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February 27, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Conference with Assistant Secretary of State Berle, 3:30 P.M., Tuesday, February 27, 1940.

Those present were Secretary Morgenthau, Assistant Secretary Berle, Mr. Cochran and Mr. Gaston.

Mr. Berle said there were several matters of no great importance that he wished to take up with you in the interest of keeping our coordination straight.

(1) The Danish Ambassador had indicated the desire of his government that he begin negotiations with the Export-Import Bank for a loan. Mr. Berle asked if you had any objection. You said you had not.

(2) Chile is soon to send a special representative here to undertake negotiations with the Export-Import Bank for a loan. Similar inquiry was made of you in this case and you answered as above.

(3) The Hungarian Ambassador has hinted that his country would like to make an Export-Import Bank loan. Mr. Berle was in doubt whether we ought to consider it. While Hungary has appeared to be conceding as little as possible to the Germans, a loan to that country might simply result in increasing the amount of supplies Germany could get out of the country. He doubted that we would want to give the Hungarian Ambassador any encouragement. He thought it might be a good idea to ask the Ambassador not to present the application. You remarked that that was a diplomatic matter as to which they would know best.

(4) Berle said they had learned that the Hamburg-American had built up a very considerable business in food orders to Germany. The buyers were largely refugees and others, relatives and friends of persons residents of Germany. The food orders were sold for \$8.50 and their information was that less than half that value in food was actually being delivered. It thus appeared to be a device by which the German Government was accumulating dollar exchange. Berle said that it would be a difficult matter to do anything about and he merely wanted advice. You said that it didn't seem to you that the Treasury would have any jurisdiction or control and that anyway it was the class of matter in which it was your policy not to become involved.

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(5) You told Mr. Berle of your conversation earlier in the afternoon with Laurence Duggan on the subject of Secretary Hull's letter on the Brazilian steel matter. You recalled to him the fact that you had written a letter several weeks ago to Secretary Hull declaring yourself out of further debt negotiations and thus in your opinion ending the life of the committee, to which the Secretary referred in this latest letter. You said, however, that because of your long standing interest in South American development you were disposed to give this steel matter some further study.

February 27, 1940

MEMORANDUM FOR THE SECRETARY'S FILES:

Re Meeting of February 27, 1940, between the Secretary and Mr. Duggan of State Department with respect to the Brazilian steel project. Messrs. Gaston and Cotton present.

The meeting was held at the Secretary's request, occasioned by receipt of a letter from Mr. Hull requesting that the Brazilian steel project problem be considered by the so-called Committee of Three. The letter indicated that the firm of Ford, Bacon and Davis had expressed an interest in the project.

The Secretary stated that he was definitely out of the current Brazilian debt negotiations, which apparently are not going very well, and so far as he is concerned the Committee of Three no longer exists except in connection with Colombia. He said he was very doubtful whether he wished to become involved in the consideration of the Brazilian steel project, but asked Mr. Duggan to explain the background of the situation.

Mr. Duggan said that the hope of developing the steel industry in Brazil is, at the present time, considered a matter of paramount importance in military, governmental and civilian circles in Brazil. The Brazilian Ambassador here is in direct touch with President Vargas, who expressed a determination to carry this development forward immediately by one method or another. He would prefer American to any other foreign participation. Much disappointment and political embarrassment to the President has been caused by the refusal of U. S. Steel to participate after high hopes had been raised by the report of its experts recommending the project from a technical point of view. The matter has not been tied in with the question of Brazilian indebtedness, although rumors of the so-called McConnell Plan — which would involve such a tie-in — have apparently reached Brazil and caused an unfavorable reaction. If the Secretary thought desirable, Mr. Duggan saw no apparent objection to requesting the cooperation of the Commerce Department in considering this matter. The primary concern of the State Department is to avoid giving the Brazilians the impression that the United States Government has no intention of giving sympathetic consideration to Brazilian aspirations for a national steel industry.

It was pointed out that an important factor to consider from the standpoint of this Government is that, if we should take any initiative in making suggestions to the Brazilian Ambassador as to how the project

- 2 -

might be carried forward, it would virtually constitute a moral commitment to consider sympathetically a request for a loan in a large amount to finance the project should it eventually prove feasible, whether through the proposed Inter-American Bank or the Export-Import Bank.

The Secretary said he wanted to study the whole situation further. He asked Mr. Duggan to report the substance of the conversation to Mr. Hull.

J.P.C.

Joseph P. Cotton, Jr.

PLEASE RETURN TO MR. COCHRAN



DEPARTMENT OF STATE
WASHINGTON



March 7, 1940.

Reply refer to
35.51/1271

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch no. 505 of February 27, 1940 from the American Embassy at Buenos Aires regarding the need of the Argentine Government for short-term credit.

Enclosure:

From Buenos Aires,
no. 505, February 27,
1940.

TO THE SECRETARY
OF STATE
WASHINGTON

MAR 11 1940

RECEIVED

EMBASSY OF THE
UNITED STATES OF AMERICA
BUENOS AIRES

6
DUPLICATE

No. 505

Buenos Aires, February 27, 1940

By airmail February 28.

NEED OF THE ARGENTINE GOVERNMENT FOR SHORT-
TERM CREDIT

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to report that Mr. Lansing Wilcox, Manager of the Argentine branches of the First National Bank of Boston, informed the Embassy confidentially yesterday that Swiss and Netherland bankers were calling upon the Argentine Government to make re-payment of 80,000,000 pesos (approximately \$14,000,000), short-term loans of which the Government here has in the past had no difficulty in renewing from time to time

and which fall due on April 15 and May 1 next. Mr. Wilcox added that Dr. Ceferino Alonso Irigoyen, Financial and Economic Counsellor to the Argentine Embassy in Washington who has been in Buenos Aires for a number of weeks in connection with the trade-agreement negotiations with the United States, had been instructed to waste no time in an effort to find this amount in New York, and that if J. P. Morgan and Company declined to advance the sum, Dr. Irigoyen should obtain it wherever possible.

Mr. Wilcox considered the matter of significance in showing that the Argentine Government was, aside from its gold reserves, which it would not draw upon in the absence of absolute necessity, extremely short of foreign-exchange reserves.

Respectfully yours,
For the Chargé d'Affaires

James W. Gantenbein
Second Secretary of Embassy.

Gn.
S51
JWG:ml

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

1940 MAY 1 AM 2 35

RECEIVED
DEPARTMENT

Copy to the Consulate General, Buenos Aires.

Memo of Conversations at Princeton, February 27-29, 1940 between Viner, Stewart and Riefler.

Conference

1. Conference to be limited to Treasury staff and regular advisors -- no publicity, as few statements as possible. Gold has a history in which present Administration is deeply involved. Public discussion of gold problem can unleash undesirable campaign discussion involving hot charges that Administration is responsible for problem.

Nature of Problem

2. No single gold problem, but rather a cluster of problems, mutually interdependent but nevertheless insoluble as a whole or at one stroke (balance of payments problem; capital export problem; foreign exchange problem; domestic banking problem; help to allies problem). Best that can be hoped for is clearer appreciation of what we are working for so that as chance permits, steps can be taken in right direction and moves in wrong direction can be avoided.
3. Current Balance of Payments Problem.

From a very long range point of view gold movement reflects the adoption by the United States -- a creditor country -- of protectionist commercial policies. More immediately it reflects predominantly absence of capital exports from this country and huge capital imports. These capital movements have been conditioned at times by relative investment opportunities but latterly have been affected almost wholly by a search for security in a world at conflict. Now foreign holdings are being taken over by governments to finance war purchases here. In this setting any move now to restrict

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gold acquisitions would imply some or all of the following consequences.

- a. Less funds available to allies to buy war supplies.
- b. Greater restrictions on non-essential exports to allies (a magnification of the tobacco and apple type of problem).
- c. More rapid liquidation of foreign holdings of American securities -- possibly more rapid than markets could absorb.
- d. Exchange dislocations -- upsetting to our commerce -- particularly with remaining free exchange neutrals.

4. Current Stock of Gold Problem.

United States stocks of gold are huge it is true and amount to 50 per cent of world total. Must be remembered, however, that other countries still hold 40 per cent and that the monetary value of this 40 per cent is also very much larger than the amounts they have been accustomed to hold in past. Under these circumstances we must remember that though American action with regard to gold is likely to be decisive, the continuing stake of other countries in present gold stocks is huge. Nothing should be done to increase their fears about the value of what to them constitutes huge holdings and thus lead them to dump their remaining stocks on us.

5. Relation of Gold to Banking Structure

Internally the huge gold movement has liquidated the banking position and created an unprecedented ease in the money market. This brings up the ever recurrent fear of the possibility of undesirable inflationary developments once economic recovery is established. This outcome is sufficiently within the realm of possibility to warrant refraining from any measures which would aggravate the excess reserve problem. Taken by itself as it is today, however, or as it is likely to appear in the immediate future, there are

mechanisms available for the control of undesirable money market developments provided there is the desire, the will, and the skill to use them.

6. Problem of Future Value of Gold

If Europe remains at war while the United States continues neutral, it seems probable that the United States will acquire most of the current new gold production and a further portion of the stocks now outstanding under foreign ownership. It is ungaranteed to draw from these probabilities, the conclusion that the end of the war will find the United States with all the gold in the world and that that gold will be worthless because other nations will refuse to accept it or accord it value.

a. It is one of the primary functions of gold to provide a store of value possessing international mobility for use in emergencies. The fact that gold is now demonstrating the advantages of this primary function does not lead to a diminution of the desirability of its reacquisition by foreign countries when the emergency ceases. Rather it strengthens that desirability.

b. There is a substantial list of important countries whose gold production or whose equity interest in gold production is sufficiently strong to give them a vital concern in the maintenance of the value of gold in the future.

c. The one really decisive step calculated to impair seriously the future of gold would be for the United States with its large holdings to deprive it of utility in this time of crisis when gold represents an asset to the holder for which there is no acceptable alternative.

7. Problem of huge world supply of gold as affected by rise in prices of gold.

From the supply side, the problem of huge stocks of gold has been accentuated by the world wide devaluation of currencies that took place during the depression. The monetary value of each ounce of gold was greatly increased without a corresponding increase in the costs of gold production. As a result production of gold in physical terms has increased because mining is more profitable. More important on the supply side -- the value of existing physical stocks and also of annual increments to those stocks has been greatly augmented by the higher prices. For this situation there is no immediately feasible corrective that would not entail greater evils than

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the ones it would remove or moderate. It may be that circumstances will arise, however, when constructive action can be taken. If, for example, the United States should participate in the war, and if in the course of that participation, the direct contribution of the United States toward prosecuting the war should reduce the dependence of the allies on their gold holdings as resources vital to their existence, the occasion might arise for multi-national handling of the supply phase of the gold problem. Under the hypothetical circumstances sketched, the great bulk of the world's monetary gold would be held by allied countries each of whose exchanges was temporarily subjected to war time control. This circumstance would permit the adoption of corrective measures of a type that would be impracticable under more normal circumstances.

8. Problem of Use of Gold after War.

The huge stock of gold now in the United States and the utility which the United States has given to that gold during the war constitute the greatest single asset this country possesses to exercise decisive influence on post-war reconstruction.

- a. Should the United States deprive gold of its function of a universally saleable, highly mobile asset during war, the end of the war would find gold without great value. Europe would probably reorganize on the basis of exchange controlled barter economies, and the United States would be faced with problems of such drastic internal commercial readjustments as to leave little room or scope for wider influence toward improving world economic conditions.
- b. If the United States preserves the international functions of gold, however, there will continue to be a real opportunity for economic reconstruction on an international basis. The extent that opportunity is realized will depend on the will, the skill, and the leadership which the United States brings to problems of:-

- 3-
- (1) Commercial barriers (tariffs, quotas, etc.)
 - (2) Competitive exchange policies.
 - (3) Opening of international capital markets to flow of capital for genuine productive purposes, long term and short term.
 - (4) Establishment of sufficient international security to justify an economic policy based on the assumption of continuance of international trade and investment.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 27, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was dull today. After opening at 3.95 bid, the rate for sterling advanced to 3.95-3/8 by noontime. It moved within a narrow range for the rest of the day and closed at 3.95-1/4.

Sales of spot sterling by the six reporting banks totaled £589,000, from the following sources:

By commercial concerns.....	£ 169,000
By foreign banks (Europe, South America and Far East).....	£ 420,000
Total....	£ 589,000

Purchases of spot sterling amounted to £346,000, as indicated below:

By commercial concerns.....	£ 256,000
By foreign banks (Far East).....	£ 90,000
Total....	£ 346,000

The following reporting banks sold cotton bills totaling £37,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 17,000 by the Bankers Trust Company
16,000 by the National City Bank
4,000 by the Guaranty Trust Company
£ 37,000 Total

The rate for the Dutch guilder improved to close at .5322-1/2. Its firmness probably resulted from yesterday's official announcement that the Dutch government loan had been voluntarily over-subscribed.

The other important currencies closed as follows:

French francs	.0224-1/8
Swiss francs	.2242-1/2
Belgas	.1692
Canadian dollars	13-5/8 % discount

The Federal Reserve Bank purchased 30,000 Italian lire for the Bank of Latvia.

We purchased \$28,192,000 in gold from the Bank of England, which was released from its earmarked account at the Federal Reserve Bank of New York.

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

\$ 2,336,000 from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.
 2,251,000 from Switzerland, shipped by the Swiss National Bank to the Federal Reserve Bank of New York, for account of the Swiss National Bank. The disposition of this shipment is unknown at the present time.
 140,000 from India, consigned to the American Trust Company, San Francisco, for account of the Guaranty Trust Company, London. This gold will be sold to the U. S. Mint in San Francisco.

\$ 4,727,000 Total

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

\$ 2,952,000 from Hungary, shipped by the National Bank of Hungary to the Federal Reserve Bank of New York, the disposition of which is unknown at the present time.
 275,000 from Japan, shipped by the Yokohama Specie Bank, Tokyo, to its San Francisco office.
 159,000 from Hong Kong, shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco.
 130,000 from Hong Kong, shipped by the National City Bank, Hong Kong, to the American Trust Company, San Francisco.
 16,000 from Hong Kong, shipped by the Banque Belge pour l'Étranger, Hong Kong, to the Bank of America N.T. & S.A., San Francisco.

\$ 3,532,000 Total

The shipments being sent to San Francisco will be sold to the U.S. Mint in that city.

The Federal Reserve Bank of New York informed us that it had granted a loan of \$1,000,000 to the Central Bank of Turkey today, secured by gold held under earmark with the Federal in the name of the Turkish Bank. Today's transaction raises the total of such loans to Turkey to \$5,500,000, against which the Federal holds \$6,110,000 in gold as collateral. According to the Central Bank of Turkey, the funds made available to it are used to meet its seasonal needs in foreign exchange.

The London prices for spot and forward silver were both fixed at 20-3/8d, up 3/16d and 1/8d respectively. The U. S. equivalents were 36.22¢ and 36.03¢. Some small Indian buying was reported.

CONFIDENTIAL

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The Bombay silver price worked out to the equivalent of 40.16¢, off about 1/2¢.

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

We made three purchases of silver totaling 325,000 ounces under the Silver Purchase Act. Of this amount 200,000 ounces represented a sale from inventory by one of the refining companies and the remaining 125,000 ounces consisted of new production silver from various foreign countries, for forward delivery.

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

CONFIDENTIAL

TREASURY DEPARTMENT

16

INTER-OFFICE COMMUNICATION

DATE February 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4 P.M. today the Canadian Minister called at the Secretary's request. Mr. Cochran was present at the meeting.

The Secretary explained that he had been receiving Mr. Purvis quite frequently, at least once each week, and was getting on splendidly with him. In their conversations certain points with respect to Canada had arisen and Secretary Morgenthau had assumed that Mr. Purvis was acting for Canada in the latter's purchases in the United States. Secretary Morgenthau let Mr. Christie know that formal word had been received to the effect that Mr. Purvis was head of the Franco-American Purchasing Mission in this country, and suggested that relations would be simplified and regularized if a similar communication might be received from Canada, provided Mr. Purvis does enjoy the status above suggested. Mr. Christie replied that he himself had taken the position that Mr. Purvis, a Canadian, was actually Canada's representative in purchasing on this market and had so treated him. He was happy to know from Secretary Morgenthau as well as from Mr. Purvis the cordiality of their relations and he thanked the Secretary for the present suggestion, upon which he will promptly act in communicating with his Government.

After leaving the Secretary's office, the Minister asked me in just what form we had been notified of Mr. Purvis' appointment. I told him that I would check up our records and telephone him within the next day or so.



STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

17

INTER-OFFICE COMMUNICATION

DATE February 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent telephoned me at 11 o'clock this morning. He stated that there had been no official sales of dollar securities by the British authorities on Saturday, February 24. On Monday, February 26, the sales were:

1,500
35,711
Nil
Nil

Pinsent asked me if we had "kept tabs" on our friend from London who recently sailed back to that city. I told him that we had not. Pinsent said that he did not want to tell tales out of school, but that he could tip me off personally that his Ambassador was upset upon hearing gossip as to this gentleman's remarks in New York, made just prior to his departure, in regard to the security proposition.

At noon I was talking by telephone with a friend of mine in New York who is pretty good at picking up gossip of this sort, and who will let me know if he hears anything.



TREASURY DEPARTMENT

18

INTER-OFFICE COMMUNICATION

DATE February 27, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 3:30 this afternoon the Secretary of the Treasury received Assistant Secretary of State Berle, with Messrs. Gaston and Cochran present. Mr. Berle explained that he desired to do a little work as liaison officer for the State Department, partly to see how liaison was functioning. He said he had a few points to bring up.

The first matter which Mr. Berle mentioned was the announcement which the State Department had received by cable that Mr. Pedregal was to leave Chile on February 26 by air for the United States. The purpose of the visit is to procure a loan for Chile, which matter he stated had been before the Department of State for some time. The Secretary replied, with the confirmation of Messrs. Gaston and Cochran, that the Treasury Department was not aware of any new plans for a credit to Chile. Mr. Berle asked what should be done when Pedregal arrives. Secretary Morgenthau recommended that he be received by Mr. Jesse Jones.

In this connection, Secretary Morgenthau referred to a letter which he had on his desk from Secretary Hull suggesting a further task for the Inter-Departmental Financial Committee which Secretary Morgenthau had headed. Mr. Morgenthau asked Mr. Berle to remind Secretary Hull of the letter in which the Secretary of the Treasury had let him know that with the completion of the negotiations in regard to Colombia's debt, the Committee ceased to function insofar as the Secretary of the Treasury was concerned. Mr. Morgenthau mentioned the subject of the letter, namely, the proposition of a steel plant for Brazil. Mr. Berle emphasized how important this project was in the mind of the President of Brazil. Secretary Morgenthau stated that Mr. Duggan of the State Department had called this morning and had discussed this matter and had promised to give the Secretary a memorandum thereon. When this is received, the Secretary of the Treasury will go into it, since it happens to be the type of proposition, for the increase of productivity in a Latin-American country, which he has always thought would alone be the economic salvation of Latin-America.

In the second place, Mr. Berle stated that the Minister of Denmark had approached the Department of State in anticipation of a formal request for a credit from the Export-Import Bank. The Department of State favored such a credit. In answer to Mr. Berle's inquiry, Secretary Morgenthau stated that it met with his agreement.

Mr. Berle then reported that representations were being made through a man who for all intents and purposes acts as agent of the National Bank of Hungary in the United States for an Export-Import Bank credit to that country. Mr. Berle stated that the State Department was not overly enthusiastic about this proposition, realizing that Hungary is having to buy her peace from Germany, through such operations as the recent exchange agreement between the two countries, and if Hungary received a credit from the United States might be forced to help Germany to the same extent. Secretary Morgenthau stated that there was no question in his

- 2 -

mind as to Scandinavian requests for assistance, but that he was not familiar with Hungary, and the Balkans and hesitated to express any opinion on this application. Mr. Cochran asked if the representative seeking the loan was Mr. Havas, who had called at the Treasury Department to report the recent change in the pengo, but who had not mentioned to Mr. Cochran the suggestion of a credit. Mr. Berle stated that Mr. Havas was the official talking of the credit. Both Gaston and Cochran would oppose any credit to Hungary. The impression was gained that Mr. Berle would try to discourage the idea of any formal request for such a credit.

Mr. Berle described to the group the procedure followed by certain ex-officials of the Hamburg-American Lines in New York in advertising the delivery of food parcels to German families upon the remittance of about \$8.00 per package. Mr. Berle stated that the materials listed as going into the packages are valued at about \$3.00, highest retail prices in New York. This business, he said, had grown to considerable proportions with the result that the German Government, since the men in charge of the arrangements are unquestionably German Government officials, is harvesting a considerable amount of foreign exchange. Mr. Berle thought this was one reason why the British had been taking the position they had with respect to censoring American mails. The question arises as to whether anything should be done by American authorities. Berle was indignant over the German foreign exchange proceeds, but sympathetic with the under-rationed Jewish families in Germany who are the principal recipients of the packages. Secretary Morgenthau told Mr. Berle very definitely and repeated his statement three times during the conversation that he did not desire to be called upon for a decision or a recommendation on this subject. He much preferred that someone else handle it. If any investigation in New York is deemed necessary, Secretary Morgenthau preferred that the State Department call on F.B.I. rather than Treasury agents. It was recalled that the State Department already had certain information in regard to activities of a former Hamburg-American Line official in New York, in connection with German shipping from Mexico, which information had been provided the State Department by the F.B.I. Mr. Cochran expressed the opinion that the investigation or control of the transactions in question was not properly a Treasury function. The postal and banking authorities would be responsible for supervising the remittances.

J. M. S.

Tuesday
February 27, 1940
4:15 p.m.

HMJr: Hello.

Charles
Edison: Hello, Henry.

HMJr: Hello, Charlie.

E: Say, I talked to Admiral Furlong and there have been no sales of that list that you talked about.

HMJr: I see.

E: But here's the situation.

HMJr: Yes.

E: I had mentioned it, you know, to Bertil when he was here.

HMJr: Yes.

E: And he sent his people down to talk to Furlong, his purchasing men and others.

HMJr: Yeah.

E: Furlong gave them prices on some of that stuff and they have cabled over to their country.

HMJr: I see.

E: But so far "no soap".

HMJr: Well, I think I'll just let it rest.

E: Now, there's one other thing - the British were in today and there's -- one of their powder factories a long time ago, or some time ago, blew up.

HMJr: That's right.

E: And so they are anxious to have us let them have some powder, you see?

HMJr: I heard about it.

- 2 -

- E: Well, you know what the situation is, but they have made a deal with Hercules to build a little extra plant for Hercules.
- HMJr: Yes.
- E: They've gone to Dupont's -- Dupont can't give them any powder because we're the -- the Navy and the Army are taking it. See?
- HMJr: Yeah.
- E: Now, if it's desired, why we could postpone deliveries and the War could postpone some deliveries and let them have some of that powder from Dupont. Now Dupont is not entirely sold on the idea. They -- they think that they should do for Dupont what they are doing for Hercules - in other words, build them a little plant to make their stuff.
- HMJr: Well, the only place that they have agreed to build a plant is with Atlas.
- E: Atlas, is it? I thought it was Hercules.
- HMJr: No, they haven't closed the deal with Hercules -- with Atlas they agreed to build them a little plant.
- E: Well, Furlong is right here and he says it's Hercules too -- Hercules and Atlas.
- HMJr: Well, Hercules has not been closed.
- E: Oh, it hasn't been closed.
- HMJr: Not unless it was closed today.
- (Brief pause while someone in the room was talking.)
- E: Well, that's what they told Furlong, Hercules for one thing and Atlas for another, but I -- I don't know.
- HMJr: Well, they were in yesterday and they hadn't closed Hercules as of yesterday.

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E: I see.

HMJr: But I know they are dickering with Hercules.

E: Yes. Wait a minute.

(Brief pause.)

Well, I -- all I say is that we could let them do that -- I mean, if it seems wise to do it why we stand ready to.....

HMJr: Well, I'll tell you what I think I'd like to do, Charlie, on that. I'd like to see the President with you on that and let -- I'll tell him all we know and you can tell him all that you know and let him decide it.

E: All right.

HMJr: How will that be?

E: That's fine if that's quick enough.

HMJr: Well, I -- well, this thing has been going on for over a month.

E: Yeah.

HMJr: And I wouldn't want to pass on it. I'd want him to pass on this.

E: Yeah.

HMJr: But I think you and I could see him as soon as he gets back.

E: Yeah, all right. Fine.

HMJr: Because I wouldn't want to pass on it.

E: No.

HMJr: But I think the two of us could see him.

- 4 -

E: All right, sir. Just as soon as he gets back we'll get ahold of him then.

HMJr: O. K.

E: All right. Well now, that's all that I know up-to-date. That plus the boat information I gave you.

HMJr: Right.

E: And the fact that we can't sell anything that's out of the line.

HMJr: Thank you.

E: All right.

HMJr: Goodbye.

E: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Febr. 27, 1940.

TO Secretary ~~W~~rgenthau
FROM Mr. Haas *HA*

I called on Col. Jouett this afternoon, as he told me he was leaving for California tomorrow morning and would not be back until Saturday evening. He said he would be glad to supply you currently with the monthly figures on employment in the aviation industry.

The data which you wish on airplane and airplane engine production can not be obtained under existing circumstances. He told me that up until October 1938 the Aeronautical Chamber of Commerce had obtained monthly figures on airplane and airplane engine production, but since then the Air Corps of the War Department has prohibited companies working on U. S. Army orders from releasing any production figures. He said that he has been negotiating with the Information Division of the Air Corps in an effort to have this prohibiting order rescinded, and suggested that you might want to talk to Maj. Gen. Arnold with regard to the matter. Col. Jouett appeared anxious to be of assistance to you, and said that if the production figures could be released they could start on the job immediately, as the forms and other material for collecting the data were all prepared. He doubted, however, if weekly figures could be secured for the past period. (The figures prior to October 1938 were available only on a monthly basis.)

February 27, 1940.
11:00 a.m.

Present: Mr. Smith
Mr. Currie
Mr. Bell

H.M.Jr: Bell, have you an estimate as to what the public debt will be, in your opinion, as of July 1st to December 31st?

Bell: Yes, but I didn't bring my figures.

H.M.Jr: Will you get them? That is what I want.

Bell: All right.

H.M.Jr: Now, can we do the debt limit first?

Bell: Yes. The gross debt on January 31st was 42 billion 110 million dollars and we have a borrowing power left on that date of about 2 billion 473 million dollars. We will issue, according to our estimates, from February 1st up to June 30th about 900 million dollars in Savings bonds and trust fund securities, which means the Old Age Reserve, the Unemployment Trust and United States Savings bonds. Of that 900 million, about 600 million will be Savings bonds, so we will have to add another third, which will be 200 million, in order to bring the securities up to the face amount and then we had contemplated 500 million dollars of new money in June, which would give you about a billion 600 million dollars of addition to your debt. Now, that would increase your public debt about a billion four, 43,5, and it would decrease your borrowing power --

H.M.Jr: Wait a minute, Dan, give me the total figures of the debt.

Bell: Forty-three, five, approximately. They have got some odd figures in here.

Smith: That is June.

H.M.Jr: June 30th.

Bell: June 30th.

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Smith: Yes.

Bell: That is your gross debt, but your borrowing power will go up a billion six, whereas your debt will go up a billion four, see, because of those Savings bonds.

H.M.Jr: Well, you will have --

Smith: Pardon me --

H.M.Jr: Go ahead, please.

Smith: I think I know. When you say a third is being added, just as a matter of information I would like to --

H.M.Jr: Well, you sell a hundred dollar bond at 75 dollars but its face value at the end of ten years is a hundred dollars. If you sell 75 million dollars worth of bonds, you have to set up on your book a hundred million dollars.

Bell: In your debt limitation.

H.M.Jr: Because they will be worth that in ten years' time.

Bell: Whereas in cash you only get 75 million dollars.

Smith: I see.

Bell: So you have to take a billion six off your borrowing power, so that on June 30th we ought to have about 873 million dollars of borrowing power.

H.M.Jr: June 30th?

Bell: That is right.

H.M.Jr: How much?

Bell: 873 million.

H.M.Jr: Well now - we will give you this in a formal memorandum. I want one like this for the President.

Bell: It will be a little different, because I am giving you round figures.

H.M.Jr: Let's go forward to December 30th.

Bell: Up to December 30th?

H.M.Jr: Please.

Bell: We will just a little more than exhaust that 800 million, just about exhaust that 800 million up to December 31st on a cash basis. If you add about 400 million to Savings bonds - if you add 130 to that, you would more than exhaust it. That is excluding the 700 million.

H.M.Jr: Wait a minute. Now, may I interrupt you? Before you come to the 700, saying that you exhaust your borrowing power December 30th, what would our working balance be, as of December 30th, on that basis?

Bell: That is an important thing because it goes way down. Our working balance on December 31st would be 500 million dollars.

H.M.Jr: Well that, gentlemen, I consider, the irreducible minimum in these times. I don't know whether you people think so. In these kind of times --

Currie: 500 million.

H.M.Jr: Now --

Bell: It is really too close when you consider Savings bonds in there.

H.M.Jr: Well, I want you to work this out into a formal memorandum. I am going to have to show it to the President. Then, with the 700 - now, where is the 700 million, where does that come in? You are not including that in this?

Bell: No. The 700 million, if we get it into the Treasury in the form of cash, would either increase our balance or allow us to retire other debts coming along and enable these other things

- 4 -

to pick up, such as Savings bonds, and so on.

H.M.Jr: How do we go about getting the 700 million?

Bell: Well, I take it that it - it would be up to the Budget to notify each one of the organizations as to what they had figured out should be taken from the capital structure of each, is that right?

Smith: Yes. I suppose there is a little bit of confusion in our minds, the Budget, as to whose responsibility it is to dig into that, but I thought that we could take the initiative in it if it were all right with you to try to consummate that whole matter, working here with Mr. Bell. I thought that Dan ought to be in our conferences, perhaps, with these various agencies, and we would try to work that along so that it would be cleared up well in advance of next June 30th.

H.M.Jr: Well, in talking to --

Smith: So that the money would come in at the beginning of the fiscal year.

H.M.Jr: In talking it over with Dan, you and I didn't have any doubts it was up to the Director of the Budget, did we?

Bell: No, we didn't.

