave the information which had been provided the Secretary directly by Governor Harrison, that is, that the Federal Reserve Bank had received a cablegram this morning from the Bank of the Netherlands to the effect that a credit of $6,360,000 was to be opened for the Dutch Minister in Washington, by order of the Minister of Finance in the
Netherlands, with authority to draw $132,500 each month thereunder until ex-
hausted. Knocks asked me to let the Department of State know that the Federal
Reserve Bank of New York was advising the Minister of the Netherlands in this
country of the cablegram received from the Bank of the Netherlands and would tell
him how he should file his signature through the State Department, and ask the
State Department to certify that London is the accredited Minister. I gave
Knocks, in turn, such information as I had with respect to the naming of the
Dutch Minister as paymaster in this country.

I also telephoned Mr. Livesey the substance of Mr. Knocks's message.
In accordance with the Secretary's instructions I informed two representatives of the Chinese Embassy, who called on me yesterday afternoon, that the Treasury was prepared to buy the approximately 4,000,000 ounces of silver and make payment therefor if placed on a United States flagship before any silver legislation is passed in the United States.

The Chinese representatives were Messrs. Yu, Second Secretary, and Mr. Liu, Counselor. These representatives told me that the silver in question, amounting to 4,300,000 ounces, was already at Rangoon, and could be placed on the American SS "Exporter", due to sail from Rangoon on May 11.

I told the visitors that they were at liberty to communicate to their Government that we would make an offer for the above-mentioned silver, on conditions identical with those which we set forth in our cablegram of July 27, 1939, plus the additional stipulations necessary to restrict this purchase of silver to metal actually to be shipped on the "Exporter" prior to any new silver legislation.

After this visit, I asked Mr. Knox by telephone to have the necessary cablegram of offer prepared. Today Mr. Cameron of the Federal Reserve Bank of New York telephoned down his draft of a cablegram. This message was found to cover the situation. Insofar as the General Counsel's Office was concerned, it was the opinion of the lawyers that it even put more conditions in the contract than was actually necessary from our standpoint, and might be considered somewhat unfair by the Chinese. Feeling that the message as prepared was, however, entirely in line with the Secretary's instructions to me, I telephoned the Chinese Embassy and read the draft, including one revision which I had agreed upon with Mr. Bernstein, to the Chinese Counselor. He agreed that this was entirely in accord with the terms of our conversation of yesterday and would be acceptable to his people. I instructed Mr. Cameron, therefore, to dispatch the cablegram to Chungking. The only question of the Chinese Counselor was whether we were giving the Chinese sufficient time to cable an acceptance. I told him that if the acceptance failed to arrive exactly on the hour we would naturally consider extending the time since we are fully disposed to accept the silver under the conditions stipulated.

There is attached a copy of the message as actually sent out by the Federal Reserve Bank of New York. At the request of the Counselor of the Chinese Embassy, I have provided him with a copy of this message.
May 6, 1940

The Central Bank of China

Chungking

We as fiscal agent of the United States will purchase from you up to approximately 4,300,000 ounces .999 fine of silver now located at Rangoon at the rate of 35¢ United States currency per ounce .999 fine to be shipped per steamer Exporter of American Export Lines scheduled to leave Rangoon about May 11, 1940 subject to the terms and conditions contained in paragraphs A B C D E and F of our cable No. 24 of July 27, 1939 to Hongkong except that all documents are to be delivered to National City Bank of New York Rangoon and 95% of cost of silver is to be credited to you by us upon receipt by us of cable advice from National City Bank of New York Rangoon that such documents have been received by it in good order and provided the authority of the Secretary of the Treasury to acquire silver under the Silver Purchase Act of 1934 is not modified before the silver is placed on board steamer STOP Your acceptance must reach us not later than our May 9, 1940

FEDERAL RESERVE BANK OF NEW YORK

Send us U.S. Government business at full rate.

The Central Bank of China,

Chungking

(Copy)
May 8, 1940

Dear Mr. Stettinius:

Many thanks for your letter of April 30th and the material which you enclosed on tungsten. In addition to this, however, which seems to have been derived largely from published sources, I would like to ask your help in securing some other information not so readily available.

Specifically, I would like to find out how much tungsten will be needed by industry in the United States during the next twelve months, and where industry is planning to secure this tungsten. Further, I would like an estimate of current stocks of tungsten now held by industry, including reserve supplies.