Smith: I wasn't sure whether it was really my job or yours.

H.M.Jr: We didn't have any doubts in our minds.

Bell: We are glad to help you, but we thought it was primarily your function.

Smith: All right.

Bell: I think it is tremendously important that we determine, and determine quickly, as to whether or not it is going to require legislation and if it does, I think it is more important that

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we get it before June 30th, because I don't think that you want to run the risk of going to December 31st.

Smith: No, I think you are right.

H.M.Jr: You can't do it and then the other thing, while we are getting down to it - I got the impression from you (Bell) that the two letters that the President signed, the figures in them were not correct.

Bell: No, I think that - I don't know what letters he signed, but I think two letters went, one to the RFC and one to the Farm Credit, which I think might be reconsidered because I would think that more money ought to come from RFC and less money from Farm Credit.

H.M.Jr: Dan, I thought you said - you told me that the Farm Credit figure should have been RFC and the RFC figure should have been Farm Credit.

Bell: That is just my opinion.

H.M.Jr: Oh.

Bell: I think it is very dangerous to take this 125 million from the Federal Land Banks. I think they are going to suffer tremendously.

Smith: Is this correct? I got a little memorandum from Patterson on it, in connection with their last monthly financing. They didn't seem to affect the sale of their bonds particularly.

Bell: No, they did not and they previously issued a statement which seemed to have the desired effect. The Governor put out a statement and said the capital structure was such that they didn't think the outstanding securities would be hurt one bit by paying 40 million dollars in capital.

Smith: We suggested they refer to the budget message and not refer to the 40 million dollars, but I think they did finally refer to the 40 million,

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specifically, and even that didn't seem to --

Bell: No, the market took it very good.

H.M.Jr: Well, look, I would like to say a little piece here, then if anybody doesn't agree with me, I wish they would say so. This is the way I feel like advising the President. First, he should have all the facts. Then I think we ought to - you ought to tell him and keep me posted, what are the chances of getting the 700 million between now and the first of July. I mean, if there is any doubt about it at all --

Currie: We wouldn't want to take it between now and the first of July, because it is put in next year's budget.

Smith: Get it cleaned up so we will know.

H.M.Jr: No, but I mean know that if we wanted it on the first of July, that you could get it without any doubts.

Currie: I see.

H.M.Jr: And have everybody committed to it. Dan has raised the question about legislation. I don't see, with the thing as close as this, that there ought to be any doubts - and if necessary, have an opinion of the Attorney General and all along the line and commitments that the money will be there and then when we put it before the President, I mean, it seems to me - well, the minimum leeway that he ought to have is 500 million dollars. That seems to me absolutely the minimum leeway that he ought to have.

Currie: Of course, Mr. Secretary, this is not quite as uncertain as it sounds for getting this, because informally there have been indications. In the early stages of this I talked with A. G. Black of the Farm Credit and without having my tentative distribution of this, he made up one himself and kept to this 385 and we checked very closely. There are slight differences in the figures, but I have his list of suggestions where he - from which agencies he could take

- 7 -

this 385. Then I haven't got the press clipping here, but in the press conference, Jesse Jones - my recollection is that he said that he had no difficulty in paying the 200 million.

- Bell: He said that before the Senate committee on the Finnish loan.
- Currie: Right after the budget came out he had a press conference where he made that remark, so that is 600 million right there.
- Bell: But doesn't that 385 take 125 million away from the Federal Land Banks?
- Currie: Two hundred.
- H.M.Jr: What is happening here in my office is of enough concern that if the Director of the Budget will take the responsibility and sort of push this thing - I have got to know, that is all, I mean, where I am at, because it is part of my job.
- Smith: I think it is time to go after it, I agree with you, and we have let it ride along partly as a matter of strategy, I think. I have talked to the President about it a bit, but it seems to me that since you are concerned about it and we are too, we have the same concern, that we ought to get busy and the reason that we wanted to take a little longer process on it was that we wanted to get each of these agencies in and in conference discuss their problems, see what they could do, and then after going through the whole group, we would then come back and if there was some leeway there, as I think there may be, make adjustments, and if there are some difficulties in the Farm Credit, maybe we can make a certain adjustment for that, and now that might ultimately mean - the reason I think it is - I agree that it is necessary to get at it. I do think that the RFC might do more and permit some other adjustments, perhaps, or to give us more cash, and that the RFC do more, legislation may be necessary, but apparently no legislation is necessary up to the 200 million. Beyond that, legislation may be necessary.

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- H.M.Jr: Just so we understand it, I am not going to get into a discussion of how much each agency puts in, but if you don't mind I would like to put the pressure on you to give me the answer.
- Smith: All right.
- H.M.Jr: But I am not going to get in as to which one, but I do want my 700 million dollars and I don't give a damn where it comes from as long as the President said in his budget message that we are going to count on 700 million dollars. I have just got to know am I or am I not going to get it, that is all.
- Smith: We felt that this conference procedure would give us a little opportunity to make adjustments rather than just saying, "Here is what you can do and we want you to do it."
- H.M.Jr: Do either of you gentlemen - you don't have to answer this question unless you feel like it. Are there any memoranda that you know of at the White House or the White House offices other than the one which I wrote in regard to spending outside of the budget? I mean, this silver thing and stabilization fund, and so forth. You know I wrote a very careful ten-page memorandum on that. Are there any other - I mean, which takes the opposite view?
- Currie: Not that I know of.
- Smith: I don't know of any. I didn't even know about yours.
- H.M.Jr: Hadn't you seen that?
- Smith: No.
- H.M.Jr: You have, haven't you?
- Currie: Yes.
- H.M.Jr: Would you like a copy of that?

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Smith: I would be glad to see it.

H.M.Jr: Bell, will you give them copies?

On each one of these items, on request of the President, and we had to do it as dispassionately as possible and I think we have done it.

Currie: There is another remote possibility --

H.M.Jr: I wondered if there was something around that I didn't know about.

Currie: I don't know. I don't see everything that goes in there.

H.M.Jr: But I mean, if either of you knew --

Smith: I haven't seen anything.

Currie: I have yet to work up a basis on which I get to see things and which I don't. There is another point which I think is just of mild interest and pretty remote, but I think you ought to know about it and that is that the President asked me to look into the status of this Federal Revenue Finance Corporation in his absence - remember, that one we worked up here.

H.M.Jr: What?

Currie: Look into it.

H.M.Jr: What do you call it?

Currie: Federal Revenue Finance Corporation. That is to capitalize the self-liquidating assets of the Government.

H.M.Jr: Oh, last year?

Currie: Yes.

H.M.Jr: Oh, yes.

Currie: So I got the file from the Budget Bureau and looked over the replies and Laughton has given

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me some ideas of the quantities involved.

H.M.Jr: The reason I asked you is because since we had that memo giving him all of the items which are available outside of the Treasury, I never had any other discussion about it, but I just wondered whether there was something else going on that I wasn't aware of. Naturally, this Eccles-Glasser correspondence is upsetting to me.

Well, this is a successful conference, with each of us knowing where we are at.

Smith: That is right.

H.M.Jr: Treasury is available to give you any assistance that you want.

Smith: Well, we will need some help and I am hopeful that Dan, here, can sit in with us on some of these and Currie, who has made some study of the corporations originally, and I can see your point very well and we would like to get it off, because we are plagued with Congressmen. We have had to answer letters from Bob Taft and to this person and that one, sort of selling them on it, and we are anxious to be in a position to say, "Well, here it is," and there is a certain amount of mystery about it at the present time that it would be helpful to have dissolved.

H.M.Jr: Without going over the ground again, you can see that the 700 million really would be the only cushion that we have.

Smith: It is crucial.

Bell: Outside of a little balance. Of course, 500 million is exhausted very easily.

Currie: I think I might remind you, Harold, one reason why you didn't deceive me on it, because of the shake-up in the FEA.

H.M.Jr: All right, gentlemen. Thank you very much.

February 27, 1945.

My dear Mr. Hoover:

Thank you for your letter of February 19th, with the enclosures of the same date which give further information concerning the activities of Dr. Adam Von Trott in Spain. I am glad to have this and the further facts given in your letter.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable John Edgar Hoover,
Director, Federal Bureau of Investigation,
United States Department of Justice,
Washington, D. C.

GHW/dhs

**Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.**

February 19, 1940

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

My dear Mr. Secretary:

I am enclosing a memorandum dated February 19, 1940, supplementing previous information furnished concerning the activities of Dr. Adam Von Trott zu Solz of Germany, who ostensibly came to the United States to attend a conference of the Institute of Pacific Relations at the Cavalier Hotel, Virginia Beach, Virginia, from November 22, 1939, to December 2, 1939, inclusive, but who is reported to have solicited the assistance of a number of prominent individuals in the United States to support a movement involving the overthrow of the present regime in Germany.

As previously advised, Dr. Adam Von Trott departed from San Francisco, California, on the SS "President Cleveland" on January 12, 1940, arriving at Honolulu, Territory of Hawaii, on January 17, 1940, from whence he departed on the following day apparently enroute to Berlin, Germany, by way of Yokohama, Japan, China and Moscow, Russia.

Sincerely yours,

J. E. Hoover
John Edgar Hoover
Director

Enclosure

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

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Sincerely yours,

John Edgar Hoover
Director

Enclosure

February 19, 1940

Re: DR. ADAM VON TROTT su SOLZ, with aliases;
Adam Von Trott su Solz, Adam Von Tropp su
Solz, Adam Von Trott su Sole

The following information is set forth to supplement the memorandum of January 13, 1940, regarding the activities of Dr. Adam Von Trott su Solz, who arrived in New York City on October 2, 1939, from Europe ostensibly to attend a conference of the Institute of Pacific Relations held at the Cavalier Hotel, Virginia Beach, Virginia, between November 22, and December 2, 1939, inclusive, but who was reported in reality to be visiting the United States for the purpose of soliciting the assistance of a few prominent individuals in a plan to overthrow the present regime in Germany. As indicated in the previous memorandum, Dr. Von Trott sailed from San Francisco, California, for the Orient on January 12, 1940. This memorandum will, therefore, supplement in further detail, the information regarding the activities of Dr. Von Trott during his last few days in the United States.

On December 24, 1939, Dr. Von Trott received a note at the Shoreham Hotel from an individual signing as "Alexander B.", who is believed to be identical with Alexander Boker, a tutor at Harvard University, Cambridge, Massachusetts, whom Von Trott had previously visited at Boston. The note in substance indicated that Mr. Boker was stopping at the Hotel Winlow in New York City, and expressed his desire to confer with Dr. Von Trott.

On December 26, 1939, while Von Trott was absent from his Hotel, a note was left at the desk by an individual signing as "I.W.", who was probably identical with Ingrid Warburg, niece of Mrs. Felix Warburg, the widow of a very prominent philanthropist and banker of New York, who died in 1937. Miss Warburg is also associated with Dr. Hans Sissac, Professor at the New School for Social Research at New York City. This note read: "Maybe this may be of interest to Carter", apparently referring to Edward C. Carter, member of the Board of Trustees of the American Council of the Institute of Pacific Relations. Attached to this note was a newspaper clipping from the Deutsche Allgemeine Zeitung, Sunday edition, December 2, 1939, which read as follows: "Demands of Japan in the Pacific by

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our American correspondent, Paul Scheffer, New York". Paul Scheffer is undoubtedly identical with the individual by the same name with whom Von Trott has been in contact almost daily since his arrival in the United States. The article above mentioned pertained to the establishment in Japan of a newly created organization, "Institute of the Pacific", which was regarded by Scheffer as similar to the Institute of Pacific Relations with parallel institutions in London (The Royal Institute of International Affairs), and in Paris and New York - (The Council of the Foreign Relations). Scheffer's article sets forth that the financing of all these privately created diplomatic establishments originally depended largely upon the Rockefeller Funds and further mentioned that all of these research institutions had a rather selected membership.

On December 27, 1939, Von Trott was visited at his Hotel by Dr. Hans Muhle. They discussed Arthur (Hasso) Seebach, Edward C. Carter, General McCoy, and John W. Wheeler-Bennett. Dr. Muhle stated that the latter had a tendency to speak without thinking and was, therefore, in his opinion, none too reliable. Dr. Muhle compared Dr. Heinrich Bruening, former German Chancellor with Wheeler-Bennett, and stated that both men had the future of Germany at heart but had nothing constructive to offer. Von Trott stated that Seebach's ideas were somewhat warped but Dr. Muhle defended the ability of this individual. Dr. Muhle then accused Von Trott of having spoken too freely to the American people which Von Trott denied, stating that he had spoken only to those persons who were willing to listen and that he felt that Simons, apparently Dr. Hans Simons of the New School for Social Research, was much more forward than he. Dr. Muhle then stated that Germany was ready to accept a position as a World Power and that Hitler was far too light-hearted to continue his control.

Dr. Von Trott stated that it was their purpose to build up a State which would protect the welfare and provide for the German people according to a metaphysical program. Dr. Muhle responded that the German people were ready for a change and referred to Spain as being one of those countries where similar conditions had existed. Dr. Von Trott then advised Muhle that he expected to be in New York only six days more and that during this time he would speak to another man who was not named but who came from England. Von Trott continued by advising that despite Muhle's great political activity in Germany, he would not permit his views

to be open to discussion. Mable then retaliated that even if this were true, it would be better for him not to be mentioned at this parting moment.

On December 30, 1939, while absent from his Hotel, Von Trott received a note written in German which read as follows: "Dear Trott, I must have the Huxley papers back. The address is 2424 Ridge Berkeley, or Department of History. Most hearty and best wishes, Yours, (signed) Reislser". The author of this note is apparently identical with Professor Kurt Reislser, Professor of Philosophy at the New School of Social Research, and former member of the Foreign Service of Imperial and Republican Germany.

On January 3, 1940, Arthur Hasso Seebach visited Von Trott at the Shoreham Hotel at which time Von Trott handed him a letter received from H-rre Mable. Seebach commented that from the tone of the letter it would appear that Mable was again willing to assist the group. Von Trott remarked at this point, that it was imperative that he return a manuscript to Reislser immediately. Seebach then referred to Reislser as a Liberal Democrat and stated that so far as he, himself, was concerned, he had no interest whatsoever in politics. Von Trott advised him that he should become more political minded. At this point, Von Trott mentioned Mr. Carter expressing his great admiration for him and also mentioning that Carter had done him a great honor in nominating him, Von Trott, to a Secretariat at the Institute. Von Trott stated that when Dr. Mable had heard of his nomination he was very surprised. Seebach questioned Von Trott as to whether Mable was Socialistic, but received a negative response.

On January 4, 1940, Von Trott was visited at his Hotel by Alexander Hoker and Arthur Seebach, at which time they discussed the English theory of an ideal democracy, which they considered just another impractical thought entertained by the English people.

On the night of January 5, 1940, Dr. Von Trott left New York City by Transcontinental & Western Air, Inc., for Los Angeles, California, where he arrived at 4:00 P.M., on January 6, 1940. He was immediately contacted upon arrival by Dr. Fritz Caspari, Professor at Borlyps College, Glarumont, California. It is reported that Dr. Caspari recently assisted in conducting a forum

at the World Institute of International Relations recently held in Riverside, California. Dr. Caspary was born in Baden, Switzerland, and arrived in the United States on October 2, 1939, at New York City, aboard the SS "Polenka", the same vessel and date of arrival of Dr. Von Trost in the United States. Dr. Caspary and Von Trost then drove to Lebec, California, where they visited for a while until the arrival of Mrs. Dyer Bennett, who then drove them to her residence in Taft, California. Mrs. Bennett has resided at Taft for approximately two years and is language teacher at the Taft High School and Junior College. She is approximately 50 years of age and has a daughter age 17 in the Junior College at Taft. Dr. Von Trost visited at Mrs. Bennett's residence until January 9, 1940, when he departed by plane for San Francisco, California.

On January 9, 1940, Von Trost registered at the Mark Hopkins in San Francisco, and immediately visited the Institute of Pacific Relations. During his short stay in San Francisco, Von Trost also contacted Dr. Earl Brandt, Stanford University, Dr. Alexander Holla Johns of Berkeley, California, who is known in San Francisco as a radical associated with the Communist Party and an instructor at the School of Social Studies, a Communist sponsored group located at 177 Post Street, San Francisco, California. Von Trost also contacted Mr. Parham P. Griffiths, Attorney for the Southern Pacific Railway at Berkeley, California.

Prior to his departure from the United States, Von Trost was in possession of a letter addressed to him in care of John Oakley, Esq., from Edward G. Carter, who is a member of the Board of Trustees of the American Council of the Institute of Pacific Relations, New York City, instructing Von Trost to contact Moyler at Moscow, Russia, and enclosing a copy of a letter of introduction directed to Moyler by Carter. This letter of introduction merely advised Moyler that Dr. Adam Von Trost was the new member of the International Secretariat. Carter advised Von Trost that the original of the letter of introduction was being transmitted to Moyler through the Russian Ambassador to the United States, Constantin Oumensky, by diplomatic pouch.

It is interesting to note that Mr. John Oakley is the Secretary of the Institute of Pacific Relations at San Francisco, California, and is reported to be part Japanese and part American. Rumors have been circulated to the effect that he was engaged in espionage activities on behalf of the Japanese Government, though

this rumor has not been substantiated by investigation to date.

Von Trott was also in possession of a letter of introduction to the United States Ambassador to Japan signed by Mr. Garber.

In a letter dated January 11, 1940, addressed to a Mr. Scheffer, who is believed identical with Paul Scheffer mentioned in previous memoranda, Von Trott wrote as follows: "You surprised me with a truly friendship service in the introduction of Brandt - It was an encouraging event in my stay in America".

Under date of January 1, 1940, Von Trott directed a letter to Mr. von Strampel, who is believed identical with Herbert von Strampel, First Secretary at the German Embassy at Washington, D. C., which is quoted in part as follows: "Dear Mr. von Strampel, On the night before my departure, I wish to send you a greeting. I have, so to speak, the feeling that I above all left in your care the directed (even the perhaps not unimportant, under the present circumstances) tie-ups which I succeeded in obtaining with the Institute. All signs here on the East Coast appear to me to have been given for it, that our position in this land is further darkened, and this darkening has, for some time, been our working condition."

On January 12, 1940, Von Trott departed from San Francisco for Japan aboard the SS "President Cleveland". He arrived at Honolulu, T.H., on January 17, 1940, where he contacted Klaus Hehnert. It is interesting to note that Hehnert, though of German extraction, was born in Moscow, Russia in 1906. It is reported that his father was an officer in the German Army and returned to that country at the outbreak of the last World War and was killed in action. The Russian Government permitted the Hehnert family to leave the country and return to Stuttgart, Germany. Hehnert has always been considered an outstanding student and received his Doctors Degree in History and Economics at the University of Berlin, subsequently being awarded a Ph.D. Degree. Hehnert received a Fellowship to the University of California, during 1926 and 1929, and while at the University, met an American girl whom he married. Subsequent to his marriage, it is reported that he returned with his wife to Russia and Germany, via Siberia where Hehnert, in view of his horrible childhood experiences expected to find Moscow anything but pleasant. He was treated kindly, however, and became tolerant, finally becoming absorbed in the plans to rebuild Russia upon a new economic foundation. It is reported that between 1934 and 1936 Hehnert was in Russia where he was the

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correspondent for various German publications. During the latter part of 1936 or first part of 1937, he returned to Germany where he carried out his military training as a reserve officer. It is reported that Mehnert made the statement that he would not apply for American citizenship though his wife strongly protested returning to Germany and he knows that if he returns he will lose his position at the University of Hawaii. He became affiliated with the University of Hawaii as an exchange professor on August 19, 1937, and teaches Political Science and Modern European History in that institution. While considered pro-Nazi, it is reported that he has maintained an attitude of neutrality in his teachings at the University of Hawaii. He has written an article on "Fleet Problem No. 19", for a German magazine entitled "Zeitschrift Fuer Geopolitik" and also an article entitled "The Struggle for Hawaii" for the German magazine "Die Tat".

Other than his conference with Mehnert, Von Trott made no other contacts of note during his short stay at Honolulu, and finally embarked on the SS "President Cleveland" on January 18, 1940, for Japan.

9
MAR 1 1940

TREASURY DEPARTMENT

44

INTER-OFFICE COMMUNICATION

DATE February 27, 1940

TO Secretary Morgenthau

FROM Mr. Glasser

1. Aviation gasoline was not placed on the moral embargo. Exports of plans, plants, manufacturing rights, and technical information required for the production of high quality aviation gasoline were placed on the moral embargo during December 1939.

2. Our total exports of aviation gasoline in January 1940 to all countries were valued at \$1,485,000 of which \$468,000, or 31%, was exported to Japan.

For the whole of 1939 we exported aviation gasoline valued at \$20,200,000 to all countries of which \$4,800,000, or 23%, was exported to Japan.

JR

PLAIN

London

Dated February 27, 1940

Rec'd 12:40 p.m.

Secretary of State,
Washington.

479, February 27.

FOR TREASURY FROM BUTTERWORTH.

1. Asked in the House of Commons whether he would give the value at par in sterling of the American securities acquired under the vesting order and the acquisition price; whom the securities were purchased from; how they were owned and the closing price in New York on the day of making the order the spokesman for the Treasury replied:

"It is not in the public interest to state the total value of the securities acquired. The answer to the second and third parts of the question is that they are being purchased from individuals and corporations resident in the United Kingdom who are the owners. The answer to the fourth part is that the sterling prices shown in the order were obtained by converting the last bid prices in the New York market before the making of the order".

Incidentally I hear in the city that holders of preempted American Tobacco Company stocks are buying British and American tobacco shares, a substantial amount

of

-2- #479, February 27, from London.

of which are held in the United States and are to some extent being liquidated.

2. Although Sweden suspended the gold standard eight years ago the introduction of currency control legislation to legalize the de facto situation which has existed since the outbreak of war has occasioned several articles on the gold problem. Since the appearance of Dr. Goldenweiser's article in the Federal Reserve bulletin and that of the Bankers' Trust Company, there have been a good many editorials and analytical notes in financial journals and similar British publications. These have contributed nothing new in thought. Two common characteristics evident in most of these commentaries are (1) to evaluate the problem as purely a United States one and (2) to regard with pessimism the future of gold as an international medium of exchange.

JOHNSON

RR

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 27, 1940, 6 p.m.

NO.: 262

FOR THE TREASURY FROM MATTHEWS.

This morning I visited Couve de Murville. I asked him what the French Government contemplated in the forthcoming "urgent and coordinated economic measures" which the Cabinet had decided upon at its recent meeting - reference: telegram of February 26, No. 259, from the Embassy. The principal problems to be dealt with, he said, were those of establishing a system of rationing and of purchasers abroad, for the purpose of reducing consumption and the preserving of foreign exchange. The economic measures will include also a provision for relaxing the present exchange restrictions on commercial transactions between the French and the British - reference, paragraph five of telegram of February 9, No. 190, from the Embassy. He said that a person in Paris or London who applies for sterling or franc exchange, respectively, for the purpose of covering a commercial transaction will only have to declare that the exchange is needed for a commercial transaction, there will be no other delay or formality. The program envisaged no important measures for stimulating exports from France, so far as he knew. He added that this important question, rather than being one for formal legislative

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legislative decrees was a matter of "day to day negotiations". Most of the program, he said, is expected to be approved tomorrow, February 28.

The same rate of subscription is holding for armament bonds, he said - a monthly rate of between 8 and 9 billion francs, - and so far tax revenues have been satisfactory. Incidentally, as for the armament bond subscriptions, I understand from banking sources that a certain degree of "patriotic" pressure to subscribe is being exerted on more prosperous institutions, individuals, and companies.

He came back to the important question of French assets abroad, and said that no very definite estimates had yet been made. Now, however, he is inclined to think that, in addition to the Stabilization Fund's 10 billion francs, and the Bank of France's gold reserves in actual value of some 119 billion francs, the private French holdings of dollar exchange amount to about 150 million francs. His information involves much more guesswork on the private holdings of dollar securities, which he places at \$150,000,000 - which is an upward revision of previous estimates. This would make a grand total of about \$3,242,000,000. He said that payments on French war purchases in the United States would tend to increase, but he did not think they would be at too rapid a pace.

I told Couve de Murville that I understood that while
French

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French recipients of foreign securities physically located in France do not have to declare them under the exchange control regulations, they are required so to declare them to the tax authorities - as well as declare those located abroad - under long standing tax regulations. I wondered whether he anticipated that those holdings, in wartime, would be reported more fully than they had been reported previously. He smiled and said that the returns would in no sense give a true picture, even though they would be fuller than in previous years, partly for patriotic reasons and partly because of increased penalties, plus the promised fiscal amnesty to cover previous years - reference: telegram of September 18, 1939, No. 2028.

He said that they had not developed as yet any definite plans for taking over the balances of foreign exchange owned by companies or individuals, although they are giving some consideration to this question (reference: telegram of February 9, No. 190, from the Embassy), and he admitted that the step is eventually inevitable. He said that they had not given any thought to the requisition of dollar securities - reference: telegram of February 19, No. 233, from the Embassy. Despite the long term necessity of searching for all available foreign exchange resources, I feel confident that for the present the French Government will continue with the policy it is now following, based
on

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on a cautious dread of frightening the (omission) tax-shy French investor into seeking surreptitious cover either in France or outside.

Most of the large pre-war holdings in gold of French individuals and companies in London have now been disposed of, he confirmed; a large portion of these holdings were disposed of in the United States, he said. He remarked, on the subject of the gold problem after the war, that they did not need to worry about that for the time being, that he was convinced the war would be a long one.

Reference: telegrams of February 14, No. 213 and of February 20, No. 237, from the Embassy. I asked Couve, as I have others, about the recent policy of requiring American exporters to invoice in francs with the alternative in some cases /of otherwise losing their French market. I remarked that I could not perceive any real long term advantage to the French authorities from such a policy. He was quite sincere, I believe, when he replied that he was completely unaware that such a policy was being carried on; he agreed that there was no real advantage to France in such a policy. However, he said that they were trying to invoice as much as possible in francs and to avoid payments in dollars as much as possible as concerned payments to countries with weaker currencies, as for example, Brazil.

Rueff had just come back from London, and Couve remarked that Rueff had seemed quite pleased at the way

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financial cooperation between Great Britain and France is working out and at the lack of serious grave concern. At an early opportunity I shall call on Rueff.

I asked Couve about the recent rumors that the Italian Government had refused to fill/certain war orders already placed by the Allies and that this was a source of some irritation. He said that as far as the French were concerned, this was not the case. As a matter of fact, he said, yesterday negotiations were begun with the Italian commercial mission which has come to Paris. However, he confirmed that Italy had declined to complete certain "minor" war orders for Great Britain, and that negotiations had "failed" between Italy and Great Britain. As of the first of March, he said, the British would cut off all sea shipments of German coal to Italy, and he personally hoped that they would stick by this policy.

The securities market was again dull with a somewhat heavier tone, most international issues registering losses. Rentes with the exception of the 1937 dollar exchange guarantees issue declined fractionally.

END OF MESSAGE.

MURPHY.

EA:LWW

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 28, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The quotation for sterling developed a slightly easier tone in a dull foreign exchange market. After opening at 3.95-1/4, the rate declined to 3.94-7/8 by noon. In the early afternoon, it advanced to 3.95, but then moved off to close at 3.94-3/4.

Sales of spot sterling by the six reporting banks totaled £506,000, from the following sources:

By commercial concerns.....	£ 208,000
By foreign banks (South America and Europe).....	£ 298,000
Total....	£ 506,000

Purchases of spot sterling amounted to £385,000, as indicated below:

By commercial concerns.....	£ 290,000
By foreign banks (Far East and Europe).....	£ 95,000
Total....	£ 385,000

The following reporting banks sold cotton bills totaling £51,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 26,000 by the Irving Trust Co.
20,000 by the National City Bank
5,000 by the Guaranty Trust Co.
<u>£ 51,000 Total</u>

The other important currencies closed as follows:

French francs	.0223-3/4
Guilders	.5319-1/2
Swiss francs	.2242-1/2
Belgas	.1687-1/2
Canadian dollars	13-3/4% discount

The nominal rate for the Finnish mark, which yesterday declined from .0170 (the approximate level which has prevailed since the beginning of February) to .0160, moved off again today to about .0155, the lowest quotation since 1933. The Swedish krona was slightly higher at .2382 bid, .2383 offered.

The discount for the Cuban peso narrowed further to 7-7/16%, and the Mexican peso was unchanged at .1672.

The Federal Reserve Bank purchased 100,000 Swiss francs for the Bank of Latvia. There were no gold transactions consummated by us today.

There were no new gold engagements reported today by either the Federal Reserve Bank of New York or the State Department.

On the report of February 21 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$20,303,000, a decrease of \$553,000 in the short position. The net changes in the positions are as follows:

<u>COUNTRY</u>	<u>SHORT POSITION FEBRUARY 14</u>	<u>SHORT POSITION FEBRUARY 21</u>	<u>DECREASE IN SHORT POSITION</u>
England	\$10,395,000	\$10,414,000	\$ 19,000 (Increase)
Europe	5,938,000	5,408,000	530,000
Canada	4,000 (Long)	191,000	195,000 (Increase)
Latin America	651,000	510,000	141,000
Japan *	2,596,000	2,622,000	26,000 (Increase)
Other Asia	1,312,000	1,236,000	76,000
All Others	32,000 (Long)	78,000 (Long)	46,000 (Increase in Long Position)
Total	<u>\$20,856,000</u>	<u>\$20,303,000</u>	<u>\$553,000</u>

*Includes Korea and Manchuria

In London, the prices fixed for spot and forward silver were both 20-7/16d, up 1/16d. The U. S. equivalents were 36.35¢ and 36.17¢.

The Bombay silver price rose 5/8¢ to an equivalent of 40.81¢.

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

We made one purchase of silver amounting to 50,000 ounces under the Silver Purchase Act. This was new production from foreign countries and was purchased for forward delivery.

We also purchased 190,000 ounces of silver from the Bank of Canada. Thus far in February, we have bought 1,155,000 ounces from that country under our regular monthly agreement to purchase up to 1,200,000 ounces.



CONFIDENTIAL

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 28, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4:30 this afternoon I telephoned the Canadian Minister. I referred to the inquiry which he made orally at the time of his visit yesterday in regard to the form in which notice should be officially made that Mr. Purvis is the representative for Canadian purchases in the United States.

I told the Minister that Mr. Purvis had originally been presented personally to the Secretary of the Treasury by British Embassy officials, Messrs. Pinsent and Chalkley. At the time the Anglo-French Purchasing Board in the United States was created, Prime Minister Daladier of France transmitted through Ambassador Bullitt in Paris a message to the State Department announcing the set-up of this Board and the naming of Mr. Purvis as President thereof.

Since Mr. Purvis was thus officially announced as head of the Anglo-French Purchasing Board, and since the rules of the State Department require that any foreign agents be registered with that Department, it was recommended that the Canadian Minister address a communication to the Department of State in regard to the status of Mr. Purvis as official purchasing agent in the United States for the Canadian Government. The State Department would then notify the Treasury Department. Mr. Christie welcomed this suggestion.



GROUP MEETING

February 28, 1940.
9:30 a.m.

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

H.M.Jr: You people might be interested to know that you might - we might do something about it together. Basil Harris' brother died. Possibly the 9:30 group could send some flowers. Norman, will you take care of it? I think it is appropriate.

What have you got, Norman?

Thompson: I have nothing, sir.

H.M.Jr: Harold?

Graves: I might bring you up to date about our situation in Procurement.

H.M.Jr: Yes.

Graves: We have, after conference with all of the departments, effected return to them of this petty purchasing. The reason for that is to cut down the load over here as far as buying is concerned, about one-quarter of the volume that we have had for these years. We have now sent dismissal notices to 200 people of the estimated 350 who are to go. Also, through the Bureau of the Budget we have called on all of the departments, those for whom we have not been doing any favors, for statements as to the volume of their purchasing which would exceed the one hundred dollar limit which we contemplate using as a basis for Procurement Division operations hereafter. We have had the usual difficulty about pressure from various people.

H.M.Jr: You are used to that.

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Graves: Yes. We are trying to adhere without exception to the rule that people will go in accordance with the ratings.

H.M.Jr: Is anybody from my group putting any pressure on you?

Graves: No.

H.M.Jr: Did Bell put any pressure on you?

Graves: No.

H.M.Jr: Well, after what the President said about you (Bell) and the Hatch Act, I don't know.

Bell: I gave my name yesterday.

Graves: We expect a certain amount of pressure. We are getting a certain number of requests, naturally, from members of Congress in regard to their constituents.

H.M.Jr: So far is everything all right?

Graves: Yes, sir.

Bell: Senator George called me yesterday about it.

Thompson: There is a lot of tragedy.

H.M.Jr: I learned my lesson once before.

Graves: As to that point, the fact is that all of these people who are affected were given originally temporary appointments to last for the duration of the work and in no case longer than the expiration of the fiscal year within which they then were, so that actually these people have all been given much longer employment than was anticipated at the time they were put on the rolls. For instance, this girl that Dan spoke to me about yesterday, that is the Senator George case, she was given an appointment originally for 30 days and it was extended for another 30 days and extended again for a third 30 days and finally she was given an appointment which read "for the duration of the work, but not

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beyond June 30, 1940," so there is certainly no valid ground for complaining that now the work having come to an end, we propose to separate this person.

H.M.Jr: Well, if you have any extra difficult trouble, you or Norman can talk to me.

Graves: Yes. I don't anticipate it.

H.M.Jr: Anything else?

Graves: No.

H.M.Jr: Have you got anything, Dan?

Bell: We are having another Bank of America meeting at 10:30. Mr. Cushing called up and asked for a conference on the program. What he is going to ask, of course, we don't know.

The other thing is that we still have about 11 million dollars of that 100 million limit on the $2\frac{1}{2}$ percent and we are piling up a little cash on Postal Savings, probably 16 million dollars. 16 million is their balance, either in the two or the two and a quarter.

H.M.Jr: Is there a time limit?

Bell: On the 100 million?

H.M.Jr: Yes.

Bell: No. Of course, we collect interest --

H.M.Jr: There is 11 million left?

Bell: About that.

H.M.Jr: Do you want to give 10 of it to Postal Savings?

Bell: Well, if we want to reserve a little of it, we could give five or eight to Postal Savings. We might reserve two or three million there for these small accounts.

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H.M.Jr: Well, how much is it, eleven?

Bell: About eleven.

H.M.Jr: You don't want to wait over the week-end?

Bell: I don't know that it would do any harm.

H.M.Jr: Why not let's wait over the week-end?

Bell: All right.

H.M.Jr: You were going to give me a memorandum on that yesterday.

Bell: All right. It is a statement of the conditions. Do you want me to write a reply to that?

H.M.Jr: I am going to do it right after this meeting with you and Gaston. I am going to dictate a draft and you fellows can work it down.

Bell: All right.

H.M.Jr: Anything else?

Bell: That is all.

H.M.Jr: Admiral Speer, what is he?

Schwarz: Paymaster General.

(The Secretary gave instructions to Lieutenant McKay to invite Admiral Speer for luncheon at 1:15 and for a conference on the powder requirements of the Allies.)

H.M.Jr: Do you want to be here, John? Are you busy at that time?

Sullivan: That is the time I have for my appointment with the gentleman from Cleveland, but he gave me the name of his hotel and I can change that.

H.M.Jr: It is not necessary.

Sullivan: I would be very glad to change it.

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H.M.Jr: I think it would be just as good if you listened.

Sullivan: All right, sir.

H.M.Jr: It will only take 15 minutes.

Sullivan: All right, sir.

H.M.Jr: What else, Dan?

Bell: That is all.

H.M.Jr: George?

Haas: Here is a note on Colonel Jewett.

H.M.Jr: This is from Haas: "I called on Colonel Jewett this afternoon," and so forth and so on. (Feb. 27)

Is there anything --

Haas: The point of it is this: McKay called him up and I was going to take him out to lunch. He told me he was leaving for California, so I thought I had better see him right away, so I went over there to talk to him and I asked him about keeping current those employment figures and also getting these additional data you wanted on production of engines and planes and he told me that under the existing circumstances it would be impossible to get those because the War Department, since October, 1938, had refused to allow the companies to give out any production figures, the companies which the Army had orders placed with. He said he was negotiating with the Air Corps to see if they wouldn't rescind that prohibiting order. He suggested that you might talk to Arnold, who is Chief of the Air Corps.

H.M.Jr: You had better take it up with me again. Will you?

Haas: He seemed very anxious to help in any way and when I left he said if there was anything else we wanted on any aviation matters and he could be of any help, just to call on him.

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- H.M.Jr: But you didn't get any feeling of --
- Haas: None. It was much the other way. He evidently is interested in this and that has stymied them over there. I think they used to get those data before and now they can't get them. He said he was hopeful that maybe in a couple of weeks they would list that.
- Schwarz: Just a further report on that similar subject. I learned that the Herald-Tribune story of Saturday emanated from somewhere in the industry, because it came as a tip to the Aviation Editor of the Herald-Tribune and he was told if he would talk to somebody in the Embassy here, which he did in the unusual manner instead of through the Bureau - he called directly by long distance. The story was written in New York with a Washington date line by Talbert, the Aviation man.
- H.M.Jr: O. K.
- Schwarz: There may be a matter with respect to the proposed Fortune article on Allied Purchasing, but Mr. Gaston turned over the copies to me and I would like to discuss it first.
- H.M.Jr: With me?
- Gaston: There was a page or two of quote of Harry Collins which I think you might want to look at. Chick has the story, has the copy.
- Schwarz: It is a matter of policy. What they quote is all right, if they want to go that far, but --
- H.M.Jr: Do you want to come in at 10:30?
- Schwarz: Yes, sir.
- H.M.Jr: I didn't get that resume on the U. S. Steel to Brazil.
- Cotton: It will take some time to get it out. It is a very long thing. The State Department has gotten up one, but I think we ought to go over it a little carefully. If you want to see something immediately, there is this thing to read but I wanted to check it. It is really a

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question of what you want. If you want something immediately or if you can give us a little time to go over it.

(The Secretary instructed Lieutenant McKay to call Mr. Noble and Mr. McConnell for lunch and a conference on a steel plant in Brazil.)

- Cotton: If you are going to do that, I will send you up this copy of this thing for your immediate information.
- Cochran: You wanted this copy of the letter you had from the State Department there. Those are two memoranda.
- H.M.Jr: Right.
- Cochran: Do you want to sign the Canadian silver letter or not?
- H.M.Jr: Sure. (Feb. 28)
Anything else?
- Cochran: No, sir.
- Sullivan: Harper, the counsel for the Federal Security Administration, McNutt's organization, called up and wants to see me at 10130 this morning. He previously called Mr. Foley and Mr. Foley referred him to me. I am wondering whether you want to have Mr. Irey present or whether I should refer him to him or --
- H.M.Jr: No.
- Sullivan: That matter is still pending.
- H.M.Jr: Wait a minute. You have every reason to believe he is coming to see you about --
- Sullivan: Oh, yes.
- H.M.Jr: About Government work.
- Sullivan: Oh, entirely.

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H.M.Jr: Then if he isn't, then is he working for the Government or isn't he?

Sullivan: Oh, no, he is coming about the Indiana situation.

H.M.Jr: How do you know?

Sullivan: Because he has been here before.

H.M.Jr: Is he Mr. McNutt's personal counsel?

Sullivan: No, a friend.

H.M.Jr: If he wants to - please, definitely, don't turn him over to Irey. If he wants to see anybody and if he wants to - I mean, who is he working for? Is he working for the United States Government or is he working for McNutt? I would just close the door and if he isn't satisfied, I will see him.

Sullivan: All right.

H.M.Jr: I don't want anybody to see Irey, definitely not.

Gaston: He tried to see me on the same thing.

H.M.Jr: I would just close the door firmly but politely in his face. He has got no business coming over here. If he wants to - what is McNutt's Government job called?

Foley: He is Director of the Federal Security Administration.

H.M.Jr: If he wants to come over on that, yes. If it is on tax matters for Mr. McNutt, it is none of his business.

Sullivan: He is more concerned, I think, about the entire situation, including Bo Elder.

H.M.Jr: The purpose here is for consultation and I think it is time that we told this gentleman that he had better go home and tend to the Government's business. We are tending to ours. Is that agreeable to you?

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Sullivan: Anything you say.

H.M.Jr: I mean, is it agreeable?

Sullivan: Yes, certainly it is agreeable.

H.M.Jr: Well, that is what I would do. The last thing in the world I would do would be to introduce him to Irej. I would never let these people get to Irej.

Sullivan: I can introduce him to you. Do you want to meet him?

H.M.Jr: Do I? Sure, I will meet him.

Klotz: What would happen if he went to see Irej direct?

H.M.Jr: Irej wouldn't see him. Irej would call me up and ask about it and I would say, "Send him to me." I want to isolate him against that kind of business so he can go ahead and tend to his own business.

Sullivan: One day last week I told you that Mr. Julian was interested in being a delegate to the convention and you suggested I put it up at the 9:30 meeting.

H.M.Jr: Yes, and I think that this whole question of whether the Treasury employees should go to the state and national conventions ought to be taken up by Mr. Helvering in that committee which I set up. I wish they would do it right away. I would say Treasury employees delegated to state conventions and national conventions. I say conventions because I take it some of them may want to go to the Republican convention.

Thompson: Maybe he could go on sick leave.

H.M.Jr: What else?

Sullivan: That is all.

H.M.Jr: I would certainly send this fellow home with just a little grit in your voice.

- 10 -

Sullivan: Well, he was over here four weeks ago, wasn't it, Ed?

Foley: About that, yes.

Sullivan: And his only interest at that time was in speeding things up and I told Mr. Foley - Mr. Foley and I told him that everything was being done to get action and we thought we would have something. The present holdup is due to the fact that the District Attorney on February 8 wrote to the Department of Justice and notified them that they - that he was considering bringing up Bo Elder into court and he hadn't had any response to that letter. Mr. Helvering has seen the Attorney General and I think the letter did not call for an answer. That is what has caused the difficulty.

H.M.Jr: But the point I am making is, it is none of this fellow's business what we are doing.

Sullivan: Oh no, we haven't told him a thing.

H.M.Jr: He oughtn't to know it. It is just none of his business. O. K.?

Sullivan: Sure.

H.M.Jr: Anything else?

Sullivan: No, sir.

H.M.Jr: Ed?

Foley: Both Pittman and Wagner are away. They are down in Florida and they are going to stay down there for a week or ten days and I understand that Townsend has been after Phil again and he thinks that I ought to call Senator Barkley and ask Barkley if he has had a talk with Senator Townsend and --

H.M.Jr: I talked with Barkley and Barkley said, "I will leave it with you, Senator." Pittman and Wagner are down there and J. Edgar Hoover. Why disturb them? O. K.?

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Foley: O. K.

H.M.Jr: All right, anything else?

Foley: No.

H.M.Jr: Herbert?

Gaston: You suggested that I might bring up at a 9:30 group the matter of Peyton Evans, General Counsel for the Farm Credit Administration. He resigned and announced that his resignation was given out about two weeks ago under circumstances which convey the impression, which is the fact, that he was being forced out and therefore that he is in bad odor with the Administration. He had one contract for special work practically lined up and it was kicked over by the impression being created that he was in bad odor with the Administration. He thinks that for one to practice law successfully in Washington it is practically necessary that he should have some assignment for a time in a Government Agency. I think he is a very good man and very able. I think he has done a good job over there. I spoke to Ed about it and he thought there was a possibility that there might be some temporary opening here.

(Unrecorded telephone conversation with Mr. McReynold's office)

H.M.Jr: Working in the White House must be swell, don't you think so, John?

Sullivan: Oh, I don't know. I didn't have to report until 25 minutes after 8:00 myself, this morning.

H.M.Jr: Let me talk to Mac. There is something in my head about Peyton Evans that I thought, as I remember, wasn't so good. Let me talk to Mac, will you?

Gaston: Yes.

H.M.Jr: Then the other thing is this thing - I mean, unless somebody tells me that he didn't - well,

- 12 -

anyway, let me talk with McReynolds about it and see what he says. I will ask Mac first, what is his advice and second, what was the thing that happened there in the last month or two I was there.

Gaston: I don't know a thing about it.

H.M.Jr: Well, there was something about it. Ask Miss McGuire if she has something.

Gaston: Al Goss got out.

H.M.Jr: Didn't Al Goss make a deal?

Gaston: No. They told him to stay until something happened in which he thought he would have to disagree and then they called him in at the same time they had Peyton Evans in and told him they wanted his resignation.

H.M.Jr: O. K.

If Bell and Gaston will stay, please, and Chick.

February 28, 1940

12:10 pm

Jimmie Roosevelt just came in. "Just passing by. Just wanted to say hello." And then he made a motion to get up and didn't. He said, "By the way, does Joe Schenok really stink. Does he smell?" I said, "What do you mean?" He said, "Does he stink?" So I said, "Well, what about it?" He said, "Well, if he does, I don't want to do business with a man like that."

So I said, "Well, I can't advise you." I said, "Time will tell. We have a policy here in the Treasury that a man is innocent until he is proven guilty."

He said, "Well, should I do business with him?" I said, "I really don't know, Jimmie." He said, "Then your advice to me is to wait?" I said, "That's my advice to you. Wait and see what happens." I said, "I don't know the man personally. I don't know the man."

So I said, "He's still on the Infantile Paralysis Foundation Board, isn't he?" He said, "I think he's going to resign because it might be embarrassing to Father."

MEMORANDUM

February 28, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

Fowler Harper called my office at 1:18 and then had me paged at the Washington Hotel Coffee Shop. I met him in the lobby and he wanted to know if I had gotten the "implication of his remark that Elder would be willing to pay any tax due that was unpaid because of his carelessness, together with penalties and interest." I told him that I did understand him to say just that. He then asked if anyone would be willing to talk to Elder if he sent out to Chicago or wherever Elder was and have him come on here. I said I did not know. He then asked if I would inquire of the Secretary if anybody here could be authorized to talk with Elder if he came to Washington. I told him I would find out and notify him.

February 28, 1940

Mr. Sullivan gave me this memorandum and I instructed Mr. Sullivan to call up Mr. Fowler Harper and say that I deem it unwise for him to see me at this time, and Mr. Sullivan said he would do so.

MEMORANDUM

February 28, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

Mr. Fowler Harper came in to see me this morning and wanted to know how the Indiana investigation was progressing and why we were not in a position to decide definitely whether McNutt was implicated. I told him that I could not tell him any more than Mr. Foley and I had told him a month ago, when we advised him that every effort would be made to accelerate the investigation. I told him I thought he was doing Mr. McNutt a distinct injury by making repeated inquiries about the situation.

He asked many questions about the progress of the work and the results of the investigation, none of which I answered. I told him I thought he could appreciate why I would be unable to discuss the matter with him.

Although he retained splendid control of his feelings and at no time showed any temper, I could tell that he was very much agitated because of the way his eyes filled up. I advised him that his repeated inquiries, although prompted by his personal regard for McNutt, might well be interpreted as demonstrating McNutt's extreme anxiety over the situation, and I said I thought that he should consider that from now on the door was closed and that he should make no further inquiries from me or from Mr. Foley.

He said he regretted that he had not seen you about this and would like very much to have an opportunity to discuss it with you. I told him I would bring it to your attention and would be glad to call him when you decided whether or not you wished to see him.

In the course of our conversation, after referring several times to the stupidity of persons associated with McNutt as being the only thing the investigation could possibly reveal, he twice stated that if we were convinced that Elder had been careless and because of contributions to the Two Percent Club owed taxes, he believed Elder should and would pay those taxes with all penalties and accumulated interest, even if he had to pay it out of his own pocket.

JLS

February 28, 1940

Present:

Mr. Gaston
Mr. Bell
Mr. Schwarz
Mrs. Klotz

HM, Jr: This is from Marriner Eccles:

"Dear Henry:

In the New York Times this morning I notice an article quoting you as saying that you thought it would be a 'good idea' if I were to read the Budget Message and that you were requesting copies of my correspondence with Mr. David Lasser.

"I am enclosing a copy of Mr. Lasser's letter to me of February 5 and my reply of February 9, which you will note is a brief and factual response to the specific questions he raised and contains no expression of opinion whatsoever on my part."

HM, Jr: Which, of course, is not true.

(Resumed reading)

"I am at a loss to see how I could respond to the inquiry at all without giving these purely factual answers to the specific questions he asked.

"Accordingly, I regret the nature of your comment as quoted in the press, since it reflects what appears to be a critical or disapproving attitude. I am confident that if you will take the trouble to read Mr. Lasser's letter, his specific questions and my replies thereto, you will have no occasion to feel aggrieved.

"I am not acquainted with Mr. Lasser. His letter was answered as a matter of course, as is all office correspondence. I was surprised that he should make it

-2-

"public or that the newspapers should think it worthy of any notice since it contained no news or, for that matter, anything that was not already a matter of public information.

"I must say that I am somewhat puzzled by your reference to the Budget Message. There was no mention of or reference to the Budget Message in my letter, which made no recommendations whatsoever with respect to the budget, working balances, or any other matter and, therefore, could not be regarded as in any way in conflict with the Budget Message.

"Actually, as I thought you knew, I have read the Budget Message with great care and am thoroughly familiar with it. I regret again that before affording me an opportunity to give you the facts in the matter, you should have made remarks at a press conference that can only have the effect of stirring up adverse newspaper comment.

Sincerely yours,

(Signed) Marriner."

HM, Jr: This is the letter, the way I am going to write it. God knows what it will look like when these birds get through with it.

"My dear Marriner:

I was very glad to receive your letter of February 27th.

"I would like to point out to you that twice a week I hold a press conference. This makes me the public target for the newspaper men to fire questions at me on letters and statements which you frequently make in regard to Treasury fiscal policy. What I am trying to point out to you is your statements come first and my answers only follow in due course.

-3-

"My reference to the President's budget was brought about due to your statement in your letter 'U understand that prior to the event of the present Administration it was not customary to keep working balances in excess of \$250,000,000 or \$300,000,000.' To say the least, I was amazed to see you quoting previous Administrations to make your point when the President, in his Budget message, to quote you line and verse, said on --- page and --- line, that the working balance would be, on June 30th, \$1,100,000,000.

"It seems to me that if you are really interested in 'not stirring up adverse newspaper comment' that before you express your personal opinion 'I am advised, however, that it would require legislation to apply the fund to meet current expenditures', you make sure of your facts. Your facts in this statement happen to be wrong.

"The net impression that I get of your letter is (1) that there is \$1,500,000,000 available for spending out of the silver seigniorage and (2) that another \$1,000,000,000 could be made available if we permitted the balances to drop and follow the practices of the previous Administration.

"I think it is very unfortunate that at this time you should give Mr. Lasser this kind of an impression without first either doing me the courtesy of talking it over with me or referring the letter to the Treasury for answer."

HM, Jr: I have not done a very good job.

Mr. Bell: I dictated one last night which is now being typed.

HM, Jr: I realize I have not done a very good job. You get yours and after this banking meeting, talk it over with these two gentlemen. I know mine's not very good.

Mr. Bell: I think it is along the proper lines.

HM, Jr: The point I want to nail, that reference

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to the Budget in that. I criticized him. He makes a statement and I have to answer it at press conference. He tries to give the impression that I am always picking on him. What I want to get over to him is he makes a statement, written or verbal, and the boys put it up to me at press conference and I am on the spot.

Mr. Gaston: ... because it is perfectly obvious to them that when he is talking about Government fiscal policies that's in your jurisdiction.

HM, Jr: That's right.

Mr. Gaston: He's talking about your business.

Mr. Bell: Two subtle things in that letter, one is the Treasury has carried too large balances, and the other is we have got to have more spending in order to help purchasing power.

HM, Jr: Oh, sure! I think it's worthy of doing a very careful job.

Mr. Bell: He gave us the opportunity and we did not have to ask for it.

oOo-oOo

February 29, 1940.

My dear Harriner:

I was very glad to receive your letter of February 27, because it gives me an opportunity to say to you frankly what I think about your letter of February 9 to David Lasser, which was published in the New York Times of Monday, February 26, a copy of which, together with Lasser's letter to you dated February 5, you were good enough to enclose.

I did make the statement at my press conference on Monday that I thought it would be a good idea if both you and Lasser were to read the President's Budget Message. The explanation of that statement is, I think, quite simple. Lasser's questions to you and your replies were directed to matters of budget and fiscal policy. The budget and fiscal policy of the Administration for the current and coming fiscal years were authoritatively outlined in the Budget Message for the fiscal year 1941.

My own concern with Government fiscal policy, I think you will agree, is as immediate as yours, but I should feel it distinctly improper for me to attempt to indicate publicly ways in which the President's fiscal policy could be improved. You say that your letter was confined to statements of fact, but when you point out that prior administrations were content with smaller working balances — and without any attempt to explain the present justification for a larger working balance — it seems quite evident to me that you are, by inference at least, criticising or suggesting amendment of the President's fiscal policy. The same inference is contained in your listing of other fiscal resources that might be utilised.

You say that you are at a loss to see how you could have responded to the inquiry at all without giving these purely factual answers. If you will permit me to suggest, I think that you might with entire propriety have responded that the matters of which Mr. Lasser wrote and on which he sought information did not fall within the sole jurisdiction of the Board of Governors. Mr. Lasser's letter doesn't give me the impression that he was in search of facts. Factual answers to the questions he put are contained in Treasury publications and his letter seems to indicate that he already had the answers. What he appears to have been seeking was to use the name and authority of a highly placed Government officer in support of his propaganda for larger relief appropriations. If you had considered this aspect of the matter carefully, I think you would not have been surprised that he made your letter public.

- 2 -

You regret that before giving you an opportunity to give me the facts in the matter I made remarks at a press conference "that can only have the effect of stirring up adverse newspaper comment." This, my dear Harriner, is, I must submit, putting the cart before the horse. You had from about February 6 to February 26 an opportunity to give me the facts in the matter.

But I should add a word about my press conferences. It is very seldom that I volunteer anything, and then only when I have some important announcement to make about Treasury business. I didn't volunteer anything in this case. I was asked what I thought about your letter to Lasser. I thought my comment was exceedingly restrained. The newspaper man may have learned that I don't talk at conferences about matters that are outside of Treasury jurisdiction and they don't ask me to comment on what somebody else has said unless that other person has been dealing with Treasury matters. I didn't think I was justified in refusing to answer this particular question. I am at a loss to know how I could have answered it differently.

I am no less anxious than you to avoid adverse comment and newspaper controversy. It can be avoided if we both stick strictly to our own knitting. I, for my part, intend to do this.

Sincerely yours,

(Signed) E. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Harriner S. Eccles,
Chairman, Board of Governors of the Federal Reserve System,
Washington, D.C.

HBL/mah

February 29, 1940.

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Secretary of the Treasury.

The Honorable Harriner S. Eccles,
Chairman, Board of Governors of the Federal Reserve System,
Washington, D.C.

HEG/mah

By Messenger 1⁰⁰ pm 2/29/40

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Draft based on Lasser's ideas.

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THE SECRETARY OF THE TREASURY
WASHINGTON

February 28, 1940.

My dear Marriner:

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isad
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You say that you are at a loss to see how you could have responded to the inquiry at all without giving these purely factual answers. If you will permit me to suggest, I think that you might with entire propriety have responded that the matters of which Mr. Lasser wrote and on which he sought information did not fall within the jurisdiction of the Board of Governors. ~~Either that, or you might have consulted me with regard to your answer.~~

You regret that before giving you an opportunity to give me the facts in the matter I made remarks at a press conference "that can only have the effect of stirring up adverse newspaper comment." This, my dear Marriner, is, I must submit, putting the cart before the horse. You had from about February 6 to February 26 an opportunity to give me the facts in the matter.

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Sincerely yours,

Secretary of the Treasury.

The Honorable Marriner S. Eccles,
Chairman, Board of Governors of the Federal Reserve System,
Washington, D.C.

DRAFT

My dear Harriner:

I was very glad to receive your letter of February 27th.

I would like to point out to you that twice a week I hold a press conference. This makes me the public target for the newspaper men to fire questions at me on letters and statements which you frequently make in regard to Treasury fiscal policy. What I am trying to point out to you is your statements come first and my answers only follow in due course.

My reference to the President's budget was brought about due to your statement in your letter "I understand that prior to the event of the present Administration it was not customary to keep working balances in excess of \$250,000,000 or \$300,000,000." To say the least, I was amazed to see you quoting previous Administrations to make your point when the President, in his Budget message, to quote you line and verse, said on --- page and --- line, that the working balance would be, on June 30th, \$1,100,000,000.

-2-

It seems to me that if you are really interested in "not stirring up adverse newspaper comment" that before you express your personal opinion "I am advised, however, that it would require legislation to apply the fund to meet current expenditures", you make sure of your facts. Your facts in this statement happen to be wrong.

The net impression that I get ^{of} ~~in~~ your letter is (1) that there is \$1,500,000,000 available for spending out of the silver seigniorage and (2) that another \$1,000,000,000 could be made available if we permitted the balances to drop and follow the practices of the previous Administration.

I think it very unfortunate that at this time you should give Mr. Lasser this kind of an impression without first either doing me the courtesy of talking it over with me or referring the letter to the Treasury for answer.

Sincerely yours,

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

February 27, 1940.

Dear Henry:

In the New York Times this morning I notice an article quoting you as saying that you thought it would be "a good idea" if I were to read the Budget Message and that you were requesting copies of my correspondence with Mr. David Lasser.

I am enclosing a copy of Mr. Lasser's letter to me of February 5 and my reply of February 9, which you will note is a brief and factual response to the specific questions he raised and contains no expression of opinion whatsoever on my part. I am at a loss to see how I could respond to the inquiry at all without giving these purely factual answers to the specific questions he asked.

Accordingly, I regret the nature of your comment as quoted in the press, since it reflects what appears to be a critical or disapproving attitude. I am confident that if you will take the trouble to read Mr. Lasser's letter, his specific questions and my replies thereto, you will have no occasion to feel aggrieved.

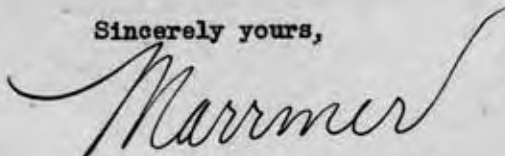
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- 2 -

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Actually, as I thought you knew, I have read the Budget Message with great care and am thoroughly familiar with it. I regret again that before affording me an opportunity to give you the facts in the matter, you should have made remarks at a press conference that can only have the effect of stirring up adverse newspaper comment.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Marmar".

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

enclosures

February 9, 1940.

Mr. David Lasser, National President,
Workers Alliance of America,
930 M Street, Northwest,
Washington, D. C.

Dear Mr. Lasser:

I have your letter of February 5 in which you inquire as to cash resources available to the Administration, without further legislative authority. You mention specifically the stabilization fund, the power to issue silver certificates, and the Treasury's working balance.

Under the Gold Reserve Act the stabilization fund is available for expenditure under the direction of the Secretary of the Treasury "for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar." I am advised, however, that it would require legislation to apply the fund to meet current expenditures.

As to silver, I am informed that approximately \$1,500,000,000 would be available by monetizing the difference between what has been paid by the Treasury for the silver and the official price of \$1.29, and that this would not require legislation.

The Treasury's working balance as of today is approximately \$1,600,000,000. Tentative estimates made in our statistical division indicate that without any new financing the balance will not fall to less than \$1,000,000,000 at the end of the present fiscal year and may be somewhat more than that if sales of so-called baby bonds continue at the volume at which they have been selling of late. I understand that prior to the advent of the present Administration, it was not customary to keep working balances in excess of \$250,000,000 or \$300,000,000. In addition, as you point out, there is the unused authority, under the Thomas Amendment, which provides that up to \$3,000,000,000 of currency may be "issued only for the purpose of meeting maturing Federal obligations".

Mr. David Lasser

-2-

February 9, 1940

Finally, you ask what the economic effects would be of using such funds for increasing work and consumer buying power. The Government can spend only what Congress authorizes and appropriates. To the extent that these funds were used to meet such expenditures, it would avoid an increase in the public debt but consumer buying power in the hands of the low income groups would not be increased thereby unless increased expenditures were voted by Congress.

Very truly yours,

(signed) M. S. Eccles.

M. S. Eccles,
Chairman.

WORKERS ALLIANCE OF AMERICA
National Headquarters
930 M Street, N. W.
Washington, D. C.