I appreciate your willingness to be of assistance and I hope that this request will not burden you unduly.

Sincerely,

(Honored) H. Morgenthau, Jr.

Mr. W. R. Stettinius, Jr.,
71 Broadway,
New York, New York,

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

Dear Mr. Secretary,

Following my conversation with you on the telephone last week, I have made a quick survey of the Tungsten situation and have assembled some information and data on the subject which I hope will prove helpful to you.

In specific answer to the questions you raised, I think the following will be of importance:

In normal times, the annual consumption in the various consuming countries is as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Tons of Tungsten Ore p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>5,000 to 6,000</td>
</tr>
<tr>
<td>Germany</td>
<td>about 10,000</td>
</tr>
<tr>
<td>Great Britain</td>
<td>6,000</td>
</tr>
<tr>
<td>Russia</td>
<td>4,000</td>
</tr>
<tr>
<td>All others</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>66,000</strong></td>
</tr>
</tbody>
</table>

You will find, herewith, a detailed memorandum showing U.S. imports, by countries, of Tungsten Ore and Concentrates for the years 1936 - 1938, and for the first two months of 1940; also enclosed is a memorandum showing imports into France, Great Britain and Germany for the year 1938; also Tungsten imports into Germany (1935 to 1938) by countries of origin.

I am informed that since 1936 and up to the outbreak of war Germany had a barter arrangement with China whereby the former shipped ammunition, guns, etc., in exchange for raw material, including Tungsten ore. Under this arrangement Tungsten ore was not for resale in the open market, Germany claimed that it was wanted to build up a stock as a strategic material for the army,
while China at that time did not want Germany to resell the ore for foreign exchange. Under that arrangement Germany is supposed to have accumulated about 15,000 tons just prior to the outbreak of war, assuming that the agreement had been faithfully observed.

In February of this year, however, a front-page article appeared in either the New York Times or the Herald Tribune to the effect that the German stock was completely exhausted. If the story is true, Germany must have resold the ore or used it very rapidly in preparation for the war. Present events check pretty accurately that the story is true because Germany is known to have bought large quantities in South America and in New York through Japaneese houses and a few trading firms. This material was shipped to Vladivostok in Japaneese boats and is believed to have totalled about 2,000 tons.

The supply in the United States at the end of February consisted of 1,500 short tons of Tungsten and 11 short tons of Tungsten Metal in bonded warehouses. The Bureau of Mines should have information giving consumers' stocks, which data, however, is not made public.

Tungsten is used principally in the manufacture of high-speed tool steels, cemented Tungsten carbides, stellites, and electric light and radio tube filaments. The consumption, therefore, appears to be governed by tool steel business, steel operations and the general trend of industry, and requirements, therefore, are not a seasonal factor.

Exports of Tungsten Metal, Wire, Shapes and other alloys during 1939 amounted to 194,925 pounds, while Tungsten Concentrates smelted and exported amounted to only 539,928 pounds. The exports, therefore, do not appear excessive.

I am also attaching various supporting assurance covering world production, production and consumption in U. S. A., and lists of sellers of Tungsten Ores, Ferro-Tungsten and Tungsten Metal, together with current trade paper quotations.

I am sure that Mr. E. W. Pohrson, Assistant Chief Engineer, and Mr. Robert H. Ridgeway, Metal Economics Division of Bureau of Mines, are very familiar with this whole subject.

Data on the Tungsten situation in 1939 and previous years is contained in the enclosed copy of Bureau of Mines publication. Conditions covering 1939 are reviewed in the enclosed clipping of an article prepared by the same Bureau and issued in February, 1940 in the "Engineering and Mining Journal". I am also told that Mr. K. C. Li, President of the Wah Cheng Trading Corporation, 238 Broadway, is excellently posted.
If I am not mistaken, the Army & Navy Munitions Board have a tremendous amount of data on Tungsten, and if there remain any questions in your mind that I have not been able to satisfactorily answer, I am sure that inquiry to Colonel H. K. Rutherford by the proper member of your staff would prove helpful.

Whenever I can be of any further assistance to you in any way, please let me know.

Faithfully yours,

[Signature]

E. K. Stattlinius, Jr.