February 5, 1940

Hon. Marriner Eccles
Chairman, Board of Governors
Federal Reserve Board
Washington, D. C.

Dear Mr. Eccles:

I have been informed, in connection with the current discussion on our public debt limit and the effect of this on government expenditures, that there are considerable resources available to the Administration today, without further legislative authority.

My understanding is that these resources for meeting current expenditures can be used without increasing the debt limit or without further taxation.

Among the funds I am referring to are a two billion dollar stabilization fund, one billion dollar power to issue silver certificates, one and one-half billion dollars excess in the Treasury's working balance, over normal requirements, totalling four and one-half billion dollars. The last figure is based on the fact that the Treasury's working balance today is about one billion eight hundred million dollars. The usual practice is to maintain a working balance of about two hundred fifty million dollars.

This four and one-half billion figure is in addition to the power to issue three billion dollars of additional currency, not specially backed by gold or silver.

I wonder if you could inform me as to: first, whether these figures are correct, second, whether, to your knowledge there are additional funds that can be used for meeting current expenditures of the government without further legislation or without increasing the debt limit, and last, your viewpoint as to the economic effects of using such funds for increasing work and consuming power in the hands of the low income groups.

Appreciating any information you may give me, I am

Very truly yours,
(signed) David Lasser.

David Lasser
National President

dl/lk



THE SECRETARY OF THE TREASURY
WASHINGTON

30

February 29, 1940.

My dear Marriner:

I was very glad to receive your letter of February 27, because it gives me an opportunity to say to you frankly what I think about your letter of February 9 to David Lasser, which was published in the New York Times of Monday, February 26, a copy of which, together with Lasser's letter to you dated February 5, you were good enough to enclose.

I did make the statement at my press conference on Monday that I thought it would be a good idea if both you and Lasser were to read the President's Budget Message. The explanation of that statement is, I think, quite simple. Lasser's questions to you and your replies were directed to matters of budget and fiscal policy. The budget and fiscal policy of the Administration for the current and coming fiscal year were authoritatively outlined in the Budget Message for the fiscal year 1941.

My own concern with Government fiscal policy, I think you will agree, is as immediate as yours, but I should feel it distinctly improper for me to attempt to indicate publicly ways in which the President's fiscal policy could be improved. You say that your letter was confined to statements of fact, but when you point out that prior administrations were content with smaller working balances — and without any attempt to explain the present justification for a larger working balance — it seems quite evident to me that you are, by inference at least, criticising or suggesting amendment of the President's fiscal policy. The same inference is contained in your listing of other fiscal resources that might be utilized.

You say that you are at a loss to see how you could have responded to the inquiry at all without giving these purely factual answers. If you will permit me to suggest, I think that you might with entire propriety have responded that the matters of which Mr. Lasser wrote and on which he sought information did not fall within the sole jurisdiction of the Board of Governors.

February 29, 1940.

My dear Harriman:

I was very glad to receive your letter of February 27, because it gives me an opportunity to say to you frankly what I think about your letter of February 9 to David Lasser, which was published in the New York Times of Monday, February 25, a copy of which, together with Lasser's letter to you dated February 5, you were good enough to enclose.

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FEB 26 1940

ECCLES CITES CURB ON SPECIAL FUNDS

Their Use for Relief Needs Voted
of Congress, He Says in
Letter to Lasser

WOULD PREVENT DEBT RISE

Workers Alliance Head Asserts
Statement Answers 'Excuse'
for Limiting of Aid

Special to The New York Times.
WASHINGTON, Feb. 25—Mariner S. Eccles, chairman of the Federal Reserve Board, said in a letter made public today that the use of the government's cash resources "for increasing work and consumer buying power" would avoid an increase in the public debt but that "the government can spend only what Congress authorizes and appropriates" and "consumer buying power in the hands of the low-income groups would not be increased thereby unless increased expenditures were voted by Congress."

His letter was to David Lasser, president of the Workers Alliance, who made it public along with a statement saying that Mr. Eccles's figures "clearly reveal" that the issue of the debt limit as an excuse for not appropriating "sufficient funds for our social needs is a lot of sound and fury signifying nothing."

Mr. Eccles's letter, as given out by Mr. Lasser, was as follows:

"I have your letter of Feb. 5 in which you inquire as to cash resources available to the Administration without further legislative authority. You mention specifically the stabilization fund, the power to issue silver certificates, and the Treasury's working balance.

Stabilization Fund Terms

"Under the Gold Reserve Act the stabilization fund is available for expenditure under the direction of the Secretary of the Treasury for any purpose in connection with carrying out the provisions of this section, including the investment and re-investment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the president, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. I am advised, however, that would require legislation to apply the fund to meet current expenditures.

"As to silver, I am informed that approximately \$1,500,000,000 would be available by monetizing the difference between what has been paid by the Treasury for the silver and the official price of \$1.29, and

that this would not require legislation.

"The Treasury's working balance as of today is approximately \$1,600,000,000. Tentative estimates made in our statistical division indicate that without any new financing the balance will not fall to less than \$1,000,000,000 at the end of the present fiscal year and may be somewhat more than that if sales of so-called Baby Bonds continue at the volume at which they have been selling of late.

"I understand that prior to the advent of the present Administration, it was not customary to keep working balances in excess of \$200,000,000 or \$300,000,000.

Thomas Authorization

"In addition, as you point out, there is the unused authority, under the Thomas amendment, which provides that up to \$3,000,000,000 of currency may be issued only for the purpose of meeting maturing Federal obligations."

"Finally, you ask what the economic effects would be of using such funds for increasing work and consumer buying power. The government can spend only what Congress authorizes and appropriates. To the extent that these funds were used to meet such expenditures, it would avoid an increase in the public debt but consumer buying power in the hands of the low income groups would not be increased thereby unless increased expenditures were voted by Congress."

Mr. Lasser in his statement said:

"Mr. Eccles's letter clearly indicates that there are three immediate sources of funds, without touching the power of the administration to issue large sums of new currency.

"With regard to the gold stabilization fund I have been informed that the amount available is about two billion dollars without endangering our own currency one bit. This together with the silver fund and excess Treasury working balances makes nearly five billion dollars available to hurl back the tide of new recession advancing on us; and to give purchasing power and work to needy unemployed, youth and farmers."

NEWS from WORKERS ALLIANCE of AMERICA

930 M Street, N. W.
WASHINGTON, D. C.
Metropolitan 4830

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DAVID LASSER, President

HERBERT BENJAMIN, General Secretary-Treas.

For release AM/PM papers
2/26/40

In a letter from Maxiner S. Eccles to David Lasser, National President of the Workers Alliance of America, released today by Mr. Lasser, it was revealed that the Federal Government has cash resources of ^{over} \$4,850,000, available for meeting current expenses without increasing taxes or the Federal debt limit.

Mr. Eccles' letter was in response to a query from Mr. Lasser asking specifically about funds available in the gold stabilization fund, silver funds, and the treasury working balance.

The available funds are listed by Mr. Lasser, from Mr. Eccles' letter as follows:

Gold stabilization fund	\$2, 000,000,000
Silver profits	1, 700,000,000
Excess treasury working balance	<u>1, 350,000,000</u>
TOTAL	\$4,850, 000,000

Mr. Lasser, in a statement releasing the letter today declared: "This letter from the chairman of the Board of Governors of the Federal Reserve Board clearly reveals that the issue of the debt limit, as an excuse for not appropriating sufficient funds for our social needs is a lot of sound and fury signifying nothing. Mr. Eccles letter clearly indicates that there are three immediate sources of funds, without touching the power of the Administration to issue large sums of new currency. With regard to the gold stabilization fund I have been informed that the amount available is about two billion dollars without endangering our own currency one bit. This together with the silver fund and excess treasury working balances makes nearly five billion dollars available to help back the tides of new recession advancing on us; and to give purchasing power ^{and work} to needy unemployed, youth and farmers. Knowing these facts no responsible officials or statesmen can hoard these funds or throw up his hands in helplessness allowing this new recession with its suffering and misery to engulf us."

The text of the letter from Mr. Eccles follows:

I have your letter of February 5 in which you inquire as to cash resources available to the Administration, without further legislative authority. You mention specifically the stabilization fund, the power to issue silver certificates, and the Treasury's working balance.

Under the Gold Reserve Act the stabilization fund is available for expenditure under the direction of the Secretary of the Treasury "for any purpose in connection with carrying out the provisions of this section, including the investment and re-

investment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar." I am advised, however, that it would require legislation to apply the fund to meet current expenditures.

As to silver, I am informed that approximately \$1,500,000,000 would be available by monetizing the difference between what has been paid by the Treasury for the silver and the official price of \$1.29, and that this would not require legislation.

The Treasury's working balance as of today is approximately \$1,600,000,000. Tentative estimates made in our statistical division indicate that without any new financing the balance will not fall to less than \$1,000,000,000 at the end of the present fiscal year and may be somewhat more than that if sales of so-called baby bonds continue at the volume at which they have been selling of late. I understand that prior to the advent of the present Administration, it was not customary to keep working balances in excess of \$250,000,000 or \$300,000,000. In addition, as you point out, there is the unused authority, under the Thomas Amendment, which provides that up to \$3,000,000,000 of currency may be "issued only for the purpose of meeting maturing Federal obligations."

Finally, you ask what the economic effects would be using such funds for increasing work and consumer buying power. The Government can spend only what Congress authorizes and appropriates. To the extent that these funds were used to meet such expenditures, it would avoid an increase in the public debt but consumer buying power in the hands of the low-income groups would not be increased thereby unless increased expenditures were voted by Congress.

Very truly yours,

H.S. Eccles /s/
Chairman



TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE February 28, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Setting for the March Financing *AA*

SUMMARY

- (1) Domestic high-grade securities markets have remained quiet since early in the month. The average yield of all long-term Treasury bonds stood at 2.32 percent at the close on Tuesday, February 27, the same yield as three weeks earlier (Chart I). This stability has been reflected in all maturity groups (Chart II).
- (2) The data on the distribution of the issues to be refunded indicate that the June notes are held largely by commercial banks and the Federal Reserve Open Market Account. The figures on the 3-3/8 percent bonds are striking because they indicate that only a small proportion of this issue is held by banks in New York City.
- (3) In the past four years, the volume of "short" United States Government securities (direct and guaranteed) has increased by \$3.2 billions, an amount equivalent to almost half of the increase in the amount of marketable public debt securities.
- (4) Weekly reporting member bank holdings of United States bonds, notes, and guaranteed issues have remained relatively unchanged for the last five weeks. Bill holdings have declined as a result of the contraction in the volume of bills outstanding (Chart III).
- (5) June bond holders have a real alternative to a refunding offer -- an alternative which might become attractive if the new issues sell under 100-27/32 while the books are open; that is, they can obtain 27/32 of a point in interest by holding their bonds until June 15, or approximately that amount by selling them to someone else willing to do so.

Secretary Morgenthau - 2

I. The Condition of the Market

Domestic high-grade securities markets -- Government, corporate, and municipal -- have remained quiet since early in the month. The average yield of all long-term Treasury bonds stood at 2.32 percent at the close on Tuesday, February 27, the same yield as three weeks earlier (Chart I). That this stability has been reflected in all maturity groups is shown in Chart II, in which the prices and yields of issues representing the various sectors of the market have been plotted daily since the first of December.

High-grade corporate bonds have also shown only minor changes during the past three weeks, our average of the yield of such issues having moved within a range of only one basis point. With respect to municipal bonds, the Dow-Jones average of the yields of twenty 20-year bonds has remained unchanged since February 3.

Trading in the market for United States Government securities was carried out at a slow rate last week. A good demand was in evidence for "rights" and for several issues of Treasury notes and the shorter guaranteed issues, according to the confidential letter of the Federal Reserve Bank of New York, but interest was particularly lacking for the longest Treasury bonds and these issues were in moderate supply in the market.

II. The Issues to be Refunded -- Who Holds Them

In view of the size of the March financing (aggregate maturities amount to \$1,091 millions), it would be desirable to know at this time which classes of investors hold the maturing notes and bonds. It would be particularly interesting, moreover, to compare, by classes of holders, the distribution of the notes with the distribution of the bonds. The notes, it will be recalled, were originally issued as short-term securities in exchange for other short-term securities, while the bonds were originally issued (in 1928) as long-term securities for cash and in exchange for other long-term securities (Third Liberty bonds).

There is, however, only a limited amount of information with respect to the actual amounts of particular issues held by the various classes of security holders. The more comprehensive statistical data that are available -- such as the Federal Reserve series on securities owned by weekly reporting member banks -- do not break down holdings by issues, and no system of direct inquiry to obtain this information is available at the present time. The figures that we do have, have been obtained from various sources. They are shown in the following table:

Secretary Morgenthau - 3

Distribution of Issues to be Refunded

Holder	: 3-3/8's of:	: 1-1/2's of
	: 1940-43	: June 1940
	(Millions of dollars)	
Commercial Banks		
8 New York City national banks	0	37
All New York City weekly reporting State member banks	6	46
3 Chicago national banks	0	8
6 Other large national banks	53	51
13 Other large national banks	0	26
Subtotal	<u>59</u>	<u>168</u>
Savings Banks -- 200 banks	5	No data
Insurance Companies		
2 Large life insurance companies	23	0
Other insurance companies	5	35
Federal Reserve Open Market Account	0	137
Government agencies and trust funds	<u>1</u>	<u>0</u>
Total accounted for	93	340
Not accounted for	<u>260</u>	<u>398</u>
Total outstanding	<u>353</u>	<u>738</u>

Note: Figures are for various dates between December 31, 1938 and February 21, 1940. They were supplied by the Comptroller of the Currency, the Federal Reserve Board, and Poor's Publishing Company.

Inadequate as they are, the above figures are striking because they show such a small proportion of the 3-3/8 percent bonds held by New York City banks. Outside of New York, the twenty-two large national banks for which we have detailed data on securities owned appear to hold a relatively small proportion of the issue. Only \$53 millions of the issue was so located, mainly in the portfolios of two large banks. The figures with respect to the June notes are more informative. They indicate that this issue is held largely by commercial banks and by the Federal Reserve Open Market Account.

The Federal Reserve Open Market Account, it is interesting to note, holds none of the 3-3/8's. The Account did hold \$11 millions of the issue at the beginning of the year, but these bonds have been disposed of in the market. They have probably been taken up principally by commercial banks.

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III. The Volume of Short Maturities

It has been frequently urged during the past few years that the action of the Treasury in refunding note maturities principally into long- and medium-term bond issues has resulted in a steady decline in the volume of short-term Government securities outstanding, and that this decline has impaired the liquid position of the banking system. It is particularly interesting before each financing, therefore, to direct attention to all the statistical facts relating to the volume of short-term Government securities then outstanding.

The relevant figures for the last four years are presented in the table below, which compares the trend of the total marketable supply of direct and guaranteed public debt issues with (1) the aggregate volume of "short" marketable issues outstanding, and (2) the volume of such issues selling at prices offering some positive return to the investor. "Short" issues are considered for this purpose to be all direct and guaranteed obligations which mature within five years, plus all those securities with a coupon rate of 3 percent or higher which are callable within five years, but which mature at some later date.

Dec. 31	: Marketable supply : of public debt : securities ^{1/}	: "Short" issues	
		: Total : amount : outstanding	: Amount selling : on a positive : yield basis

(In billions of dollars)

1935	33.3	15.5	13.0
1936	36.8	15.1	13.8
1937	37.8	15.4	13.7
1938	39.0	14.9	9.9
1939	40.2	18.7	13.3

^{1/} Excludes special issues to Government agencies and trust funds, United States Savings and Adjusted Service bonds.

It is apparent from the table that if high-coupon callable issues are taken into account, there has been no shrinkage in the volume of short securities during recent years. The total volume of such securities, as a matter of fact, has

Secretary Morgenthau - 5

increased by \$3.2 billions in the past four years, an amount equivalent to almost half of the aggregate increase in the amount of marketable public debt securities (direct and guaranteed) during the period.

The increase in the volume of short securities has been due principally to the mere passage of time, which has brought into the picture a large volume of longer-term obligations which were issued some years ago, and which have now become, and are regarded by the market as, relatively short-term issues. All of these issues are selling at prices to yield less than 1-1/4 percent, and, unless a radical rise in interest rates takes place in the next few years, they are all likely to be called on, or shortly after their earliest call date.

From the viewpoint of the investor desiring to obtain a positive yield on his purchase of short securities, the figures in the last column of the table are the most significant. There was a sharp decrease in the volume of positive-yield short securities in 1938, it appears, but the volume of such securities has now returned to the level existing from 1935 through 1937. The decline in 1938 was due to a combination of circumstances. The bill volume was reduced sharply and a large volume of short notes went to a negative yield basis. Neither of these factors were reversed in 1939, and the current increase is due principally to a greater than usual volume of securities crossing the somewhat artificial deadline between a six-year and a five-year "maturity" during the past year.

IV. Bank Holdings of Government Securities

Weekly reporting member bank holdings of United States bonds, notes, and guaranteed issues have remained relatively unchanged since the middle of January (Chart III). Bill holdings have declined by \$88 millions, however, mainly as a result of the contraction in the volume of such issues outstanding.

There have been some shifts in recent weeks in the classes of United States securities held by the banks in the different cities. These shifts have not been large, however. Treasury bills have been going to banks in Minneapolis and St. Louis, while the Chicago banks have been acquiring guaranteed issues.

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V. Special Position of High-Coupon Obligations
Refunded in Advance of Maturity

At the close on Tuesday, February 27, the bid for the June bonds stood at 101-24/32. Allowing for interest that will accrue between February 27 and March 15, the market was bidding approximately 1-19/32 for the right to obtain on March 15 the new securities offered by the Treasury in exchange for these maturing obligations.

In making up their minds whether to accept the refunding offering, the holders of the June bonds will find that they have a real alternative: They can obtain 27/32 of a point in interest by holding their June bonds from March 15 to June 15 instead of exchanging them into new securities. By so doing, they can obtain a return on 3 month's money equivalent to 3-3/8 percent per annum. This compares with a return of .005 percent obtainable on an issue of 3 month's Treasury bills.

This alternative would become quite inviting -- and might attract a significant number of holders of the maturing bonds -- if the new issues sell under 100-27/32 while the books are open. That much premium could be secured merely by holding the issue to maturity (or approximately that much by selling it to someone else willing to do so) and the new issue, if still desired, could be purchased in the market at the lower price.

The situation presented above is not a new one, it should be pointed out -- it always exists at financing operations in which the Treasury offers to refund an issue in advance of its maturity date. It has been of only minor importance in connection with the advanced refunding of Treasury notes during the past two years, however, because the coupon rates on the maturing notes were relatively low. The situation is different with respect to the Treasury bond maturing at this time, because the issue carries a relatively high coupon rate -- 3-3/8 percent -- and the point at which it becomes profitable to hold out is much higher (27/32 on the bond, as against 12/32 on the June note).

The First Boston Corporation made the foregoing problem the subject of a recent circular letter on Government securities. For your convenience, their proposed solution is summarized below (the figures are illustrative only):

Secretary Morgenthau - 7

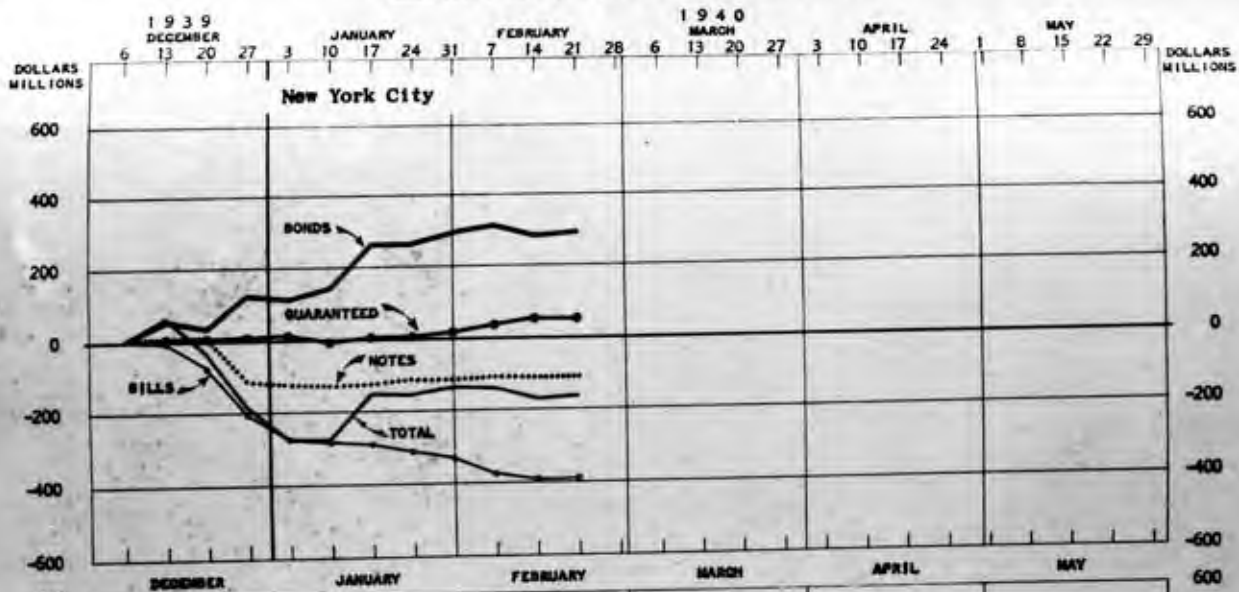
The Treasury would offer an issue of new securities for cash and refunding in the amount of \$1,250 millions. Holders of the maturing issues would be invited to tender these issues in exchange and would be promised full allotment. Cash subscriptions would also be invited, but with the proviso that cash allotments would be limited to the difference between the total of the exchange tenders and the size of the issue.

Let us say, for example, that total exchange tenders under this procedure amounted to \$1,050 millions. (The note maturity is \$738 millions, and the bond maturity \$353 millions, a total of \$1,091 millions.) Total cash allotments, in this case, would be limited to \$200 millions. If, however, exchange tenders amounted to only \$750 millions, cash allotments would total \$500 millions. The "hold-outs" would then be redeemed at maturity, sufficient funds to take care of them having been made available without the necessity of another cash offering.

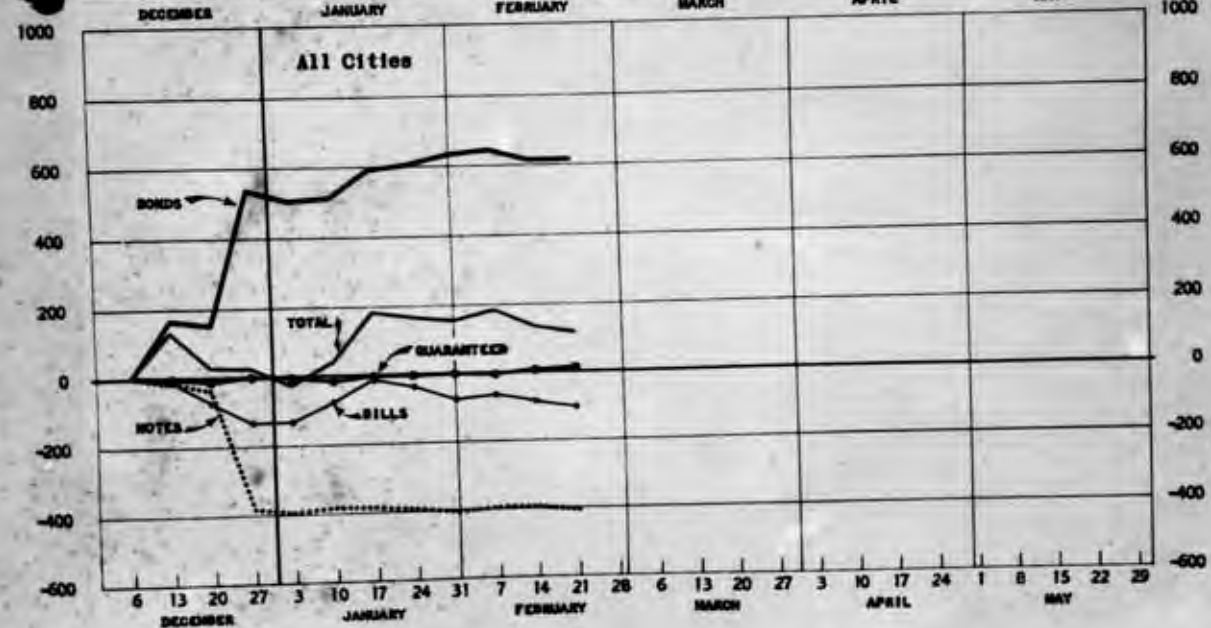
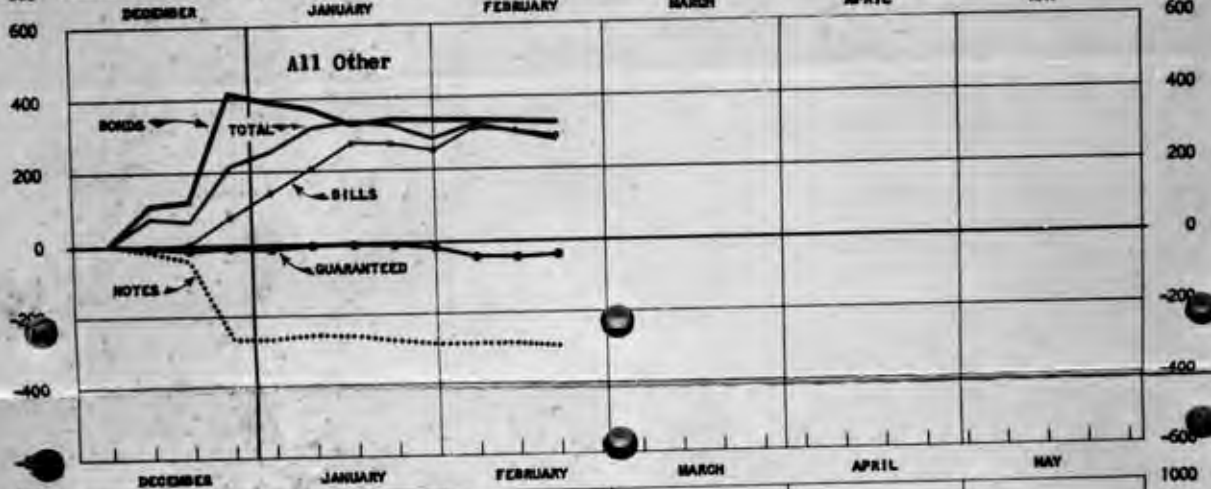
The First Boston proposal is an interesting one. It would free the Treasury from the necessity of catering to the holders of maturing securities, and it would thus increase the Treasury's bargaining power. If it were adopted the prices of rights would probably decline to a level lower than that presently existing in the market.

It should also be noted that the proposal would require that some new cash be raised upon the occasion of every such refunding. In the present instance this may be judged to be a disadvantage.

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



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PRICES AND YIELDS OF SELECTED GOVERNMENT SECURITIES
Daily

Prices

Yields

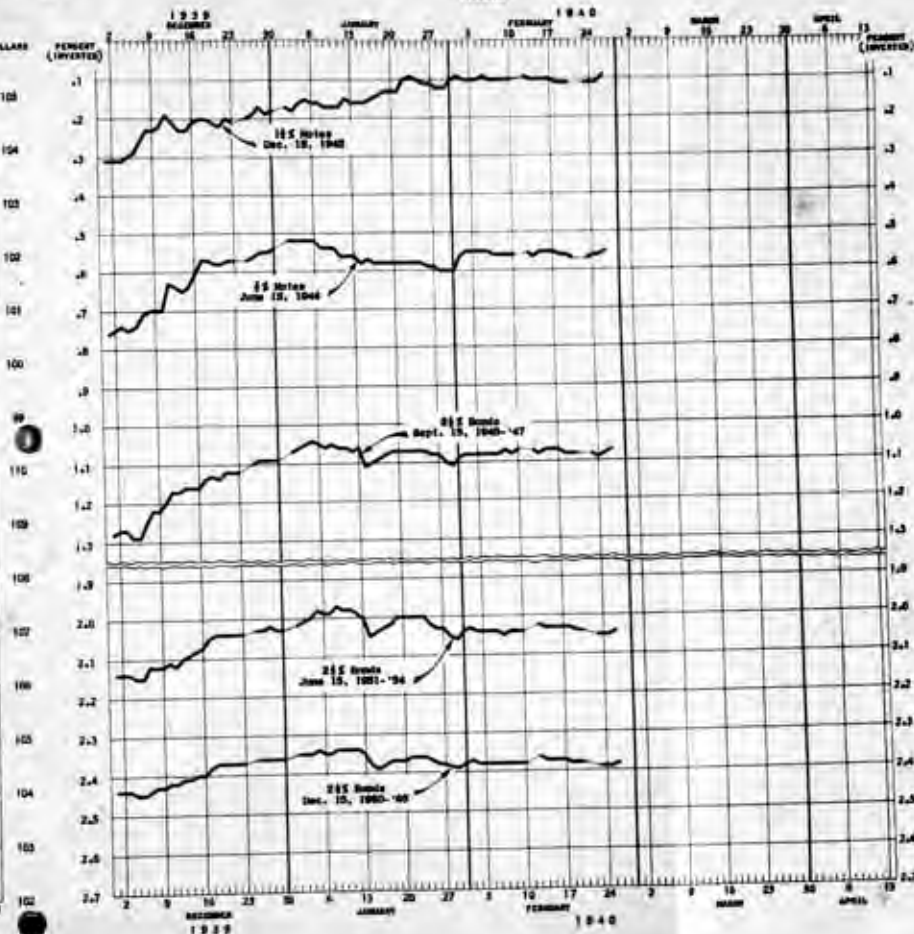
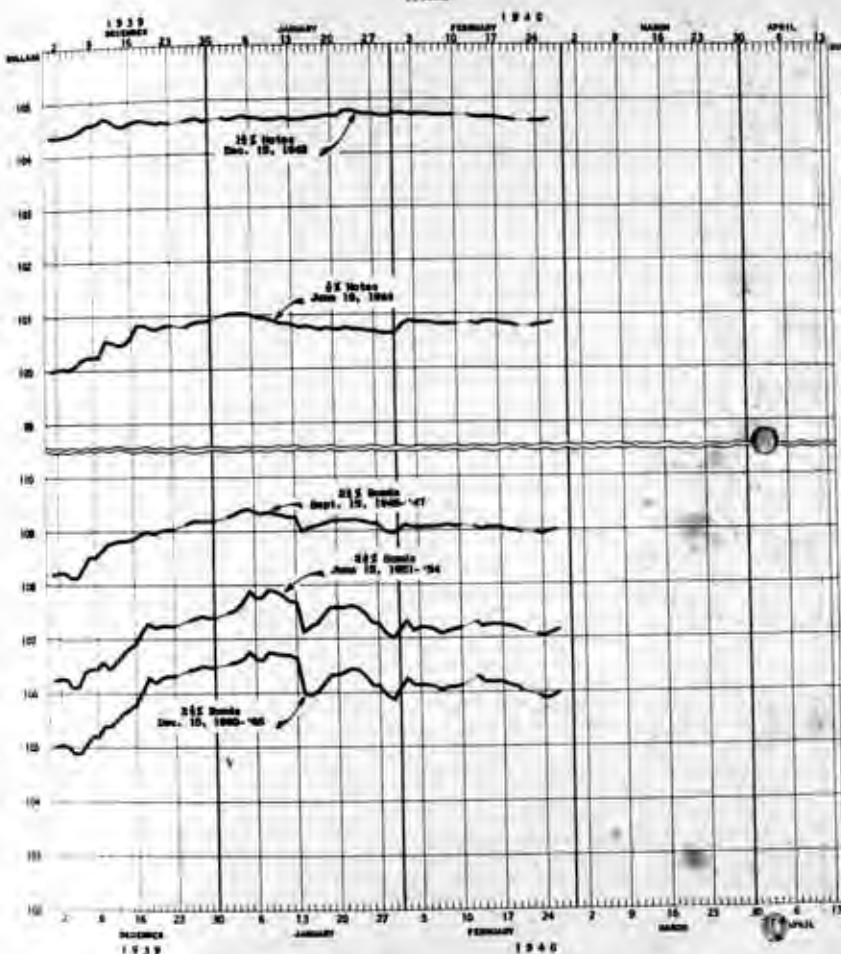
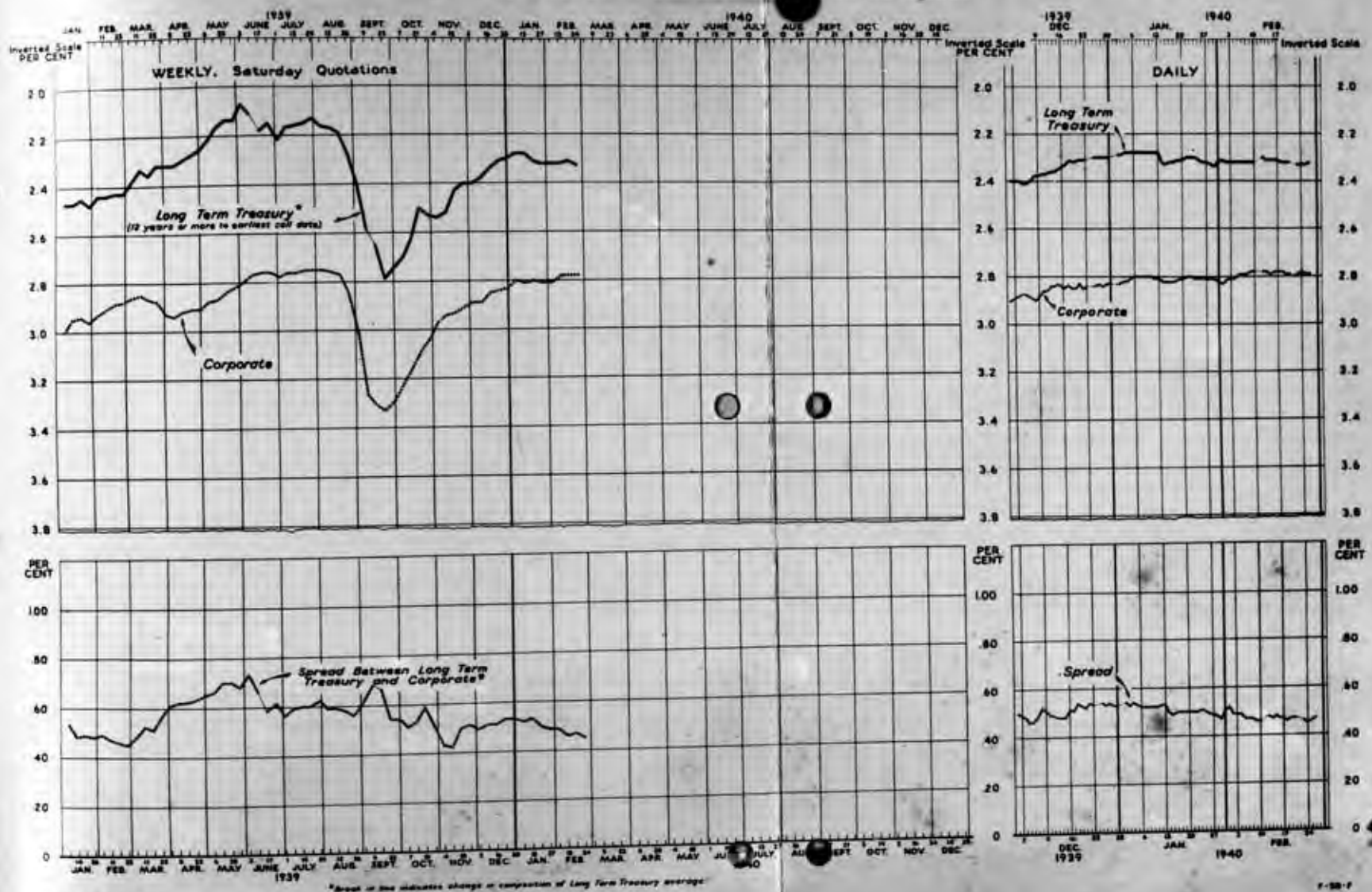


Chart I

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



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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 28, 1940

TO Secretary Morgenthau
 FROM Mr. Haas *HAAS*
 Subject: Business Outlook Meeting held in the Federal Reserve Board Room on February 28, 1940, at 10:00 a.m.

Among those present were representatives from departments and organizations as follows:

Department of Agriculture
 Secretary Wallace, who served as chairman
 Mr. Louis Bean
 Dr. Mordecai Ezekiel
 Dr. C. C. Stine
 Mr. Frederick L. Thomsen
 Department of Commerce
 Mr. Richard V. Gilbert and some members of the staff of the Bureau of Foreign and Domestic Commerce
 Department of Labor
 Secretary Perkins (part of the time)
 Mr. A. Ford Hinrichs
 Executive Office of the President
 Administrative Assistant to the President -
 Dr. Lauchlin Currie ✓
 Bureau of the Budget -
 Mr. Harold D. Smith
 Central Statistical Board -
 Dr. Morris A. Copeland
 Dr. Stuart A. Rice
 National Resources Committee -
 Mr. Thomas C. Blaisdell
 Federal Reserve Board
 Mr. Ernest G. Draper
 Dr. E. A. Goldenweiser
 Mr. Ronald Ransom
 Mr. M. S. Szymczak
 Mr. George Terborgh
 Mr. Elliott Thurston
 Mr. Haas

The program of the meeting consisted of two papers, one by Mr. George Terborgh, of the research staff of the Federal Reserve

Secretary Morgenthau - 2

Board, and one by Mr. Richard V. Gilbert, of the Department of Commerce. Mr. Terborgh's paper discussed forecasts of durable goods for the calendar year 1940. Copy is attached. On the basis of his analysis, he forecasts that the Federal Reserve Board index for the calendar year 1940 will average between 110 and 115. He expects that the Federal Reserve index for February will be about 110 and for March about 107. He thinks the low point will be reached about the middle of the year or earlier. He would be surprised if the index for the lowest month was less than 100. He anticipates a rather sharp upturn in the second half of the year.

Mr. Gilbert gave a paper in which he analyzed the outlook for the calendar year 1940. (This paper was a copy of the same paper which you gave me to read on Monday.) Mr. Gilbert presented what he called an optimistic forecast and a pessimistic forecast. The optimistic forecast in terms of the Federal Reserve Board index is as follows:

First quarter, 110
 Second quarter, 105
 Third quarter, 104
 Fourth quarter, 107
 Average for the year, 106.5

The pessimistic forecast in terms of the Federal Reserve Board index is as follows:

First quarter, 109
 Second quarter, 90
 Third quarter, 84
 Fourth quarter, 95
 Average for the year, 94.5

The optimistic forecast according to his analysis assumes no "inventory" liquidation and an increase in exports of \$1-1/2 - \$2 billion. The pessimistic forecast assumes a 40 percent liquidation of "inventory," and an increase in exports of \$1 - \$1-1/2 billion.

The inventory data which he presented are not secured from company reports but consist of a derived or calculated series. To a very large extent his analysis depends on his interpretation of this derived inventory series and his expectation with regard to the level of the export trade balance.

In view of the questions which were raised as to just what Mr. Gilbert's derived inventory series meant in terms of

Secretary Morgenthau - 3

the business outlook, Secretary Wallace suggested that another meeting be held in the near future to see if the experts could clear up the questions which had been raised.

At the close of the meeting Secretary Wallace said it was imperative that the matters considered at the meeting be kept confidential and that no newspaper reporter be informed regarding them.

February 6, 1940.

111

THE OUTLOOK FOR DURABLE GOODS IN 1940by
George Terborgh

Forecasting is attended at the present time by exceptional uncertainty. The European war, from the standpoint of the American economy, is an adventitious factor both unpredictable and potent. The impending presidential election may have far more important repercussions on business sentiment and behavior than usual. To make matters still worse for the forecaster, we appear to be just now in one of those precarious periods when productive activity in many lines exceeds the rate at which new business is coming in, and when backlogs are therefore running off. In such a period the near-term trend of activity may depend on relatively small differences in timing, difficult to predict. If orders recover in enough lines before backlogs run out, the decline in general activity may be reversed before it has gathered much momentum; if, on the other hand, the upturn in orders is delayed too long, the momentum of the contraction in production may generate a secondary withholding of orders and precipitate a downward spiral of both orders and production.

The 1940 forecasts for durable goods offered in this memorandum are highly tentative, and will have to be revised as the year progresses. Since the visibility is so poor, only the next few months can be seen with any approach to clarity. For this reason, I had originally planned to confine my prognostications to the first half of the year. This plan gave way to the decision to cover the longer period, but to center attention on the near-term prospect.

- 2 -

The following discussion relates to the present situation and outlook in the finishing stages of durable goods production. Thus it covers the manufacture of machinery but not production of steel for machinery, the construction of buildings but not the output of building materials. Conditions and prospects in the primary and intermediate stages of durable goods production may of course differ rather widely, over short periods, from those in the finishing lines. A second qualification should be noted: the discussion deals only with the domestic demand for finished durable goods, and with its effect on operations and expenditures. While the domestic demand is overwhelmingly more important than the foreign in this field, some minor adjustments may nevertheless need to be made in the forecasts for 1940 where foreign business is expected to move during the year in a manner markedly divergent from that of domestic commitments.

Let me first review the present situation and outlook for various classes of durable goods separately, and try later to pull these fragments together into some kind of over-all picture.

Public Construction

The unprecedented volume of public construction expenditure in 1939, estimated at 3,832 million dollars, will not be equalled in 1940. Outlays under the PWA program seem likely to be down about a third. WPA construction looks at present about a fourth lower. Federal-aid highway expenditures will be about the same. Regular Federal construction promises to be higher by say 10 per cent. U.S.H.A. expenditures will be up 200 or 300 per cent. State and local outlays on projects not coming

- 3 -

under Federal programs will probably be up moderately. When all these categories are added together, we obtain an indicated decline of 5-10 per cent in the grand total, 1/ The forecast for 1940 is 3,450-3,650 million dollars. It seems probable that on a seasonally adjusted basis public construction activity will decline irregularly during the year.

It should be noted that this estimate does not include expenditure for the building of naval vessels, or for ordnance and military aircraft. The expansion in these items during 1940 will probably offset most, if not all, of the decline in public construction. We may conclude, therefore, that expenditures for publicly owned plant and equipment combined will be substantially the same as in 1939. 2/

Producers' Goods

Railroads

At the end of 1939, Class I railroads had 37,100 freight cars and 117 locomotives on order, representing for the most part business placed in the September-October stampede. New orders have declined since that rush to a rather low volume currently, and there seems little prospect of much immediate recovery. The carriers just now have a wait-and-see attitude. With business activity in the opening phase of a decline that may last for several months, and with the timing and magnitude of the next upswing problematical, the roads will soon have ceased to worry much about the protection of their autumn traffic peak of this year. Their

1/ I am indebted to Peter Stone, of the WPA, for help in deriving these estimates. His endorsement of them is not necessarily implied, however.

2/ Expenditures for military equipment have not been included in my durable goods estimates as published.

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fears of a squeeze will have been transferred to 1941, in preparation for which there is plenty of time. Until the present business recession has hit bottom and given way to a recovery vigorous enough to call in question again the quantitative adequacy of the equipment inventory, the ordering of new cars and locomotives will proceed slowly.

Some ordering will continue, of course, unless business goes completely to pot. The pressure to modernize equipment and service is becoming constantly greater as the amount of modern equipment in use increases. Each streamlined passenger train and high-speed freight in service intensifies inter-railroad competition and forces the laggard carriers to modernize to protect their traffic position. The incentive of cost reduction, moreover, grows constantly more powerful as the gap is widened between the performance of up-to-date equipment and that of the more obsolete portions of the existing stock. The diesel-electric switcher is a case in point. Even in the absence of over-all quantitative shortages of equipment, a certain amount of buying for modernization will go on, the volume depending largely on the intensity of the incentive and the financial position of the carriers.

Without attempting to cover here all the angles involved, I may simply say that large-scale ordering of equipment seems unlikely during the first half of 1940. Backlogs in the hands of car builders are pretty sure to be much reduced in the coming months (locomotive backlogs may fare better), and productive activity in the field will tend to decline. What happens in the second half of the year will depend largely on the trend of business activity and the expectations of railroad executives

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as to the imminence of equipment shortages. Unless business does better than appears likely just now, a repetition of the ordering stampede of September-October 1939 cannot be expected. For the year as a whole we may guess freight-car installations at 60,000-70,000, and locomotive installations at 350-400, with the total of equipment outlays 250-275 million dollars, as compared with 210 million in 1939. ^{1/} Outlays on road and structures may be guessed at 175-200 millions, against a 1939 figure of 152 millions, making a total railroad expenditure of 425-475 millions.

Electric power

At the end of 1939 private utilities had over 2 million k.w. of new generating capacity on order, of which about 1.3 million is scheduled for installation in 1940. This exceeds by about 20 per cent the 1929 installations. Expenditures for generating facilities will probably rise by a somewhat larger ratio than this, owing to a relatively greater increase in the amount of basic construction under way that will not give rise to current-year installations, and to other factors, but it seems to me that trade estimates which place 1940 expenditures for generating capacity at more than twice the 1939 figure are clearly excessive. ^{2/} I am inclined to allow no more than a 30-50 per cent increase. If we accept trade forecasts for substation, distribution, transmission, and miscellaneous outlays, which show an increase of about 15 per cent for these items collectively, we get an over-all increase of 20-25 per cent. The forecast for 1940 is 425-475 millions, against 373 in 1939.

^{1/} This estimate includes outlays for the rebuilding of equipment, when chargeable to capital account.

^{2/} See, for example, the Electrical World, January 13, 1940, p. 95. These estimates exclude Federal projects.

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From the standpoint of current activity in the construction of electric power plant and equipment, it seems likely that on a seasonally adjusted basis it will be well sustained at somewhere around the present level for most, if not all, of 1940. The work is already on order or in process and, barring some drastic change in the outlook, will be pushed to completion. From the standpoint of new orders and projects initiated during the year, the prospect is more obscure. The S.E.C. drive for compulsory unification of holding-company systems has aggravated existing uncertainties for a considerable portion of the industry, and is likely to cause some retardation of capital commitments because of doubts as to the future control of certain properties and as to arrangements for financing capital outlays. To this factor must be added the influence of the decline in business activity now under way.

Telephones

The preliminary forecast for the telephone industry envisages capital outlays in 1940 only slightly higher than in 1939, say around 350 millions, as against 333. Since expenditures in the last few months of 1939 were running (seasonally adjusted) at approximately the annual rate indicated by this forecast, we may infer that their course during the current year will be sidewise at something like the present level.

Transit

The Transit Journal forecasts 1940 outlays for the industry at 112 millions, up slightly from 107 in 1939. I have no information as to the course of expenditures during 1939, but seasonally adjusted they were probably above the annual average in the latter part of the year, and the indication is therefore for a sidewise movement during 1940.

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Other utilities

No reliable forecasts are currently available for 1940 capital outlays in the gas and pipe-line industries, the principal components of this category. As a sheer guess, we may say 140-160 millions for the classification as a whole, against 135 in 1939.

Mining and Manufacturing

New orders for mining and manufacturing equipment underwent a sharp spurt in September last to a level somewhat above the average for 1937. Since November they have apparently been receding, though at a moderate rate. Some recession was natural after the fall spurt, which represented in part a "borrowing" of future business. The coincidence of this let-down with a decline in general industrial activity, however, indicates the probability that orders will continue downward for some time. I do not anticipate a repetition of the precipitous drop of 1937; neither do I now expect any significant recovery much before the end of the first half, though I certainly should not deny that under war-time conditions anything can happen. The outlook for the second half of the year is obscure, and no forecast can carry much conviction. My guess is that an uptrend in orders for industrial equipment will be established during the period.

From the standpoint of activity in the production of this equipment we must reckon with the sustaining effect of large backlogs of unfilled orders in many lines. If the prognosis for new orders is correct, there will probably be some let-down in activity, however, beginning in the near future and lasting until orders have pointed upward.

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In view of the uncertainty attending the forecast for the second half of the year, any figure for expenditures on mining and manufacturing equipment in 1940 must contain a wide margin of error. My guess is 1,800-2,100 millions, against 1,650 for 1939.

Of mining and manufacturing plant expenditures, the largest component consists of outlays for the drilling of oil and gas wells. The trend was upward in 1939, due largely to the opening of some important new fields, such as the Illinois field. Drilling in the older Texas and California areas was lower than in 1938. Conditions in the industry, into which I need not go here, make it seem improbable that the uptrend in total drillings will continue through 1940; indeed we will be lucky to maintain the recent level. That the year as a whole will exceed 1939 somewhat seems likely, however. The estimate is 600-650 millions, against 550 in 1939.

As for factory construction, the initiation of new projects is expected to move generally widewise during 1940, on a seasonally adjusted basis. Construction activity, also adjusted, may hold near the present level, and for the year as a whole should materially exceed 1939. Expenditures are forecast at 250-300 millions, against 200. For mining and manufacturing plant including oil wells, the prediction is 900-1,000 millions,^{1/} as compared with 775 in 1939, and for plant and equipment combined it is 2,700-3,100 millions, against 2,425.

Commercial and miscellaneous

The outlook for equipment orders in this field, and for activity in the fabrication of equipment, resembles in general that for equipment in mining and manufacturing, discussed above. Suffice it to say that the

^{1/} Including a small allowance for mining development.

trend of new orders appears downward, and is likely to continue so for some time, and that activity will probably decline somewhat as backlogs are depleted. The prospect nevertheless is for an expenditure in 1940 somewhat higher than in 1939, the forecast being 1,500-1,700 millions, against 1,350.

Commercial and miscellaneous building contracts, seasonally adjusted, showed an uptrend during most of 1939. I am inclined to anticipate a generally sidewise movement during the year, on an adjusted basis. Expenditures for 1940 are forecast at 400-450 millions, against 355 in 1939. For plant and equipment combined, the commercial and miscellaneous forecast is 1,900-2,150 millions, versus 1,705 in 1939.

Agriculture

The outlook for farm capital expenditures in 1940 is mildly encouraging, the forecast being 750-800 millions, compared with 695 in 1939. I shall not venture to predict the seasonally adjusted trend through the year.

Consumers' Goods

I have taken so much space with the discussion of various classes of producers' goods that I shall treat consumers' goods very briefly.

Housing

For privately owned housing, I am disposed to predict a generally sidewise movement of seasonally adjusted contracts during 1940 at somewhere around the recent level. On an expenditure basis, this would give a 1940 figure slightly over 1939. The forecast is 2,100-2,300 millions, against 2,060.

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Automobiles

It is a long time since I have made a thoroughgoing analysis of the automobile situation, and I do not consider my forecast for 1940 a particularly weighty one. It stands at 2,500-2,700 millions, which compares with 2,300 for 1939. Retail sales will average somewhere around recent levels, with the seasonally adjusted trend perhaps moderately downward for a few months.

Household goods

The forecast for this large and heterogeneous class of durable goods is 4,800-5,000 millions, against 4,700 in 1939. Sales in 1940 are not expected to average much above recent levels, after allowance for seasonal factors.

Summary

The accompanying table summarizes the forecasts just presented.

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	Preliminary estimates 1939	Forecast 1940	
		Range	Mid-point
Public and Private	19,237	19,855 - 21,535	20,700
Public (construction)	3,832	3,450 - 3,650	3,550
Private	15,405	16,405 - 17,885	17,150
Producers'	6,135	6,785 - 7,635	7,220
Railroads	362	425 - 475	450
Electric power	373	425 - 475	450
Telephones	333	340 - 360	350
Transit	107	105 - 115	110
Other utilities	135	140 - 160	150
Mining and manufacturing	2,425	2,700 - 3,100	2,900
Commercial & misc.	1,705	1,900 - 2,150	2,030
Agriculture	695	750 - 800	780
Consumers'	9,270	9,620 - 10,250	9,930
Housing	2,060	2,100 - 2,300	2,200
Non-profit institutions	210	220 - 250	230
Automobiles	2,300	2,500 - 2,700	2,600
Household goods	4,700	4,800 - 5,000	4,900

If we take the mid-point of the ranges indicated we come out with a forecast for all durable goods of 20,700 millions, about 8 per cent over 1929 and 4 per cent over 1937.^{1/} For publicly owned goods (plant only) a decline of 7 per cent from 1939 is indicated, though the

^{1/} The ranges derived for the major categories of durable goods by adding the terminal points of the ranges for their component series are somewhat too wide as an indication of the probable error in the forecasts for such composites, since deviations of actual results from the mid-points of the ranges for component series forecasts may be expected to occur in both directions, and to reduce the range of error in the composites accordingly.

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figure remains 27 per cent above 1937.^{1/} Privately owned goods show a gain of 11 per cent over 1939, and an approximate parity with 1937. The producers' component of this category is up 18 per cent from last year, though 5 per cent below 1937. Consumers' goods are up 7 per cent, and are 3 per cent over 1937.

Conclusions

These forecasts, the fallibility of which I wish to emphasize again, are associated with a forecast for industrial production which contemplates a recession in the first half of the year and an uptrend in the second half. This recession is of course already under way. Its gravity and duration will depend on many other factors than conditions in the finishing branches of durable goods production, discussed above, but these conditions are certainly an important part of the picture.

While commitments for new durable goods promise to run below production in some lines during the next few months, and while activity in most lines appears to be currently at as high a level (seasonally adjusted) as it is likely to reach until commitments have turned up again, it is also true that because of existing backlogs of unfinished work activity in the finishing lines as a whole is unlikely to recede much during the next two or three months at least, and will go off only gradually for a while thereafter. If during this period of resistance in the finishing stages of durable goods production there should be an upturn of activity in the primary and intermediate stages, and in the production of non-durable

^{1/} It will be recalled from the foregoing discussion that the inclusion of expenditures for military and naval equipment, not included in my estimates, would probably reduce to a negligible amount the decline from 1939.

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goods, a revival of commitments for new durable goods may check the decline of activity in the finishing stages and establish a concurrent up-trend for production all along the line. If, on the other hand, activity in the earlier stages of durable goods production, and in non-durable goods, should be still in a declining phase when the exhaustion of backlogs precipitates a rapid downward movement in the finishing stages of durable production, the revival of commitments for new durable goods is likely to be postponed, and the downward momentum of finishing activity may carry other branches and stages of production along with it.

The possible combinations and permutations of factors in this situation are innumerable, and the general patterns just outlined represent of course a gross over-simplification. Since this is not the occasion to analyse other elements in the present business outlook than those which are the immediate subject of discussion, I can only state my expectation that commitments for new durable goods will pretty well have completed their decline by the end of the first half, and that the liquidation of activity in the final stages of durable production will not attain any great momentum before it is checked. While this seems to me to represent the balance of probability, all things considered, it is fully recognized that a much less favorable course of events is possible, and may actually materialize.

HSM

PLAIN

London

Dated February 28, 1940

Rec'd 11:05 a. m.

Secretary of State,
Washington.

482, February 28.

FOR TREASURY FROM BUTTERWORTH.

Asked in the House of Commons whether in view of the failure of the depreciation of sterling at the beginning of the war to bring about an adequate expansion of exports he will give an assurance that in view of its grave effects in other directions currency depreciation will not again be resorted to as a means of stimulating exports, the Chancellor of the Exchequer replied:

"I can assure the Honorable Member that currency depreciation will not be resorted to as a means of stimulating exports by seeking an unreasonable competitive exchange advantage. I cannot accept his implication that this policy was adopted on the outbreak of war, for this is not the case."

Asked further if that be the case for what reason depreciation was resorted to in the early months of the war, Simon replied:

"I

hsm -2- No. 482, February 28, from London

"I think I should say that the true level of sterling was below that at which it stood in the period prior to the war and at the outbreak of war we felt it was a wise step to allow the pound to fall to a rate which did represent its true economic level."

A good deal of the competitive advantage arising out of the depreciation of the pound last autumn has now been dissipated. Costs have definitely risen due in part to increase in insurance and shipping rates under war conditions, in part to the rise in terms of sterling of imported materials and in part to wage increases, a movement as yet unchecked or ungrappled with. However the problem of maintaining or increasing British exports is not yet one of costs but one of organization: the allocation of productive resources, manpower, materials and shipping space as between the export trades and the fighting services. Sir Andrew Duncan, the new President of the Board of Trade, is to publish shortly the recommendations of his export advisory committee for meeting this serious problem.

JOHNSON

CSB

HSM

GRAY

Paris

Dated February 28, 1940

Rec'd 2:11 p. m.

Secretary of State,
Washington.

267, February 28, 6 p. m. (SECTION ONE).

FOR THE TREASURY FROM MATTHEWS.

Today's Journal Officiel publishes an announcement of the Ministry of Commerce in regard to the relaxation as from March 1, 1940, of the war time import permit and exchange control restrictions affecting the importation into France of products coming from and originating in the United Kingdom and certain British possessions (see my telegrams Nos. 190, February 9, 5 p. m., and 262, February 27, 6 p. m.). Territories which will benefit by this relaxation are given in list A and include in addition to Great Britain and Northern Ireland the majority of the British colonial possessions as well as Egypt and Irak. The most important omissions from the list are the Dominions, Newfoundland, Palestine and Kenya Colony.

MURPHY

CSB

REB

GRAY

Paris

Dated February 28, 1940

Rec'd 3 p. m.

Secretary of State,
Washington.

267, February 28, 6 p. m. (SECTION TWO)

Heretofore importers of British merchandise have been required to observe the same formalities in seeking permission to import goods as have those of goods coming from other foreign countries. They have been obliged to submit a request for authorization to import (form number 1) to the pertinent French authorities, to the Embassy a so-called "exchange form" (form number 2 if the desired import requires the delivery of foreign exchange by the exchange control office, form number three for group imports requiring the delivery of foreign exchange, or form number four if the import does not require a delivery of foreign exchange despatch No. 5508, December 26, 1939). As from March 1, forms numbers 2, 3 or 4 need not be submitted for imports originating in territories appearing on list A.

MURPHY

CSB

JR

GRAY

Paris

Dated February 28, 1940

Rec'd 2:19 p.m.

Secretary of State,
Washington.

267, February 28, 6 p.m. (SECTION THREE)

The announcement also gives a second list "B" covering some 330 tariff items of raw materials semi-manufactures and finished products many of which were hitherto subject to quota restrictions. Import permits (form number 1) will continue to be required for the importation of commodities appearing on list B even when imported from list A territories; permits will no longer be required for the importation from list A territories of commodities (begin underlining). not (end of underlining) appearing on list B.

The foregoing will I understand shortly be followed by the pertinent exchange control measures and instructions to approved intermediaries.

MURPHY

CSB

PARAPHRASE OF SECTIONS FOUR, FIVE,
SIX AND SEVEN OF TELEGRAM NO. 267,
FEBRUARY 28, 1940, FROM THE AMERICAN
EMBASSY AT PARIS.

Last evening I had dinner with Arragon of Morgan's. He spoke about the rapid rise which has taken place, during the past two months, in prices, particularly in the case of foodstuffs and raw materials. He is of the opinion that the only thing which can hold this rise in check is a more drastic reduction in living standards than is likely to occur. He feels that the system of direct price controls is less responsible for the failure of prices to rise more during the early months of the war than is the fact that the economic life of France has lost the purchasing power of the five million men who have been mobilized (in view of existing commodity stocks at the beginning of the war the producing power of these men had less immediately counteracting scarcity effect) and the fact that consumption has been further reduced by the smallness of family allowances, which amount to 10 francs a day for a mobilized soldier's wife and small additional allowances for children. An important additional factor has, of course, been the drastic ceiling on wages. Because of the fact that additional reserves and specialists have since been called up to replace in part the two classes which were demobilized and the agricultural and industrial releases, it is difficult to

say

-2-

say how many of the originally mobilized five million (not including Colonial troops) have since been returned to agriculture and industry. I have heard the figure placed at a maximum of 1,500,000 but I would be inclined to say the figure was much lower.

Arragon said that as he went more deeply into the internal aspects of war financing he became more convinced that these aspects are relatively simple. He said it was merely a question of the closed capital circuit, that is, pumping money out for war needs and drawing it back in again through taxation and borrowing. In view of the many wartime controls which are available to the Government, he does not anticipate that there will be any serious flight from money during the war. (Although theoretically he may be correct, I think it unwise to make a categorical assumption of this kind.)

Frequently we hear new examples of the crippling effect which even the present inactive war is having on France's economy: because of the excess slaughter of milk cattle by the army there is developing a quite unforeseen shortage of fresh milk, and the result is that there is an urgent need for substantial quantities of condensed milk for relief purposes.

The securities market was firm today and somewhat more active. Rente issues advanced major fractions.

(END OF MESSAGE)
EA:EB

MURPHY

HSM

PLAIN

London

Dated February 28, 1940

Rec'd 2:45 p. m.

Secretary of State,
Washington.

486, February 28.

FOR TREASURY FROM BUTTERWORTH.

The steady and determined rise in British Government securities and British equities is noteworthy. The FINANCIAL TIMES index of British Government securities (November 15, 1926 equals 100) stands today at 109.8 as compared with 99.4 (the arbitrary minimum price which was imposed just before the war and prevailed for some six weeks after the war) and 107.9 a year ago. Likewise the FINANCIAL NEWS index of ordinary stocks (July 1, 1935 equals 100) stands at 80 as compared with the low of 66.4 on September 26 and 85.2 a year ago.

The fundamental fact is that the British monetary authorities under the powers of the defence (finance) regulations not only exert a control over the sterling exchange but have virtually complete control of the total supply

hsm -2- No. 486, February 28, from London

supply of investments. Given the trend of military and political events, which has created a psychologically favorable atmosphere in the city, the British Treasury has been able to press home its tactical advantage. Thus far its policy has been to defer the issuance of a war loan, with the exception of savings certificates and defence bonds designed to appeal to the small investor, and to finance the war partly by heavier taxation and partly by the issue to the banking system of Treasury bills which were in short supply prior to the outbreak of war. Meanwhile the money raised in this way has been spent and an unknown part of it is accumulating as savings. Furthermore war demands, the diminution of certain luxury trades and import restrictions are making inroads on many stocks of commodities while in other cases commodities formerly held by manufacturers and merchants are now the monopoly of various Government agencies. Thus the trading community is holding today more cash and less goods. Following the conversion of the $4\frac{1}{2}$ percent loan (see my 163, January/8, 1 p. m.) the vesting of 60 American securities will create further funds seeking investment and has already acted as an anticipatory stimulant to the Stock Exchange.

On the other hand there is Government control over new capital issues which extends to mortgages of any
sizeable

hsm -3- No. 486, February 28, from London

sizeable amount and even to bonus share issues made through the capitalization of reserves. Whereas there is no direct ban on the acquisition of new capital assets either by companies or by private individuals the absence of any complete insurance against war risk is a deterrent against the construction of new property. Furthermore attempts to acquire new plants and machinery except for the manufacture of munitions run up against priority war demands for raw materials and equipment.

The result of all this is a steady accumulation of unemployed savings which await the readiness for war loans. In the meantime however they are competing for the body of existing securities which is not allowed to grow *pari passu*. Hence the recent rising trend of the prices of fixed interest and other securities and the decline in the long-term rate of interest despite the fact that Great Britain, engaged in a major war, has a national debt considerably larger than at the end of the last war, a standard rate of income tax of 7 shillings in the pound and a budget that has been unbalanced for two years and will be more drastically unbalanced for an unforeseeable period.

JOHNSON

HPD

COPY FOR SECRETARY

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

~~134~~

February 29, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his confidential information one copy of paraphrase of telegram No. 270 from the American Embassy, Paris, transmitting a special report from Mr. Matthews.

26

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 28, 1940, 9 p.m.

NO.: 270

RUSH.

PERSONAL AND STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE TREASURY FROM MATTHEWS.

This evening Couve de Murville asked me to call on him at his office. He told me that Reynaud had asked him to convey the following information to me orally, in continuation of his desire for the closest collaboration with you. For the time being, Couve de Murville asked that it be kept in the strictest confidence. He said this is because the gold operations were not even communicated to the Cabinet when it met today, but he intimated that tomorrow it would be taken up with that body, and on Friday the measures would probably be made public.

A substantial quantity of gold will be ceded to the Treasury by the Bank of France for the exchange stabilization fund. No definite decision has yet been reached as to the amount, but the lowest figure would be 25 billion francs, and it may be as much as 30 billion francs. The gold reserves of the Bank of France will simultaneously be reallocated from the present 97 billion to about 114 billion, close to its actual Paris value at the present time. The Treasury will use this 17 billion revaluation "profit",

in

- 2 -

in addition to some 3 billion francs from the exchange stabilization fund, to reimburse the advance to the State of 20,500,000,000 by the Bank of France. Negotiation with the Bank of France will likewise be carried out for authorization to the State of a further advance of probably 20 billion francs. This latter amount, with the unutilized balance of the 25 billion francs which was authorized when the war broke out, will make a present credit with the Bank of France of between 26 billion and 27 billion francs for the Government.

Couve said with regard to the above that

(1) "Slightly less" than the 10 billion francs which I previously reported (telegram of February 9, No. 190 from the Embassy) is held by the stabilization fund. However, in view of current purchases in the United States (amounting now to about \$45,000,000 a month for purchases by the Government and an equivalent amount for private purchases) the French Government felt it desirable to replenish the fund before the amount in it reaches too low a point.

(2) In view of your message to Reynaud through Leroy Beaulieu, and in view of your interest in the matter, Reynaud had hoped that before the foregoing is announced here it could be explained to you in detail and with documents. However, Couve said that the details would have to wait, since Leroy Beaulieu is on the CONTE GRANDE, which is not
expected

expected to reach dock in time. In line with the financial accord between France and Great Britain, the matter was discussed with the British. Couve said that it has been agreed by the two countries that, because France has relatively larger gold holdings than Great Britain and much smaller holdings of American dollar securities than Great Britain, for the time being France should pay in the United States in gold while sales of American securities should be used in part payment by the British. In passing, Couve said that "more or less equal" expenditures are made by the French and British in the United States. However, Couve assured me that later on when it became necessary to requisition and sell American securities held by the French, they would collaborate closely with you in so doing. He again made it very clear that for the present they do not contemplate any such step - as I have so often reported; reference, telegram of February 9, No. 190 from the Embassy, and telegram No. 262 of yesterday.

(3) At the present time the financial position of the French Government is easy. However, the Government feels it is highly desirable to take advantage of the present calm to make preparations for the future; at present war consumption of munitions, and so on, is certainly at its lowest point. For psychological reasons, too, it seems advisable to

make

- 4 -

make announcement of the foregoing measures at the same time as the "restrictive measures" discussed below, which are immediately necessary for them.

In conversation the necessity for reducing consumption has been stressed to me so often; this necessity has at last resulted in a beginning of rationing, at least. Couve said that this question was the subject of the Cabinet meeting today, and that tomorrow or Friday the measures would be announced. The details of the proposed rationing were not known to him, but he said that bread and meats and a reduction of allowance of gasoline would be included therein. He did not think that attempts to ration clothing would be made for the time being. The Government would first have to take a census of the population, and it is anticipated that issuing the necessary cards would require a period of six weeks. In the meantime, on certain days in the week pastry shops are to be closed, shippers will be subject to restrictions on harbors, and so on.

French purchases abroad, both private and Government, he said, were to be further reduced, which is an equally important restrictive measure, and he said they would materially strengthen control of the Finance Ministry (omission) purchases and import applications. Couve emphasized the importance of this and the need for preserving dollar resources.

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Couve said he felt confident these several highly important measures would be received very well here when I asked him about the reaction. (When the measures are promulgated, I presume appropriate "explanations" will decorate them.) Recent rumors to the effect that labor circles are exerting serious pressure for increases in wages Couve said had no basis. However, since the war broke out, he said that the cost of living index in France has risen approximately 15 percent.

As I reported earlier today, Couve also told me that in a day or two the pertinent exchange control measures waiving formalities on commercial transactions between Great Britain and France will be promulgated. For the time being, he reiterated, the waiver of formalities will apply only to commercial transactions. He said that documentary proof of the bona fide nature of the import operation will be necessary after rather than before importation as is at present required.

END OF MESSAGE.

MURPHY.

EA:LWW

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 28, 1940

TO Secretary Morgenthau

FROM Joseph P. Cotton, Jr.

Re: Brazil steel project.

Herewith is a copy of a digest prepared by the State Department of the report of U. S. Steel experts sent to Brazil to study the project. Some time will be necessary to study the report itself, which is very long, in order to appraise the correctness of this digest and the value of the report itself. It should be noted that the report is based upon pre-war prices, requiring a reappraisal of the situation from a financial angle which will very substantially increase the dollar investment required.

At the initiative of the State Department, two informal interdepartmental meetings were held, at which Mr. Schmidt of Mr. White's division and myself were present for the Treasury, to consider a request by the Brazilian Ambassador for advice and suggestions from this Government as to the possibility of U. S. participation in the development of a steel plant in Brazil. This request was made by the Ambassador in the light of the recent decision of the financial committee of U. S. Steel, in spite of the technically favorable report of its experts, that it would not participate and would not be interested in a management contract. It was the apparent consensus of these meetings, after the fact had sunk in that, in addition to the dollar exchange plant cost of some \$25 millions further amounts of some \$15-25 millions would be necessary for essential rail and water transportation facilities, that this Government would do well to consider the implications which would result from any offer of positive advice or suggestions to the Brazilian Ambassador. Inevitably Brazil would try to borrow all or a substantial portion of such \$25-50 millions from the United States Government, and any initiative by this Government at this stage, by attempting to interest other private steel interests in this country or otherwise, would involve a moral commitment to consider sympathetically a request for a loan for the project. Moreover, even if this Government should be willing to consider a request for a loan in such matter, there would remain the question of the adjustment of outstanding debts.

J.P.C.H.

COPY

January 22, 1940

United States Steel Corporation Committee's
Report on the Steel Industry in Brazil and
on the Feasibility of Building a Modern
Steel Plant in Conformity with the Wishes
of the Brazilian Government.

The United States Steel Corporation's Commission, which will be referred to as the Commission, includes in its report much background material which is common knowledge to officers of the Department. In the following memorandum an attempt has been made to incorporate only what appears to be new or little known information.

Market

The population of Brazil in 1938 is estimated at about 44,000,000. The rate of increase since the 1930 census is approximately 4 per cent per annum. The trade figures still record a considerable preponderance of raw materials and foodstuffs in the imports. The import and export trade with Brazil in 1938 was divided by countries as follows:

U. S.	supplied	25%	of imports	and took	34%	of exports.
Germany	"	23%	" "	" "	20%	" "
Argentina	"	15%	" "	" "	5%	" "
Gr. Britain	"	12%	" "	" "	9%	" "
France	"	4%	" "	" "	6%	" "

Brazil's

-2-

Brazil's exchange and general well-being depend almost exclusively upon a favorable balance of payments. The international payments of Brazil since 1937 have been composed almost in their entirety of exports and imports, and current items. As a matter of fact, capital items have played practically no part since 1931. Its balance of trade depends, furthermore, upon two products, namely, coffee, which represented in 1938 forty-five per cent of exports, and cotton, which represented 18.2 per cent. Brazil's exports in 1938 were 35,800,000 gold pounds, and its imports 34,200,000. In the past six years its maximum surplus of exports was 10,828,000 gold pounds in 1936, and its minimum surplus, occurring in 1938, was 1,575,000 gold pounds.

The Commission's estimate of per capita steel consumption in representative countries is illuminating. It states that the United States consumes 850 lbs. of finished steel per annum, Belgium 750 lbs., Germany and Great Britain, 550 lbs. each, France 320, Italy 135, and Brazil 20.

The present market for steel products in Brazil is roughly divided as follows:

Pails

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Rails	17%
Structurals	5
Rounds and flats	16
Wire	17
Tin Plate	14
Sheets and plates	15
Tubes	10
Others	<u>6</u>
Total	100%

The demand for rails, wire and tin plate could be greatly expanded with the lower prices which a native industry would bring about. Brazil's market for steel products, as it is for practically all other articles, is concentrated in Rio de Janeiro and São Paulo, viz:

Rio de Janeiro consumes	25%	of the total consumption			
São Paulo	" 40%	" " " "	"	"	"
South Brazil	" 22.5%"	" " " "	"	"	"
North Brazil	12.5%"	" " " "	"	"	"

The Commission's report refers to the present method of doing business in steel products as a hand to mouth proposition and lays emphasis on the importance of developing a merchandising organization. A mere doubling of consumption to 40 pounds per capita per annum, which would be but 5 per cent of per capita steel consumption in the United States, would assure the success of any efficiently operated steel mill in Brazil.

The present rates of duty per metric ton on steel products are roughly as follows:

Rails

Rails	63\$
Rounds and flats	570\$
Wire (not barbed)	700\$
Tin plate	220\$
Sheets and plates	570\$
Tubes	690\$

Existing Steel Industry

A very small steel industry using charcoal as fuel already exists in Brazil. The only company of consequence is the Belgo-Mineira which owns plants at Monlevade and Sabara, Minas Geraes. It has an expansion program under contracts with the Federal Government.

The following figures demonstrate the growth of the steel industry in Brazil, such as it is, from just after the World War:

Brazilian Steel Production (M. tons)

	<u>Production</u>	<u>Imports</u>
1921 - 1924	8,000 (average)	271,000 (average)
1928	15,000	481,000 (peak)
1930	16,000	253,000
1938	65,000	274,000

The national production of finished steel products is roughly composed of rounds and flats, 75 percent, and of wire, 25 percent.

The principal iron and steel mills in Brazil are:

Burnier

Burnier and Esperança (Minas Geraes) owned by Queiroz, Jr., Limited, has one blast furnace of 6,000-ton capacity in operation, and two blast furnaces of 15,000-ton total capacity, closed. The products are foundry iron and castings.

Gage' (Minas Geraes) owned by the Sociedade Siderurgica, Limited, has one 15,000-ton blast furnace, closed.

At Bello Horizonte, owned by the Companhia Industrial de Ferro (of which the Belgo-Mineira is a large shareholder) is a blast furnace of 4,000-ton capacity for castings.

Morro Grande, owned by the Hime interests (British), has three blast furnaces of a capacity of 25,000 tons, making foundry iron and ingots, and two small Bessemer's of a capacity of 5,000 tons of steel.

Neves (at Nictheroy, capital of the State of Rio de Janeiro). This plant, also owned by Hime, receives Morro Grande ingots and can produce 25,000 tons of steel in its two basic open-hearth furnaces. The output consists of structurals, rounds and flats, wire, and steel castings.

José Brandão and Caete (Minas Geraes), owned by the French Companhia Ferro Brasileiro. At the first are two blast furnaces with a capacity of 20,000 tons of iron making castings and pipe, and at the second is a 5,000 ton blast furnace which at present is closed.

Sabará and Morro Grande (Minas Geraes), owned by the Companhia Siderurgica Belgo-Mineira (the capital seems to be principally Luxemburger, Belgian, Dutch, and Brazilian). It is this company in which the Brazilian Government, and particularly the Army, is interested. Now operating at Sabará are two blast furnaces of 30,000-ton capacity, and two basic open-hearth furnaces of the same capacity. The finishing capacity is 40,000 tons. At Monlevade there are two 50,000-ton total capacity blast furnaces, and two basic open-hearth furnaces which were being built at the time of the Commission's visit. The

capacity

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capacity of finished products here is also 40,000 tons. The Monlevade ingots were at the time of the visit being sent to Sabará.

The plans for the Belgo-Mineira, which of necessity must be influenced by any decisions regarding the Steel Corporation's plant, are at present as follows (most of this work it is understood is proceeding at this time):

For the Government, four new blast furnaces with a capacity of 100,000 tons, five open-hearth furnaces of 140,000 tons, finishing mills of 100,000 tons, and a small electric furnace for special steel for the Army arsenal. For the company, six blast furnaces of 150,000 tons, seven open-hearth furnaces of 200,000 tons, and finishing mills of 150,000 tons.

Raw Materials

Iron Ore

While it is true that in Brazil there is to be found one of the richest reserves of Bessemer ore in the world, namely, the one near Itabira, the accessible ores are those of a higher phosphorous content found in the area of Minas Geraes served by the Central of Brazil Railway around 450 to 600 kilometers from Rio. It is estimated that 500,000 tons of ore per annum are available in this area for the steel plant at a cost, alongside of the railroad, of about 14\$ per ton. Production in the area of iron ore reached, in 1938, the peak of 558,238 tons, and generally one-third to one-half of the production is exported.

The

The total cost of delivery at Rio would probably be around 38 milreis per ton. It is calculated that the new mill would use a mixture of hard ore containing 66 per cent natural iron and .050 per cent phosphoric acid; high-grade canga or rubble with 58 per cent natural iron, and .150 phosphoric acid; and brown hematite and limonite containing 62 per cent iron and .100 per cent phosphorous. The Commission recommends that the company obtain deposits yielding about 300,000 tons and purchase the remainder of its requirements in the open market from independent producers.

Limestone and Dolomite

In the same general area with the iron ore is to be found metallurgical limestone. Present production is not more than 40,000 tons, but the 100,000 tons required by the steel mill could probably be found.

The Commission believes that a suitable supply of dolomite can be found near Bello Horizonte and Ouro Preto, Minas Geraes. The annual supply of dolomite required would be about 25,000 tons.

It is thought that the cost of delivery at Rio of the limestone and dolomite would be about 38 milreis per ton.

Coal

The Commission's investigation of the coal situation

in

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in Santa Catharina started with the original 1908 basic report of the Coal Commission headed by the West Virginian, Mr. J. C. White. The field is about 20 x 40 kilometers in extent and contains, roughly, 320,000,000 tons.

Up to the present the principal production of coal in Brazil has been in Rio Grande do Sul. For example, out of a total production in 1928 of 325,000 tons, Rio Grande do Sul furnished 316,000, and out of a total production in 1938 of 872,000 tons, that State furnished 729,000 tons. In the same period the Santa Catharina coal output rose from just under 9,000 tons to about 143,000 tons.

All Brazilian coal is very high in ash content and has a low fixed carbon content.

The Santa Catharina situation is politically dangerous. The present producing mines are controlled by the Lage interests which ship 80 per cent of the State's production through their own port at Imituba over its own decrepit meter-gauge railway and its own coastwise vessels. The deposits in which the Commission was interested lie around 100 to 125 kilometers from the coast and the Commission recommends that the port of Laguna, 37 kilometers from Imituba, be used in order that the supply may be independent of the whims of the politically powerful

Lage'

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Lage family.

The price now asked in Rio for Santa Catharina coal of 120 milreis per ton is not competitive with imported duty-paid coal at 190 milreis.

The advantage of Santa Catharina over Rio Grande do Sul coal is that the former cokes more successfully than the latter. The tests have so far, however, been confined to laboratories and foundry use. The Commission makes three main suggestions concerning the coal in Santa Catharina: (1) that the Brazilian Government request the loan from the United States Government of coal experts; (2) that analyses be made by mines and areas for both steam coal and coking coal; (3) that the selected varieties be tested in full-sized coke ovens and furnaces.

The Commission recommends the tests for steam coal with the thought that the Brazilian Government is desirous of reducing its present annual importation of 1,600,000 tons of foreign coal.

Chromite

The steel mill would require about 2,000 metric tons of chromite. It is to be found in fairly abundant deposits in the State of Bahia. The cost of delivery at Rio would be about 350 milreis per ton.

In connection with chromite, it is interesting to

note

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note that in the period January-June, 1939, 1,950 tons of average 49 per cent Cr_2O_3 ore was exported to Germany.

Manganese

Manganese ore has for many years been a regular though small item in Brazilian exports, and its quotations are standardized. About 8,000 tons yearly of 45 per cent ore would be required. Manganese is plentiful in Minas Geraes and moves to Rio at a cost of between 24 to 32 mil-reis per ton, depending upon origin.

Transportation

The transportation problem in so far as a steel mill in Rio is concerned may be reduced to four subproblems.

I. The broad gauge line of the Central of Brazil from Bello Horizonte through the mining area to Rio de Janeiro should be relaid almost in its entirety. Rolling stock is needed in large quantities. The whole operation of the Central is lamentably inefficient. The proposed solutions are that (1) the Central be made completely autonomous of the Government, (2) the main line from Barra do Pirahy, 109 kilometers from Rio whence the branch to Bello Horizonte leaves the main line between Rio and São Paulo, should be relaid and modernized at a cost of approximately \$5,000,000, (3) the autonomous administration should acquire 10 locomotives and 300 hopper cars

at

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at a cost of about \$2,000,000.

The Commission would wish to obtain rates which, while giving a reasonable profit to the railway administration, would not merely contribute, through the efficient operation of this branch, to the reduction of the global deficit of the entire railway. It believes that with the expenditure of the above two sums the railway could carry ore and limestone to Rio at a good profit for 20 milreis per ton.

II. The Dona Thereza Christina railway between the Santa Catharina coal mines and the sea coast, while Government property, is operated by Lage. The Commission's recommendations are (1) that the railway be placed under the autonomous Central administration, (2) that the line be relaid with 100-pound rails at a cost of \$1,500,000, (3) that the port of Laguna be developed by the Government at the cost of \$250,000, (4) that 150 hopper cars be acquired for \$600,000.

The movement of coal would be about 212,000 tons per year, and the Commission believes that a reasonable freight to ask would be 6\$000 (it is now 9\$000).

III. The coastwise facilities for transporting coal are entirely unsatisfactory. In the interest of the

Central

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Central, the largest coal consumer in Brazil, the Commission recommends that the Central Railway acquire a 7,500-ton collier for about \$500,000.

IV. The ocean service for the importation of foreign coal with which the mill would start operating is inadequate, and the following is proposed.

(1) That a Government-owned line be organized independently of the inefficient Lloyd Brasileiro and the purchase made of five vessels for \$2,500,000. These vessels could begin transporting to Brazil the equipment for the steel plant and for the rehabilitation of the railways on which the steel plant would depend. They would also be used to import the 300,000 tons, more or less, of Lynch coal which would be required for the steel plant.

The Commission believes that the freight on the coal should be, from Baltimore to the plant, about 47¢ if there is no return cargo, but if, for example, these ships were given 100,000 tons of the export trade in manganese ore, the freight on the coal could be reduced to about 40¢.

The above recommendations would cost the Brazilian Government about \$12,550,000. These expenditures, the Commission feels strongly, are properly borne by the Government in view of their general benefits. While it is easy to understand in this country the reasons for the recommendations, it is also important to keep in mind the tremendous

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tremendous inertia which would first have to be overcome. The Commission was surprised, if not astonished, by the unanimity of the opinions of Brazilians of all interests with regard to the deplorable condition of overland transportation facilities and the need for rehabilitation. The Commission was, however, balked by this very unanimity in that most Brazilians envisage the rehabilitation as a project of such stupendous proportions that Brazil would be unable to afford it unless there were an immediate prospect of huge iron and manganese ore exports. The problem, therefore, is to convince the Brazilians that while such a far-reaching program is admirable, there is no use in dreaming unless a start is made, and this start should involve individual smaller projects whose urgency is outstandingly evident.

The Steel Plant

The Commission investigated the feasibility of various types of mills and discarded for reasons of geography and cost of raw materials such propositions as charcoal furnaces, Bessemer furnaces, and electric furnaces. The use of charcoal would place the mill in fuel timber land in the Rio Doce Valley hundreds of kilometers from the market. The construction of Bessemer furnaces would place the mill near the Itabira mines, distant from
markets

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markets and coal sources, and would require at least \$10,000,000 to rebuild the Victoria-Minas Railway. To use electric furnaces, the mill would also have to be placed at a distance from its market in order to be near a source of adequate water power.

The proposed site is a 730-acre area within the Federal district about 50 kilometers southwest of the city and only 7 kilometers from the main line of the Central. There is a sufficient supply of fresh water nearby, and a satisfactory harbor in Sepatibe Bay in which it is believed a 30-foot channel could be easily dredged.

The plant would have at the outset an output of 285,000 tons of finished steel products. There would be 68 coke ovens using 60 per cent Lynch coal or 318,000 tons, and 40 per cent Santa Catharina coal, or 212,000 tons. In connection with the coke ovens, there would be a recovery plant for ammonium sulphate and light oils which would be sold in the market as by-products. By-product gas and tar would be utilized in the plant for fuel, mixed possibly with fuel oil. There would of course be adequate storage facilities for raw materials, and auxiliary equipment for movement of raw materials, hot metal, scrap, et cetera.

There

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There would be two blast furnaces of 550-ton capacity which could be expanded, however, after re-lining, to 750 tons. They would be skip-filled. The power house would include three cold blast blowers, three 10,000-kilowatt turbo generators, and four boilers. It is foreseen that ultimately a mutual exchange and standby reserve agreement would be reached with the local electric power company.

The open-hearth furnaces using tar, fuel oil and coke oven gas would be six in number with a loan of 100 metric tons apiece. These, with re-lining might be expanded to 125 metric tons. Serving these facilities would be a 1,000-ton hot metal mixer. To these fundamental elements will be added a blooming mill, a combination rail and structural mill, and tie plate finishing sections. Added to these mills would be tin plate, sheet and jobbing mills.

Cost

The Commission estimates the capital necessary for the plant at 180,600 contos, local currency, and \$21,470,000, American currency, the total being 610,000 contos, or \$30,500,000. To this should be added 90,000 contos (\$4,500,000) inventories and working capital. In this cost are not included import duties on equipment, the improvements in transportation, nor housing (it is understood

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understood that a Government housing project is under consideration near the area of the proposed plant). The cost does, however, include engineering and construction fees.

All materials not purchased in Brazil would be bought in the United States. The freight on imported equipment is estimated on a base rate of \$6.00 per metric ton on the hypothesis that the Government's shipping service recommended is inaugurated. Adding other shipment costs, the Commission estimates that the 70,000 metric tons of American equipment can be delivered at the site for \$15.80 per ton. Although it is contemplated that eventually thirty or forty per cent of the coke will be made from domestic coal, the preliminary cost estimates are based on an importation of all coal requirements. All costs are predicated upon an output of 285,000 metric tons of finished steel products per annum, divided as follows:

	<u>Metric tons</u>
Open hearth rails and tie plates	100,000
Structurals	25,000
Rounds and flats	60,000
Sheered plates	20,000
Black sheets, jobbing mill	8,000
Black sheets, sheet mills	12,000
Galvanized sheets	10,000
Total	50,000
Tin Plate	<u>50,000</u>
Total	285,000

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The estimated earnings on the capitalization and production rate above is 15.1 per cent, provided 50,000 tons of foundry coke and 50,000 tons of foundry pig are marketed annually. Prices for steel are figured at 13.5 per cent below average prices in 1936 - 1938.

Gross sales (50,000 tons coke, 50,000 tons pig, 285,000 finished steel)	444,000	contos
Mill cost of said products . . .	<u>259,000</u>	"
Balance	185,000	"
Other expenses (excluding income tax)	<u>72,500</u>	"
	112,500	"
Income tax at six per cent	<u>6,500</u>	"
	106,000	"

Earnings are therefore estimated as follows:

Cost of plant and real estate. . .	610,000	"
Inventories	70,000	"
Working capital	<u>20,000</u>	"
Total	700,000	"

Annual return - 15.1 per cent.

The capital for plant site, raw materials, labor, et cetera, would be subscribed in Brazil, in common and preferred. The portion which the Commission hopes the Export-Import Bank will put up would be secured by a 6-10 year bond issue. The Export-Import contribution would be applied solely to financing purchase of American equipment. The Commission had counted on persuading the Steel

Corporation

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Corporation (provided the Brazilian Government met the conditions regarding transportation, management contract, mining laws, taxation, admittance of technical experts, transfer of profits and dividends, et cetera) to put up \$5,000,000 or more in voting common. During the period of the management contract, the Steel Corporation would have been expected to train promising young Brazilians for key positions.

RA: Walmsley: GBA

MEMORANDUM

February 28, 1940.

Conference: Re smokeless powder for the British.

Present: Secretary Morgenthau
Assistant Secretary Sullivan
Admiral Spear
Admiral Furlong

The Bureau of Ordnance has an order at the duPont Company 1,382,000 pounds of powder. About 850,000 pounds of this order has not yet been started. There is yet to be ordered for 1940 666,000 pounds. The Army has orders totaling 7,188,500 pounds of which they expect 5,695,400 pounds to be delivered before January 1, 1941. The duPont Company is a little ahead of schedule on both Army and Navy orders.

Although no specific request has yet been made by the British, apparently they want about 4,000,000 pounds in the next 4 months. Admiral Furlong expressed the opinion that in 4 months duPont could make between 2½ and 3 million pounds.

Admiral Spear said that he believed that the Army had just released duPont from its contract so that duPont would be able to deliver to either the Swedish or Finnish governments 1,000,000 pounds of smokeless powder and 5,000,000 pounds of TNT.

Admirals Spear and Furlong expressed the opinion that the Navy reserves were such that they could well afford to release duPont for 4 months, but I pointed out that the Navy requirements under pending contracts were so much less than those of the Army that nothing substantial could be accomplished unless the Army was likewise willing to release duPont from deliveries under their contract of a similar 4-month period. Because of the fact that duPont was ahead of schedule in its deliveries to the Army and the Navy and likewise because the Army and Navy had more than adequate reserves, Admirals Spear and Furlong believe that it would be safe to release duPont from the contracts for a 4-month period.

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It was suggested by Secretary Morgenthau that since the British had made no definite statement as to just what the requirements were that they should be asked to furnish such a statement and Admiral Spear suggested that he would get in touch with Mr. Ballantine of Mr. Purvis' office. Secretary Morgenthau requested him to have this made in such form that the Secretary, together with Secretary Edison, could present this matter to the President.

It was arranged that Admiral Spear should consult the Army regarding the situation and that the same group should meet at 3:30 p.m. tomorrow.

After the departure of Admiral Spear and Admiral Furlong Secretary Morgenthau and Mr. Sullivan discussed the advisability of having the request of Mr. Purvis addressed to duPont, which in turn would request the Army and Navy for a release from the contract deliveries for a stated period. Secretary Morgenthau called Mr. Purvis who advised the Secretary he would be very happy to make this request of duPont and felt that duPont would be willing to make the desired inquiry of the Army and the Navy. Mr. Purvis advised the Secretary that this had not already been done because, having procured samples of this powder in the course of negotiations on a future contract, the British had been anxious to test the technical qualities of the powder before enlarging the scope of the present negotiations. These tests have just been completed in the ordnance arsenals in Canada and the powder has been determined to be satisfactory.

IN REPLY ADDRESS
BUREAU OF ORDNANCE, NAVY DEPARTMENT
AND REFER TO NO.

NAVY DEPARTMENT
BUREAU OF ORDNANCE

WASHINGTON, D. C.

28 February 1940

(AB)

SUBJECT: Smokeless Powder for British.

1. The Bureau of Ordnance has on order at the duPont Company 1,382,000 pounds of powder. About 850,000 pounds of this order has not yet been started. There is yet to be ordered for 1940 - 666,000 pounds.

2. The duPont Company's total capacity is about 9,000,000 pounds per year (3 shifts 6 days per week plus 1 shift Sunday). The Army has orders totaling 7,188,500 pounds of which they expect 5,695,400 pounds to be delivered before 1 January 1941. The duPont Company is a little ahead of schedule on both Army and Navy orders.

3. The British state that they have lost recently through an explosion at Waltham-Abbey, a capacity of 2,000 tons (4,000,000 pounds) during the next four months and ask us to give them some of our capacity at duPont's.

4. DuPont's capacity in 4 months could make up between 2,500,000 and 3,000,000 pounds for the British, a part of which being air-dried could not be finally delivered for 3 months more.

5. The Bureau of Ordnance can safely delay and is willing to delay all deliveries to the Navy for 4 months. If the Army will delay all deliveries to the Army for the same period, about 3,000,000 pounds could be delivered to the British.

W. R. FURLONG,
Chief of Bureau.

WES

February 28, 1940
11:42 a.m.

Arthur
Purvis:

Hello.

WJr:

Purvis.....

P:

Good morning, Mr. Secretary.

WJr:

Morgenthau talking. Purvis, it doesn't seem as though I can keep out of your troubles.

P:

It doesn't seem.....

WJr:

I don't seem to be able to keep out of your troubles.

P:

Oh -- oh, I see.

WJr:

And I.....

P:

As a matter of fact, I've been very grateful to you for keeping in them.

WJr:

I've just been talking about powder and I was talking yesterday -- Mr. Edison called me up about your request on powder.

P:

Yes.

WJr:

As I understand it, what you want is to get some of the powder which Dupont is making for the Army and Navy.

P:

Well, we would -- we would like either one of two things: Either to get something which I understand has both legal complications and of course there is always the question as to whether the grade and size of powder would fit the chambers of our guns.

WJr:

Yes.

P:

Or number two, to be allowed to utilize a part of Dupont's production just for these few months. This being, as I said to you the day before yesterday, my -- another weapon in our hand so that Hercules can't completely force us. You see?

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HMJr: I see.

P: That's really -- the explosion at Waltham-Abbey was the original cause of the cable that I got saying that they are short two thousand tons over the next four months of nitro-cellulose powder and asking me whether I could take this up. I didn't like to take it up until we had actually obtained samples of powder from Dupont, which we were able to do anyway in connection with a contract which we have tentatively been discussing with them, and we shipped those up to Quebec and had them tried at the Arsenal there in the guns in order to make sure, technically, that we were all right.

HMJr: Yes.

P: And it was when I got the results of those tests that I mentioned that matter to you and then went to see Admiral Spear at Captain Collins' suggestion. I told him that it was breaking about that time, just the day he left, and he said to go and see Admiral Spear. I saw him and I then saw Admiral -- oh, the Ordnance.....

HMJr: Furlong.

P: Yes, Furlong -- yes.

HMJr: Well, let me ask you this: Have you asked Dupont?

P: No, no. We hadn't -- all we've done with Dupont is to obtain from them technical details of the powder which we would be likely to want from them in connection with our contract. You see?

HMJr: Yes.

P: We have -- we have done nothing -- we have had nobody in touch with them except our purely technical man.

HMJr: I see, but you haven't asked them whether they'd be willing to release this -- I mean.....

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- P: Not as far as I know. I -- now it's just possible that somebody in the organization might have said to them, "Is this all right from your view?" It may be the technical fellow might have said that in getting the powders. I'd have to check on that, Mr. Secretary, before I could be authoritative ^{on} it.
- HMJr: Well, Nobody -- nobody told me, but I'm just trying to find out what is the status of the negotiations, you see.
- P: Well, the status so far as we're concerned at this end, and though I'd be happy to check it right through to the hilt, of course, is merely this: That we told our technical people, that's Mr. it's no good going through the United States Government asking them a general question. It's unfair to them. You've got first to find out whether your technical -- whether you've got enough technical information here to act if they say yes to a request that we might make to them.
- HMJr: Well.....
- P: And that's how it came about that the powder samples were obtained and sent to Quebec for trial purposes in the guns there.
- HMJr: Well.....
- P: We're getting the same thing, as a matter of fact -- a similar sample, I understand, from Hercules, but it took a little longer to get.
- HMJr: Well.....
- P: But it has been conducted purely on the technical side.
- HMJr: Well, I've just been talking with Admiral Spear and Admiral Furlong.....
- P: Yes.
- HMJr:and I just wanted to ask this: When it gets down to -- and they're going to call your man here

- 4 -

in Washington because there seems to be a difference of opinion just what you do want, as to quantity.....

P: Oh, I see.

WJr:and Admiral Spear is going to call up your man here in Washington to find out.

P: Yes. Well, as a matter of fact, on the quantity question I don't -- I didn't know enough of -- you see we know nothing about the -- what Dupont is making for you.

WJr: Yes.

P: The only quantity that has been mentioned to us from the other side which we would like to fill all or any part thereof, depending upon -- depending upon the possibilities from your end -- is that they are definitely short two thousand pounds of M.C. powder over the next four months.

WJr: Well, let me ask you this: If we felt that we could wait four months.....

P: Yes.

WJr:and there wouldn't be any difficulty about your initiating it by asking Dupont.

P: Oh, no difficulty at all if that was the way that you -- you wanted us to do it. Absolutely not.

WJr: Well, I mean, for you to ask Dupont to take it up with the Army and Navy.

P: Exactly. We would simply make an official contact with them then and say, "Can you -- can you do this?" And if they would say to us, "Well, we'd have to go....."

WJr: Right.

P: ".....to the Government." We'd say, "Well, would you please do that."

WJr: Yes.

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- P: Yes. Oh, I would -- I would be perfectly sure that I could do that because I'd just get in touch with or somebody like that on that.
- WJr: I see. And what would -- supposing that the Army and Navy could find that they could wait for four months.
- P: Yes.
- WJr: Would you go ahead then with your negotiations just the same with Dupont and with Hercules?
- P: Oh, yes. I think -- absolutely. Because this -- this, as I regard it, is merely a method of getting something -- you see, our plans, Mr. Secretary, are: First, to try and buy this special lot of rifle powder from Hercules, which is of the order of three thousand six hundred tons over the next year. That is item number one.
- WJr: Yes.
- P: The next item is that we are negotiating with them, with Hercules, for a new plant.....
- WJr: Yes.
- P:to build fifteen thousand four hundred tons over a year, and we also have a further inquiry, which we have an initial quotation we've had from Dupont for some time, for a further approximately fifteen thousand tons per year, but we're not sure whether we can get it done at anything like a reasonable price and we've also made inquiries for that in regard to Canada -- possibilities in Canada of building a plant.
- WJr: Well.....
- P: Though they are not as familiar in Canada with nitro-cellulose powder as they are down here. They are more familiar with the British powder, cordite, for which they are already building a plant.

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WJr: Well, this makes it a little bit clearer and Admiral Spear is going to contact your man today.....

P: Yes.

WJr:in Washington for more details.

P: Thank you very much, indeed.

WJr: Righto.

P: By the way, Mr. Secretary, one other thing. I read with a great deal of care -- I don't know whether you have noticed that the Herald Tribune has made another somewhat queer statement.

WJr: Yes, I did.

P: Where -- I've asked for Louis Beale to just sit on that and find out what is happening because it -- it's very obscure to me and as they have now quoted British and French agents, I feel that when they get to that stage we have a right to be a little more inquiring in what they -- as to how it comes about than when they just do it without stating any source.

WJr: Well, I'm satisfied that the articles are being written by the Aviation Editor of the Tribune.

P: Oh.

WJr: I -- I'm quite sure of that.

P: Well now, we -- I couldn't -- I tried the other day to trace that thought that you mentioned and I could find no sign at all of it and actually when I had read the article again I found that the references to the taxes were nothing to do with capital expansion -- they were all on the income tax end.

WJr: Well, this man, I'm told, the Aviation Editor, got his story by calling up from Washington.....

P: Yes.

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HMJr: -- I mean, calling up from New York to Washington, and interviewed certain people over the telephone.

P: Oh.

HMJr: And then wrote his story in New York but dated it Washington.

P: Oh-ho!

HMJr: But the man who is writing those articles, I am convinced, is the Aviation Editor of the New York Tribune.

P: Thank you very much.

HMJr: So if.....

P: That gives us a line.

HMJr: So I think if you could have your man contact this person, possibly you could get somewhere.

P: Thank you very much indeed. That gives us a better line because he was coming down to Washington thinking he had to do his work down there.

HMJr: No, it -- the Aviation Editor sits in New York.

P: Thank you very much indeed.

HMJr: Maybe that will help you.

P: I think that will. By the way, I hear the GEORGE WASHINGTON is slated not to come in until Monday.

HMJr: Oh, so?

P: However, I'll keep you posted on any authentic news.

HMJr: Were they detained somewhere along the line?

P: I -- I suppose they've been delayed somewhere, but that was the information that was just given to me about half an hour ago.

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HMJr: Oh, I see.

P: I'll keep you posted.

HMJr: Thank you.

P: Right, Mr. Secretary. Goodbye.

February 28, 1940
4:22 p.m.

Operator: Mr. Irey.

HWJr: Hello.

Elmer
Irey: Yes, Mr. Secretary.

HWJr: Elmer.....

I: Yes, sir.

HWJr:Sullivan called me about his conversation at lunch with Warner -- is that his name?

I: Fowler --Fowler Harper, yes, sir.

HWJr: Yes. Now, what has Sullivan been telling you this afternoon?

I: Sullivan called me and says -- very excited like he says, "Elmer, do you want Bowman Elder to talk?" I said, "Of course we want him to talk." He said, "Well, he'll come in and talk -- come down here and talk." I said, "Well, we don't want him to come down here and talk. We want him to go to Jim Sullivan, the agent who is conducting the investigation; I don't know what to ask him." And he says, "He's ready to talk. It looks like -- it looks like they want to tell everything." Well, I said, "That's fine."

That was just about the gist of our conversation.

HWJr: Well, he was very excited in talking to me.

I: Yeah.

HWJr: And I made an appointment for you and Guy Helvering and Sullivan to see me at three tomorrow.

I: Yes, sir.

HWJr: And I told him not to communicate with Harper between now and three o'clock.

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I: Very good. And.....

HMJr: I mean, either the case is being handled by you or it isn't.

I: Yes, sir. Well now.....

HMJr: And as I told him, we don't want another Louisiana case on my hands.

I: Yeah, that's right.

HMJr: I mean, somebody say, "Well, you settled it." And so forth and so on.

I: Yeah.

HMJr: So -- I just think Sullivan is -- he's letting his ambition run away with him.

I: Yes, I see.

HMJr: He's terribly anxious to be helpful.

I: Yeah.

HMJr: But don't you think we'd better sit on the lid until.....

I: I -- there's no question in the world that they know who to talk to. Jim Sullivan has tried to talk to Bowman Elder a half a dozen times. He knows who to go and talk to if he wants to talk.

HMJr: Well, it's all tight now until three. You see, I refused to see Harper.

I: Fowler Harper, yeah.

HMJr: Did you know that?

I: No, I didn't know that he had wanted to see you. I knew that.....

HMJr: He came up this morning. When he came in, could he see me and I had -- called him up and said no, that I didn't think that this was the time for me to see him.

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I: Well now, that kind of an attitude is also forcing him to the wall.

HMJr: You see, that I didn't want to see him at this time.

I: Yes.

HMJr: Well then, right after that they get all excited.

I: Yeah. Well, that's perfectly fine.

HMJr: The thing is tight.

I: Yeah.

HMJr: Sullivan will do just what I tell him to.

I: Good. I sent you in a memorandum just a few minutes ago.

HMJr: I got it.

I: That's fine.

HMJr: Right.

I: All right, sir.

HMJr: Thank you.

I: Goodbye.

February 28, 1940

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during February 1940.

RB

Attachment

Monthly report on projects in the Division of Tax Research,
February, 1940

1. War and excess-profits taxes

A study of the problems of war-profits taxation has been initiated. In this connection a history of war-profits taxation in the United States and foreign countries and an analysis and summary of the structure and technical details of the several excess-profits tax laws hitherto employed or proposed are in preparation. An analysis of the Connally war taxation bill has been prepared. (Mr. Ecker-Racz and Mr. Copeland)*

2. Chain store taxation

A report is in preparation describing and analyzing the Patman chain store tax bill, summarizing the reasons for and against such legislation, the present status of State chain store tax legislation, and the tax burden that would be imposed if the Patman bill were enacted. (Mr. Ecker-Racz, Mr. Fariolatti, Miss Wells and Mr. Mannen)

*Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

3. Inventory of tax proposals

- (a) An inventory of proposals designed to produce additional revenue, which have been considered by the Treasury from time to time, has been prepared. This contains the revenue estimates so far as available, a brief appraisal and references to research memoranda that are available in the files. A preliminary draft has been completed and is now being edited. (Mr. Shere, Mr. Gordon, Mr. Zorach and Mr. Mills)
- (b) There is in preparation a similar compilation of Treasury tax proposals other than those designed to produce revenue. (Mr. Shere, Mr. Gordon and Mr. Zorach)

4. State and local finance

A tabulation has been prepared analyzing Federal grants-in-aid to States. This tabulation shows the basis of allocation of grant-in-aid funds among the States, the amounts granted to each of the States in fiscal year 1939, and the annual appropriation authorized under each type of Federal grant-in-aid. It is planned to publish this tabulation in the Treasury Bulletin. (Mr. Ecker-Racz, Miss Wells and Mr. Mannen)

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5. Cosmetics tax

Pursuant to the request of the Subcommittee on Taxation of the Committee on Ways and Means, a study of the cosmetics tax has been completed. (Mr. Blough, Mr. Shere, Mr. Farioletti and Mr. Campbell)

6. Incentive taxation

An incentive tax proposal suggested by Mr. Stam consisting of a plan to reduce the income tax rates of taxpayers under certain investment conditions and designed to increase the flow of expenditures for new or productive enterprises has been analyzed. (Mr. Farioletti)

7. Tax chronology, 1919-27

A chronology of Federal tax rates covering the period 1919-27 is in preparation. (Charts covering the years 1913-18 and 1928-39 were previously prepared.) (Mr. Atlas)

8. Articles

The Division prepared the following articles during the month:

- (a) "Types of Dividends Paid by Corporations, 1936 and 1937," for the Treasury Bulletin for February 1940. (Mr. Shere and Mr. Atlas)

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(b) "Averaging and Loss Carry-over in Income Taxation," for the Accounting Forum, New York. (Mr. Blough and Mr. Atlas)

(c) "Income taxation - 1939," for the National Encyclopedia 1939 Year Book. (Mr. Ecker-Racz)

9. Income and estate taxes

Reports on the following subjects relating to Federal income and estate taxes are in various stages of preparation:

- (a) The problems of special defense taxes with particular reference to the technical problems involved in the suggestion that a flat percentage increase in the present income and other taxes be imposed. (Mr. Shere and Mr. Mills)
- (b) Personal exemptions, credits for dependents, and the earned income credit. (Mr. Atlas)
- (c) Capital gain and loss statistics and proposals for changing the holding periods for long-term capital gains and losses. (Miss Coyle)
- (d) Distribution of tax-exempt securities by net income brackets with particular reference to holdings of such securities by persons in high income brackets. (Miss Coyle)

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- (e) Proposal to allow corporations with 5 or less shareholders to be treated for tax purposes as partnerships. (Mr. Mills)
- (f) Assets and income of corporations exempt from the Federal income tax under Section 101. (Miss Coyle)
- (g) The problem of illiquidity of estates and possible solutions under the estate tax. (Mr. Mills)
- (h) Powers of appointment and remainders under the estate tax. (Mr. Mills)

10. Reviews of publications, etc.

The Division reviewed:

- (a) Page proof of Statistics of Income for 1937, Part 1.
 - (b) Section of Statistics of Income for 1937, Part 2, entitled "Historical Summaries."
 - (c) Press release on "Individual income tax returns and taxable fiduciary income tax returns for 1938, filed through June 30, 1939."
 - (d) Page proof of the extract on "Tax Exempt Securities, June 30, 1939."
 - (e) Table forms to be used for estate tax returns filed during the calendar year 1939.
 - (f) Regular reports received from the Bureau of Internal Revenue.
 - (g) Tables on corporation income taxes for publication in Tax Systems of the World.
- (Mr. Shere, Miss Hughes, Miss Wells, Mr. Campbell and Mr. Mills)

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11. TNEC studies

Pursuant to our agreement with Mr. Willard Thorp of the Department of Commerce, the Division reviewed the chapter "Federal taxation of corporate profits," prepared by Mr. G. J. Hynning, in connection with the TNEC study on corporation taxes. (Mr. Shere)

12. Statistics

In connection with its supervision of the technical work of the Bureau of Internal Revenue, several proposals for special statistical tabulations from income and estate tax returns have been examined. (Mr. Blough, Mr. Shere and Mr. Campbell)

13. Income Tax Study (WPA)

The study of income tax returns carried on at Philadelphia with WPA funds since October 1938 is continuing. (Mr. Blough and Mr. Shere)

14. Correspondence

The Division handled correspondence pertaining to tax problems. (Staff members)

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 28, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

After consultation with Assistant Secretary Gaston, I telephoned Mr. Green in the Department of State at 12 o'clock today to let him know that we had a report from Naval Intelligence to the effect that there were 1200 barrels of molybdenum at San Pedro, California on February 5, which, it was expected, would be shipped by the Amtorg Corporation on the Russian steamship Vladimir Mayakowski, due in San Pedro on February 6.

I reminded Mr. Green that on February 7 I had confronted Mr. Thorpe of the Climax Molybdenum Company in New York with information to the effect that 786 barrels of molybdenum concentrates, each weighing approximately 625 pounds, were at the Port of Los Angeles awaiting shipment to Russia on the above named vessel. Mr. Thorpe promptly stated that this was molybdenum which his company had shipped from its mines in Colorado and had received payment for before the moral embargo was imposed.

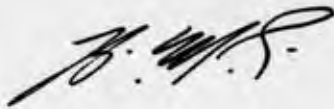
I told Mr. Green that we had no information to account for the discrepancy between 786 barrels and 1200 barrels. I added that from my conversation with Mr. Thorpe, above referred to, there is no recollection that Mr. Thorpe led me to believe that his shipment was limited to 786 barrels. I simply mentioned this figure to him and he confirmed that it was Climax Molybdenum. Mr. Green stated that his assistant who follows molybdenum questions, Mr. Yost, was absent, but that the latter would call me back when it was ascertained whether State Department records revealed any information on this point. I reminded Mr. Green that when I had talked with Mr. Thorpe before, the latter had told me that a similar inquiry had been made of his company by Mr. Janssen, representing the Department of State.

February 29, 1940

Not having heard from Mr. Yost, I called him at 11 o'clock this morning. I let him know that the Treasury had information that 100 tons of molybdenum concentrates had been shipped on the S.S. Norbyrn, which is due to depart today from New York for Vladivostok. I reminded Mr. Yost that Mr. Gross of Whipple and Choate Company had, according to the information given me by Mr. Green, stated that 80 tons of molybdenum had been sold by him to the Amtorg, so there was either an understatement by Gross, or some new shipment was involved. Yost informed me then that Gross had come down to Washington to see Green after their conversation and had admitted that the shipment which he was making to Russia was around 80 or 90 tons. He denied again any knowledge whatever of the moral embargo.

With reference to the 1200 barrels of molybdenum at San Pedro, I told Mr. Yost that our Customs people would look into the matter and find out whether there may still remain in the warehouse at that port between 3 and 400 barrels of

molybdenum, as the State Department has no exact information on this point. Mr. Yost stated that the Climax people had a contract made last November for the sale of 3614 barrels of molybdenum to Russia, most of which went on the S.S. Olympia December 2. According to the Department of Commerce, the export declaration for the Climax shipment on the Vladmir Mayakoski, sailing the first half of February, covered 425,000 pounds of molybdenum. This would be less than 786 barrels at 625 pounds per barrel. I have, therefore, asked Commander Thompson to have an inquiry made at Los Angeles to see whether there is still some molybdenum remaining unshipped out of the original lot of 1200 barrels. Mr. Yost is having the Climax export declaration rechecked.

A handwritten signature in dark ink, appearing to be 'B. W. R.', is centered on the page. The signature is written in a cursive, somewhat stylized script.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 74

DATE: February 28, 1940

I have just been informed by Boucas that someone has just told him that New York press despatches which were received here this evening contain the information that the offer of the Brazilian Government for the resumption of payments on its foreign debt has been rejected by the Foreign Bondholders Protective Council.

I assume that this information is incorrect because I feel sure that it would be understood by the Council that possible negotiations of theirs in years to come would be seriously prejudiced if they were to give publicity to any action or decision taken by them in regard to this matter before their decision had been received or considered by the Brazilian Government. Needless to say, such publicity at this stage would be greatly resented by the Government of Brazil. It was added by Boucas that at least for a few days the censor will not allow the despatch mentioned above to be published here.

CAFFERY

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 44

DATE: February 28, 1940

Reference is made to your no. 72 of February 25,
8 p.m.

As is indicated by your recital, the Department has changed its attitude to some extent since it attempted to secure a distribution which would be based on the distribution provided in the last year of the Aranha plan rather than that provided in the first year of that plan. The degree of advantage which Grades I and II would receive, as set forth in the figures contained in the Department's telegram no. 36 of February 21, had not been fully appreciated by the Department; these figures would weigh heavily with the Foreign Bondholders Protective Council and also in any presentation which might be made to an informed public. The Department's present position has been influenced by these figures of effective preference for British bondholders and by the prospect of a clearing agreement with Great Britain. We are not requesting that a larger total payment be made to United States bondholders but we are asking that a rearrangement be made of the allocations for interest and amortization for Grades I, II and

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and III which will permit better and non-discriminatory treatment for Grade III loans.

Reference is made to your telegram no. 71 of February 24. In view of the opinion frequently expressed ~~opinion~~ that available funds should be devoted to interest payments instead of to the purchase of bonds at depreciated prices, the Council and commentators here would not regard favorably a commitment to amortize dollar bonds by expenditures in a specified amount in addition to the expenditures which are promised in the official proposal. Of course it is understood by the Department that a statement may be included in the official offer to the effect that the right to apply additional funds to the purchase of bonds is retained by the Government of Brazil, as was done in the Aranha plan of 1934. The interest rates offered will determine whether or not the proposal will receive favorable judgment in the United States.

Do you have any report on the conversation which Aranha had at Petropolis with the President?

HULL
(AAB)

EA:EB

Balances and Earmarked Gold Held for Foreign Account
in the United States

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February 28, 1940

(In millions of dollars)

	Gold held under earmark	Foreign short-term banking funds			Grand total
		Central bank funds		Private funds	
		With New York Reserve Bank	With other banks		
<u>Europe</u>					
United Kingdom	-	65.6	-	285.1	350.6
France	188.8	26.9	-	255.9	471.5
Belgium	170.2	1.1	-	174.5	345.8
Denmark	22.0	3.1	.8	22.9	48.8
Finland	11.8	13.2	3.3	7.1	35.4
Germany	-	.3	.6	7.2	8.2
Italy	-	-	4.1	38.4	42.5
Netherlands	355.6	3.1	8.1	185.3	552.1
Norway	20.2	25.5	1.1	41.9	88.8
Sweden	3.5	59.8	33.9	64.7	161.9
Switzerland	149.9	93.3	15.7	298.3	557.2
Other Europe	25.5	11.0	25.5	96.9	159.0
Total Europe	947.6	303.0	93.1	1,478.3	2,821.9
<u>Canada</u>					
	-	55.3	-	192.2	247.6
<u>Latin America</u>					
Argentina	68.8	.5	3.2	62.8	135.3
Brazil	12.0	-	.5	29.2	41.7
Chile	.7	1.2	2.6	20.8	25.4
Cuba	-	-	-	37.9	37.9
Mexico	7.6	.2	3.3	55.4	66.5
Panama	-	-	-	36.6	36.6
Other Latin America	26.3	3.0	10.4	73.1	112.8
Total Latin America	115.4	5.0	20.0	315.8	456.1
<u>Asia</u>					
China	1.1	19.3	5.9	146.6	173.0
Hong Kong	-	-	-	65.0	65.0
Japan	-	-	-	48.3	48.3
Philippines	-	-	-	25.0	25.0
Other Asia	18.6	1.3	-	54.3	74.2
Total Asia	19.7	20.6	5.9	339.2	385.5
<u>All other</u>					
	-	2.4	.6	57.7	60.7
Grand total	1,082.6	386.3	119.6	2,383.2	3,971.7

NOTE:

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Photostat sent to Dr. White 2/29/40,
per Secretary's instructions, for his
information.



DEPARTMENT OF STATE
WASHINGTON

February 27, 1940

My dear Mr. Secretary:

As you have already been advised, the project for the Inter-American Bank was approved by the Inter-American Economic Advisory Committee and has been circulated among the twenty-one American governments for comment.

I take this occasion to express the thanks of the Department, as well as my own, for the cooperation which the Treasury and its staff extended in the matter. I am particularly grateful to Mr. White, who worked unceasingly, and who handled the final stage of the negotiations in the American Committee with entire success.

I am

Sincerely yours,

Adolf A. Berle, Jr.
Assistant Secretary

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

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 78

DATE: February 29, 1940.

Reference is made to the Department's telegram no. 44, February 28.

Dealing with Aranha with reference to the debt question is becoming more difficult. (The whole question should be settled before March 6 since President Vargas plans to go to Rio Grande do Sul on that date and will remain there for at least a month.) If the Government of Brazil is unable or unwilling to meet the terms advanced by the Foreign Bondholders Protective Council, does the Department have in mind dropping the matter until the war is over?

Aranha now states that he is willing to stand by the offer which he made on February 16 (my telegram no. 63 of February 16) which was an improvement since it would increase Grade III to 50 percent of the last year of the Aranha plan for the four years of the plan; in other words, he will accord similar interest treatment to Grade III bonds as is accorded to Grades I and II under the final year of the Aranha plan.

Reference

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Reference, telegram of February 24, No. 71, from the Embassy. As I tried to set out in this telegram, although Aranha and Costa were scheduled to discuss the debt with the President of Brazil that afternoon, they had decided that the present difficulties should not be placed before him because they believed if they did tell him about it he would say they were to drop the whole matter. Their report to the President was merely that they had nothing to report - negotiations were still going on. Aranha and Costa are willing, provided the Foreign Bondholders Protective Council can be persuaded by the Department not to make public adverse statement, to make the suggestion to the President and to the subsequent and necessary full Cabinet meeting, that the method for improving the Grade III bonds as set out in my previous telegram be followed. Aranha and Costa confidently think that the approval of the President and of the Cabinet can be secured for this plan.

END MESSAGE.

CAFFERY.

EA:EB/LWW

Trans to [unclear] 90
July 27th 1946

Notes on Latin American Project

There are more than \$1,000,000,000 face amount of defaulted Latin American bonds in the possession of small investors in the United States.

The existence of this large amount of defaulted obligations constitutes a serious obstacle to proper relations between the United States and the Latin American Republics. It is destructive of confidence. It is a red light to business men in this country who might contemplate financial ventures in Latin America. It is a serious source of irritation to Latin Americans in dealing with citizens of this country. It places our business men and the American representatives in Latin America at a serious disadvantage with others. These defaulted obligations constitute a deterrent to our foreign trade, to our foreign relations, to the good neighbor policy, and to any defense program in this country or in the Western Hemisphere.

It seems now all too apparent that the great bulk of this financing should never have been done. Most of the business was unwisely conceived. The capital obtained by the Latin Americans in many instances was unwisely used. Needs of new capital and the control over the expenditure of that new capital was not closely examined by the underwriting houses in this country.

The penalty of being wrong ten to twenty years ago is being visited now upon the small investors in this country who bought the bonds, upon the Latin American countries which are in default on their obligations, upon the United States as a whole, and, in fact, upon the entire Western Hemisphere.

While this situation has existed a number of years and the nature and magnitude of the problem has been recognized by many, there have not been advanced any workable plans to rectify the evil. No constructive suggestion has been made by the bondholders or their representatives, by the underwriters, by the Latin Americans or by this Government.

No one has attacked the job of tearing down this wall of defalcation which has been erected between the two continents of the Western Hemisphere.

The circumstances which caused the default in most instances of the Latin American obligations have been quite different from the circumstances which caused defaults of many European dollar bond issues. The Latin Americans did not possess the reserves nor the export balances with which to obtain the necessary dollar exchange which would make it possible to service their dollar bonds. They are honest, involuntary defaulters.

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The evil effects of the mistakes conceived years ago are now directly or indirectly visited upon a large proportion of the citizens of this country, and it is proper and desirable that this Government should initiate the effort to rectify the mistakes that have been made.

The people of the Latin American Republics would not be amenable to a plan which involved further obligations on their part. Gratuities under the disguise of financial obligations would only activate the evils that already exist.

The best solution would be one which ultimately disposes of the defaulted obligations which now exist, which inaugurates a policy of cooperation between the peoples of North America and South America and which will bring about a betterment in living standards for all.

Latin America needs our machines, our structural materials, and our engineering experience with which to build up their own plant capacities and facilities. We must provide a means for them to find the dollars and the credit with which to obtain these things.

This country needs new outlets for its capital goods and its consumer goods and for the enterprising business man or engineer which must be initiated by a properly secured investment field for its surplus capital.

The frontiers no longer exist in this country although a remarkably large percentage of the people of this country still possess the rare qualities and aptitude of the business pioneers. There still exists a large field for such aptitude in South America. If we can demonstrate to the Latin American that we are worthy of his confidence and cooperation, we can together make both the Americas much better places in which to live.

Supplementary Explanation of the Proposed Brazilian Debt Composition

Added to the face amount of \$350,000,000 defaulted obligations is the amount in arrears, approximating \$50,000,000. In the proposed composition, payment of such arrears or interest on such arrears has been waived. Such waiver is part of the consideration of settlement.

The average coupon of the total dollar debt of Brazil is approximately 7%, which requires annual interest payments of \$24,500,000 if serviced in full. The total external obligations of Brazil in sterling, francs, and dollars are a little more than three times the dollar external obligation. It is quite apparent that the Republic of Brazil is unable at the present time, and it is highly improbable that she will become able in the near future, to fulfill her obligations and service her total external obligations which, with interest and sinking funds, would amount to nearly \$100,000,000 a year. It is also quite beyond the range of probabilities that Brazil could meet any substantial portion of her foreign obligations at maturity dates. It has been estimated that under present conditions Brazil could comfortably pay the equivalent to \$12,000,000 a year as interest on foreign obligations, the dollar proportion of which would be approximately \$3,500,000 per year. \$3,500,000 is one-seventh of the \$24,500,000. If Brazil can find this amount for servicing her external obligations with reasonable prospects of being able to continue to pay such interest charges over a period of years, the dollar bondholders are entitled to receive such payments in dollars.

\$3,500,000 is one-seventh of the average coupon rate of the dollar bonds; it is also 1% of the face amount of such obligations. It is, therefore, proposed that as a primary consideration, the Brazilian Government agree to initiate interest payments at the rate of 1% per year on the face amount of dollar defaulted obligations.

While Brazil's capacity to pay interest at the present time amounts to only one-seventh of her contractual external obligations, it is hoped that improved conditions at the time of the various maturities of these obligations will enable Brazil to meet more than one-seventh of the principal at the various maturities.

What proportion of the total face value of \$350,000,000 could be paid or refunded five, ten, or twenty years from now, is impossible to forecast. It seems reasonable, however, that with some improvements in world trade and internal economy in Brazil, it could sustain and could meet maturities on approximately two-sevenths of her external debt which, in the case of the dollar bonds, amounts to \$100,000,000. It is therefore suggested that we set aside \$100,000,000 of the \$350,000,000, or two-sevenths of the total, as a continuing obligation and further propose that the bondholders shall accept interest payments at the rate of 3% a year (in lieu of 7%) or \$3,500,000 a year as satisfactory interest payments on this \$100,000,000 of obligations. There is some reason to hope that the Republic of Brazil will find the means to meet the obligations (at their various maturities) of \$100,000,000 either through payment of dollars or through refunding operations.

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This would then leave unsatisfied the principal amount of \$250,000,000 upon which there would be no way of finding interest charge service in dollars, and it is proposed to compose this sum of \$250,000,000 in the Brazilian-American Corporation set-up. If, as, and when such a Corporation is formed, it will offer in exchange its own debentures and half of its capital stock for the defaulted dollar bonds outstanding. In no event would 100% exchange be effected. Therefore, for the protection of all bondholders, payment of 1% per annum on the face amount of all the obligations is proposed. On those bonds which are turned into the Corporation in exchange for securities, payments would also be made so that the Corporation would have an annual income which would be a proportion of \$3,500,000 represented by the exchanged Brazilian bonds.

Initially very small amounts or no first mortgage bonds of the Corporation would be outstanding. Full interest requirements on the \$70,000,000 of income debentures would be \$3,500,000 a year, which could be paid over immediately to the income debenture holders less expenses and any small amount of interest due on first mortgage bonds that may be outstanding. It seems possible that interest payments at the rate of 4% could be initiated on the income debentures, leaving about \$700,000 a year for expenses and surplus. Therefore, the first year or so, anyway, those bondholders who exchanged their Brazilian bonds for securities of the Brazilian-American Corporation would receive 4/5ths of 1% on the face value of the Brazilian bonds instead of 5/5ths of 1% which would be received by bondholders who did not make the exchange. In addition, however, the bondholders who did make the exchange would be in possession of half the authorized common stock of this enterprise, and it seems to me that the advantages that may accrue by the addition of new capital and the potentialities represented by the common stock and the better probability of retiring the income debentures as compared to the chances of further default of the Brazilian Government even on the \$100,000,000 obligations, would induce a large percentage of the bondholders to make the exchange.

Two-sevenths of the total face amount of Brazilian bonds acquired by the Brazilian-American Corporation would be held to maturity and would be serviced at the rate of 3 1/2% per year by payments to the Corporation. The balance of five-sevenths, approximately \$250,000,000, would be held by the Corporation under the agreement with Brazil authorizing the Corporation to offer in exchange such bonds for milreis when, as, and if the directors of the Corporation determine to make commitments in Brazilian enterprises.

Under this plan, any interest charges on first mortgage bond subscriptions that were taken up by the Corporation would be met immediately, and there is no deferment required.

It is quite possible that substantial subscriptions by the United States government agency would not be called if the Corporation is able, in conjunction with American business enterprises, to obtain participation under arrangements whereby the Corporation will supply the necessary milreis capital and the American business corporations would subscribe dollar capital for capital goods requirements.

A PROPOSED BRAZILIAN DEBT COMPOSITION

The principal amount of Brazilian defaulted obligations total approximately \$350,000,000. It is proposed that interest payments be initiated on the face amount of all obligations at the rate of 1% per annum in dollars and that such payment shall be, in effect, a composition in full of \$100,000,000 face amount obligations, leaving approximately \$250,000,000 for composition under the plan of the following corporation.

BRAZILIAN-AMERICAN CORPORATION

CapitalizationFirst Mortgage Bonds:

Authorized \$50,000,000 - 3% - 20-year bonds.
 Subscribed for by United States Government agency.
 Subscriptions to be called in blocks of \$5,000,000 at any time by the action of the Board of Directors after the corporation has executed a satisfactory agreement with the Republic of Brazil.
 Priority over assets and earnings.
 Callable at 105 and interest.
 Sinking fund of 20% of the net earnings.

Income Debentures:

Authorized \$70,000,000 - 5% - 50-year.
 Offered in exchange (plus stock) in blocks of \$10,000,000 for \$350,000,000 Brazilian dollar obligations (in default) on basis of schedule (to be worked out for each issue on equitable exchange basis predicated on relative values).
 Interest to be paid in those years only after First Mortgage Bond interest has been earned three times.
 Callable at 120.
 Sinking fund of 20% of earnings.

Capital Stock:

Authorized 7,000,000 shares.

3,500,000 shares to be exchanged with the Income Debentures as a unit for the defaulted Brazilian bonds in the ratio of 5 shares with each \$100 face amount of debentures. Units to be listed on the New York Stock Exchange.

2,500,000 shares to be issued to the Brazilian Governments or designated agency in accordance with a proposed agreement authorizing corporation to exchange Brazilian bonds for milreis. In the unit of 100,000 shares plus \$10,000,000 face amount of Brazilian bonds for each \$10,000,000 of milreis called for. The Corporation may not use milreis so acquired for the purchase of foreign exchange but must be expended for labor, materials, or investments in Brazil. Brazil will also be given a long-time option on 1,000,000 shares for milreis.

Directors

Twelve directors pending retirement of new bonds and debentures shall be:

- Three from United States Government - one from each of three designated departments or agencies.
- Three designated by the Brazilian debtors.
- Three elected by income debenture holders.
- One Managing Director (American).
- One Sub-Managing Director (Brazilian).
- One Sub-Managing Director (American).

The figures used in the foregoing illustration would accomplish the refunding of the entire amount of Brazilian dollar bonds outstanding.

The dollars obtained through the sale of the First Mortgage Bonds are essential for the purchase of capital goods, materials and equipment in the United States when not obtainable in Brazil. The milreis will be used in Brazil for payrolls and raw materials with particular emphasis on raw materials of strategic importance to the United States. Such products for export will produce dollar exchange and in addition will serve as a basis for constructing revenue-producing facilities for transportation, processing and warehousing in aid of commerce.

The Republic of Brazil starts out with a fair assurance it can retire its external dollar debt. That for each dollar of debt thus retired there will be the equivalent in milreis spent within the country by the best management to be found in the world for the purpose of developing the resources of Brazil and for a profit in which Brazil would have a half interest.

The position of the American bondholders is improved immensely. Large profits should be in the wood. If earnings should be built up amounting to 10% of the capital employed (which is not of reason in a new country with so many natural and undeveloped resources) the bondholders should be possessed of equities amounting to four to five times the present market value of their defaulted bonds.

The United States Government Agency has bought a fair security and the collateral advantages of trade, defense, and good relations may offset any risks involved in the venture if properly administrated. Anyone can design a plan which is theoretically desirable, but to make it work successfully, it is essential to pick the men who are competent for the job. The American Managing Director and Sub-Director should be the best, most experienced individuals available in this country. This also applies in making the selection of the Brazilian Sub-Director. The Managing Director should be given full authority and responsibility by the Directors.

It will not be an easy matter to find profitable ventures in Brazil for a large principal amount in a short time. A wide variety of enterprises and investments would have to be included. Proper management of each would have to be assured and in the initial stages most enterprises would have to be staffed by Americans. Many engineers and other professional men would be taken from this country.

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There should be no pressure upon management to employ capital until they are satisfied it will be profitably employed. Insofar as practical, operations in partnership with established concerns should be given priority.

The activities of the corporation initially must necessarily be confined in a general way to investments and financing which will directly or indirectly produce dollar exchange and on the other hand investments which eventually will enable Brazil to eliminate foreign exchange requirements on certain products which are now being imported but which can economically be produced in Brazil.

It would, of course, be desirable to develop products for export which can be consumed in this market and which should be non-competitive or at least semi-non-competitive with our own products. Gold, diamonds, lead, manganese, chromite deposits should be carefully explored for possible development. Vegetable and fibre products, as well as nut oil, in the northern part of Brazil should also be carefully studied for larger development.

The Brazilian Government recently purchased about \$800,000.00 worth of oil well drill equipment, the justification of which is not known at this time. The Brazilian importation of oil amounts to approximately \$65,000 per day or say approximately \$24,000,000 per year, which requirement causes a huge drain on their foreign exchange position. If this exchange import requirement could be eliminated, even in part, through local oil production, the corporation in collaboration with our American companies, would be justified for example in making an investment in refineries. This is a type of investment which would require careful study as our American oil companies already have a large capital investment in Brazil and would naturally have to be fully protected by distribution rights.

Coal offers another possibility, as Brazil consumes approximately 3,000,000 tons of coal per annum - 1,500,000 tons are imported and approximately 1,500,000 tons of low grade coal are produced in Brazil. In a recent survey made by representatives of the United States Steel Company in connection with Brazilian iron ore deposits, it is believed high grade coal in large quantities has been located in Santa Catherina. If this information proves to be correct, an investment jointly with the Steel Corporation to produce coal might be negotiated. This same opportunity might also be offered in connection with the opening up of the iron ore mines and the construction of rolling mills. The necessity for further foreign exchange for their coal and steel requirements might thus be eliminated or reduced, and part of the equivalent of this exchange requirement could be allocated for remittance in dollars to the corporation.

The above examples of coal, oil, and steel are merely indicated to show the type of plant investment in Brazil in which the corporation may become active.

The war in Europe has brought into unpleasant relief the unsatisfactory status of business and cultural relations between this country and Latin America. If the business men of this country with the cooperation of the Government do not take advantage of increasing their volume of trade

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through term financing while the opportunity is presented, the nations of Europe through price differentials obtained by low cost production, subsidies, propaganda and aggressive exploitation, will at the termination of the war again reestablish their position. The initiation of long-range policies by this country at this time would be most opportune and will accomplish far more than can be accomplished after the close of the war in the face of severe European competition. Furthermore, establishment of European strongholds in South and Central America manifestly accentuates future defense problems.

The principal deterrent to a go-ahead program and one which requires immediate attention are the existing defaulted obligations. Only until a satisfactory solution of the debt problem is effected can full confidence be restored.

Suppose the enterprise is a failure either through government interference or because of poor management. In all likelihood a failure would not become obvious at the time of maximum commitment in First Mortgage Bonds. Say the United States government has lost 25 million in the enterprise. Would it be unreasonable to point out collateral defense advantages which may in part or in whole offset such a loss?

Consideration might be given to the idea of allowing the plan to emanate from Brazil. It would be a most opportune time for Brazil to reaffirm its indebtedness to the bondholders of the United States and offer to meet the debt situation by such a plan, as the best they can possibly do under present circumstances. Such an expression at this time might have most beneficial effects as far as our other Latin American neighbors who are in default are concerned.

The circumstances which caused the default in most instances of the Latin American obligations have been quite different from the circumstances which caused defaults of many European dollar bond issues. The Latin Americans did not possess the reserves nor the export balances with which to obtain the necessary dollar exchange which would make it possible to service their dollar bonds. They are honest, involuntary defaulters.

Latin America needs our machines, our structural materials, and our engineering experience with which to build up their own plant capacities and facilities. We must provide a means for them to find the dollars and the credit with which to obtain these things. This country needs new outlets for its capital goods and its consumer goods and for the enterprising business man or engineer which must be initiated by a properly secured investment field for its surplus capital.

The frontiers no longer exist in this country although a remarkably large percentage of the people of this country still possess the rare qualities and aptitude of the business pioneers. There still exists a large field for such aptitude in South America. If we can demonstrate to the Latin American that we are worthy of his confidence and cooperation, we can together make both the Americas much better places in which to live.

It has been intimated that the considerations which flow to the corporation for the half interest given to the Brazilian Government are not compensatory for this participation. Of course, this is a matter of negotiation between the Brazilian Government and the agency representing the United States Government and the United States bondholders' interest. In this connection it has been suggested that an attempt should be made to attain the following concessions from the Brazilian Government:

(1) Complete freedom from customs duties in Brazil on any United States material and equipment bought by the corporation in the United States and shipped to Brazil. The mining code of Brazil now permits this. It should, however, be reaffirmed and extended to enterprises other than mining.

(2) Freedom from increased internal Brazilian taxes of all kinds on any company or enterprise operating in Brazil under the auspices of the new Brazilian-American Corporation and in which the new Brazilian-American Corporation has a 50% or greater ownership, particularly during formative period.

(3) Freedom from taxes in Brazil on transfers of funds which the new Brazilian-American Corporation may desire to transfer from Brazil to the United States in connection with its operations or as a result of its operations.

(4) Agreement by the Brazilian Government that the new Brazilian-American Corporation shall have the right to form corporations or enterprises in Brazil under equally favorable conditions with persons or corporations of Brazilian nationality. This is now the case but should be reaffirmed.

(5) Reaffirmation of the freedom of the new Brazilian-American Corporation to manage any Brazilian corporation or enterprise formed by it under equally favorable conditions with such corporations or enterprises formed by and owned by Brazilian nationals; and in this connection freedom to introduce into Brazil American technicians, specialists, engineers, accountants, and other employees who, in the judgment of the Brazilian-American Corporation, may be necessary for the management and administration of such corporations or enterprises.

(6) A condition that the Brazilian Government will permit the transfer from year to year of % of the foreign exchange created or the foreign exchange saved as a result of the operations of the Brazilian-American Corporation.

(7) It is the aim of the Brazilian-American Corporation to have as large a participation as possible by Brazilian nationals both in management and ownership.

These conditions may seem in some respects strange but they conform with similar conditions which have been granted by the Brazilian Government to developmental enterprises in Brazil for many years past. They are necessary to avoid the strangulation of new enterprises which might be formed by the Brazilian-American Corporation.

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There has been a tendency for the last three years to place constantly increasing strictures in respect to the points mentioned above upon foreign owned or managed enterprises as compared with Brazilian owned enterprises, and there will no doubt be difficulty in getting the Brazilian Government to agree to these conditions. However, Brazil is a vast, undeveloped country and the introduction of the amount of new capital which has been planned in the Brazilian-American Corporation should be of tremendous benefit to Brazil and should create very large, additional, taxable wealth within the country through the activity of the Brazilian-American Corporation. It will create work and wealth for many Brazilians, all of which can be taxed in the usual course of things by the Brazilian Government.

The Brazilian-American Corporation itself, by consolidating and owning external debt of Brazil, will be a benefit to the credit of Brazil, and will thus assist Brazil to pay off its obligations over a period in milreis. This should be a tremendous advantage to the national economy of Brazil.

I have a feeling the risk may be commensurate with the potential gain. At any rate, the project should be carefully examined.

R. E. McConnell

January 22, 1940

United States Steel Corporation Committee's
Report on the Steel Industry in Brazil and
on the Feasibility of Building a Modern
Steel Plant in Conformity with the Wishes
of the Brazilian Government.

The United States Steel Corporation's Commission, which will be referred to as the Commission, includes in its report such background material which is common knowledge to officers of the Department. In the following memorandum an attempt has been made to incorporate only what appears to be new or little known information.

Market

The population of Brazil in 1938 is estimated at about 44,000,000. The rate of increase since the 1930 census is approximately 4 per cent per annum. The trade figures still record a considerable preponderance of raw materials and foodstuffs in the imports. The import and export trade with Brazil in 1938 was divided by countries as follows:

U. S.	supplied	25%	of imports	and took	34%	of exports
Germany	"	23%	"	"	20%	"
Argentina	"	15%	"	"	5%	"
Gr. Britain	"	12%	"	"	9%	"
France	"	4%	"	"	6%	"

Brasil's exchange and general well-being depend almost exclusively upon a favorable balance of payments. The international payments of Brasil since 1937 have been composed almost in their entirety of exports and imports, and current items. As a matter of fact, capital items have played practically no part since 1931. Its balance of trade depends, furthermore, upon two products, namely, coffee, which represented in 1938 forty-five per cent of exports, and cotton, which represented 18.2 per cent. Brasil's exports in 1938 were 35,800,000 gold pounds, and its imports 34,200,000. In the past six years its maximum surplus of exports was 10,828,000 gold pounds in 1936, and its minimum surplus, occurring in 1938, was 1,575,000 gold pounds.

The Commission's estimate of per capita steel consumption in representative countries is illuminating. It states that the United States consumes 850 pounds of finished steel per annum, Belgium 750 pounds, Germany and Great Britain 550 pounds each, France 320, Italy 135, and Brasil 20.

The present market for steel products in Brasil is roughly divided as follows:

Rails	17%
Structurals	5
Rounds and flats	16
Wire	17
Tin plate	14
Sheets and plates	15
Tubes	10
Others	6
Total	100%

The demand for rails, wire and tin plate could be greatly expanded with the lower prices which a native industry would bring about. Brazil's market for steel products, as it is for practically all other articles, is concentrated in Rio de Janeiro and Sao Paulo, viz:

Rio de Janeiro	consumes	25%	of the total consumption		
Sao Paulo	"	40%	" " " "	"	"
South Brazil	"	22.5%	" " " "	"	"
North Brazil	"	12.5%	" " " "	"	"

The Commission's report refers to the present method of doing business in steel products as a hand to mouth proposition and lays emphasis on the importance of developing a merchandising organization. A mere doubling of consumption to 40 pounds per capita per annum, which would be but 5 per cent of per capita steel consumption in the United States, would assure the success of any efficiently operated steel mill in Brazil.

The present rates of duty per metric ton on steel products are roughly as follows:

Rails	63¢
Rounds and flats	570¢
Wire (not barbed)	700¢
Tin plate	220¢
Sheets and plates	570¢
Tubes	690¢

Existing Steel Industry

A very small steel industry using charcoal as fuel already exists in Brazil. The only company of consequence is the Belgo-Mineira which owns plants at Houlevade and Sabara, Minas Gerais. It has an expansion program under contracts with the Federal Government.

The following figures demonstrate the growth of the steel industry in Brazil, such as it is, from just after the World War:

Brazilian Steel Production (M. tons)

	<u>Production</u>	<u>Imports</u>
1921 - 1924	8,000 (average)	271,000 (average)
1928	15,000	481,000 (peak)
1930	16,000	253,000
1938	65,000	274,000

The national production of finished steel products is roughly composed of rounds and flats, 75 per cent, and of wire, 25 per cent.

The principal iron and steel mills in Brazil are:

Burnier and Esperanca (Minas Geraes) owned by Queiros, Jr., Limited, has one blast furnace of 6,000-ton capacity in operation, and two blast furnaces of 15,000-ton total capacity, closed. The products are foundry iron and castings.

Gage (Minas Geraes) owned by the Sociedade Siderurgica, Limited, has one 15,000-ton blast furnace, closed.

At Bello Horizonte, owned by the Companhia Industrial de Ferro (of which the Belgo-Mineira is a large shareholder) is a blast furnace of 4,000-ton capacity for castings.

Norro Grande, owned by the Hime interests (British), has three blast furnaces of a capacity of 25,000 tons, making foundry iron and ingots, and two small Bessemer of a capacity of 5,000 tons of steel.

Neves (at Nitheroy, capital of the State of Rio de Janeiro). This plant, also owned by Hime, receives Norro Grande ingots and can produce 25,000 tons of steel in its two basic open-hearth furnaces. The output consists of structurals, rounds and flats, wire and steel castings.

Jose Brandao and Caete (Minas Gerais), owned by the French Companhia Ferro Brasileira. At the first are two blast furnaces with a capacity of 20,000 tons of iron making castings and pipe, and at the second is a 5,000-ton blast furnace which at present is closed.

Sabara and Ferro Grande (Minas Gerais), owned by the Companhia Siderurgica Belgo-Mineira (the capital seems to be principally Luxembourg, Belgian, Dutch, and Brazilian). It is this company in which the Brazilian Government, and particularly the Army, is interested. Now operating at Sabara are two blast furnaces of 30,000-ton capacity, and two basic open-hearth furnaces of the same capacity. The finishing capacity is 40,000 tons. At Monlevade there are two 50,000-ton total capacity blast furnaces, and two basic open-hearth furnaces which were being built at the time of the Commission's visit. The capacity of finished products here is also 40,000 tons. The Monlevade ingots were at the time of the visit being sent to Sabara.

The plans for the Belgo-Mineira, which of necessity must be influenced by any decisions regarding the Steel Corporation's plant, are at present as follows (most of this work it is understood is proceeding at this time):

For the Government, four new blast furnaces with a capacity of 100,000 tons, five open-hearth furnaces of 140,000 tons, finishing mills of 100,000 tons, and a small electric furnace for special steel for the Army arsenal. For the company, six blast furnaces of 150,000 tons, seven open-hearth furnaces of 200,000 tons, and finishing mills of 150,000 tons.

Raw Materials

Iron Ore

While it is true that in Brazil there is to be found one of the richest reserves of Bessemer ore in the world, namely, the one near Itabira, the accessible ores are those of a higher phosphorus content found in the area of Minas Gerais served by the Central of Brazil Railway around 450 to 600 kilometers from Rio de Janeiro.

It is estimated that 500,000 tons of ore per annum are available in this area for the steel plant at a cost, alongside of the railroad, of about 14\$ per ton. Production in the area of iron ore reached, in 1938, the peak of 558,238 tons, and generally one-third to one-half of the production is exported.

The total cost of delivery at Rio would probably be around 38 milreis per ton. It is calculated that the new mill would use a mixture of hard ore containing 66 per cent natural iron and .050 per cent phosphoric acid; high-grade canga or rubble with 58 per cent natural iron, and .150 phosphoric acid; and brown hematite and limonite containing 62 per cent iron and .100 per cent phosphorous. The Commission recommends that the company obtain deposits yielding about 300,000 tons and purchase the remainder of its requirements in the open market from independent producers.

Limestone and Dolomite

In the same general area with the iron ore is to be found metallurgical limestone. Present production is not more than 40,000 tons, but the 100,000 tons required by the steel mill could probably be found.

The Commission believes that a suitable supply of dolomite can be found near Belle Horizonte and Ouro Preto, Minas Geraes. The annual supply of dolomite required would be about 25,000 tons.

It is thought that the cost of delivery at Rio of the limestone and dolomite would be about 38 milreis per ton.

Coal

The Commission's investigation of the coal situation in Santa Catharina started with the original 1908 basic report of the Coal Commission headed by the West Virginian, Mr. J. C. White. The field is about 20 x 40 kilometers in extent and contains, roughly, 320,000,000 tons.

Up to the present the principal production of coal in Brasil has been in Rio Grande do Sul. For example, out of a total production in 1928 of 325,000 tons, Rio Grande do Sul furnished 316,000 and out of a total production in 1938 of 872,000 tons, that State furnished 729,000 tons. In the same period the Santa Catharina coal output rose from just under 9,000 tons to about 143,000 tons.

All Brazilian coal is very high in ash content and has a low fixed carbon content.

The Santa Catharina situation is politically dangerous. The present producing mines are controlled by the Lage interests which ship 80 per cent of the State's production through their own port at Ibituba over its own decrepit meter-gauge railway and its own coastwise vessels. The deposits in which the Commission was interested lie around 100 to 125 kilometers from the coast and the Commission recommends that the port of Laguna, 37 kilometers from Ibituba, be used in order that the supply may be independent of the whims of the politically powerful Lage family.

The price now asked in Rio for Santa Catharina coal of 120 milreis per ton is not competitive with imported duty-paid coal at 190 milreis.

The advantage of Santa Catharina over Rio Grande do Sul coal is that the former cokes more successfully than the latter. The

tests have so far, however, been confined to laboratories and foundry use. The Commission makes three main suggestions concerning the coal in Santa Catharina: (1) that the Brazilian Government request the loan from the United States Government of coal experts; (2) that analyses be made by mines and areas for both steam coal and coking coal; (3) that the selected varieties be tested in full-sized coke ovens and furnaces.

The Commission recommends the tests for steam coal with the thought that the Brazilian Government is desirous of reducing its present annual importation of 1,600,000 tons of foreign coal.

Chromite

The steel mill would require about 2,000 metric tons of chromite. It is to be found in fairly abundant deposits in the State of Bahia. The cost of delivery at Rio would be about 350 milreals per ton.

In connection with chromite, it is interesting to note that in the period January-June, 1939, 1,950 tons of average 49 per cent Cr_2O_3 ore was exported to Germany.

Manganese

Manganese ore has for many years been a regular though small item in Brazilian exports and its quotations are standardized. About 8,000 tons yearly of 45 per cent ore would be required. Manganese is plentiful in Minas Geraes and moves to Rio at a cost of between 24 to 32 milreals per ton, depending upon origin.

Transportation

The transportation problem in so far as a steel mill in Rio is concerned may be reduced to four sub-problems.

I. The broad gauge line of the Central of Brazil from Bello Horizonte through the mining area to Rio de Janeiro should be re-laid almost in its entirety. Rolling stock is needed in large quantities. The whole operation of the Central is lamentably inefficient. The proposed solutions are that (1) the Central be made completely autonomous of the Government, (2) the main line from Barra do Piraí, 109 kilometers from Rio whence the branch to Bello Horizonte leaves the main line between Rio and Sao Paulo, should be re-laid and modernized at a cost of approximately \$5,000,000, (3) the autonomous administration should acquire 10 locomotives and 300 hopper cars at a cost of about \$2,000,000.

The Commission would wish to obtain rates which, while giving a reasonable profit to the railway administration, would not merely contribute, through the efficient operation of this branch, to the reduction of the global deficit of the entire railway. It believes that with the expenditure of the above two sums the railway could carry ore and limestone to Rio at a good profit for 20 milreals per ton.

II. The Dona Theresia Christina railway between the Santa Catharina coal mines and the sea coast, while Government property, is operated by Lage. The Commission's recommendations are (1) that the railway be placed under the autonomous Central administration,

(2) that the line be relaid with 100-pound rails at a cost of \$1,500,000, (3) that the port of Laguna be developed by the Government at the cost of \$250,000, (4) that 150 hopper cars be acquired for \$600,000.

The movement of coal would be about 212,000 tons per year, and the Commission believes that a reasonable freight to ask would be 6¢ (it is now 9¢).

III. The coastwise facilities for transporting coal are entirely unsatisfactory. In the interest of the Central, the largest coal consumer in Brazil, the Commission recommends that the Central Railway acquire a 7,500-ton collier for about \$500,000.

IV. The ocean service for the importation of foreign coal with which the mill would start operating is inadequate, and the following is proposed.

(1) That a Government-owned line be organized independently of the inefficient Lloyd Brasileiro and the purchase made of five vessels for \$2,500,000. These vessels could begin transporting to Brazil the equipment for the steel plant and for the rehabilitation of the railways on which the steel plant would depend. They would also be used to import the 300,000 tons, more or less, of Lynch coal which would be required for the steel plant.

The Commission believes that the freight on the coal should be, from Baltimore to the plant, about 47¢ if there is no return cargo, but if, for example, these ships were given 100,000 tons of the export trade in manganese ore, the freight on the coal could be reduced to about 40¢.

The above recommendations would cost the Brazilian Government about \$12,550,000. These expenditures, the Commission feels strongly, are properly borne by the Government in view of their general benefits. While it is easy to understand in this country the reasons for the recommendations, it is also important to keep in mind the tremendous inertia which would first have to be overcome. The Commission was surprised, if not astonished, by the unanimity of the opinions of Brazilians of all interests with regard to the deplorable condition of overland transportation facilities and the need for rehabilitation. The Commission was, however, balked by this very unanimity in that most Brazilians envisage the rehabilitation as a project of such stupendous proportions that Brazil would be unable to afford it unless there were an immediate prospect of huge iron and manganese ore exports. The problem, therefore, is to convince the Brazilians that while such a far-reaching program is admirable, there is no use in dreaming unless a start is made, and this start should involve individual smaller projects whose urgency is outstandingly evident.

The Steel Plant

The Commission investigated the feasibility of various types of mills and discarded for reasons of geography and cost of raw materials such propositions as charcoal furnaces, Bessemer furnaces, and electric furnaces. The use of charcoal would place the mill in fuel timber land in the Rio Doce Valley hundreds of kilometers from the market. The construction of Bessemer furnaces would place the

will near the Itabira mines, distant from markets and coal sources, and would require at least \$10,000,000 to rebuild the Victoria-Minas Railway. To use electric furnaces, the mill would also have to be placed at a distance from its market in order to be near a source of adequate water power.

The proposed site is a 730-acre area within the Federal district about 50 kilometers southwest of the city and only 7 kilometers from the main line of the Central. There is a sufficient supply of fresh water nearby, and a satisfactory harbor in Sepatiba Bay in which it is believed a 30-foot channel could be easily dredged.

The plant would have at the outset an output of 285,000 tons of finished steel products. There would be 68 coke ovens using 60 per cent Lynch coal or 318,000 tons, and 40 per cent Santa Catharina coal, or 212,000 tons. In connection with the coke ovens, there would be a recovery plant for ammonium sulphate and light oils which would be sold in the market as by-products. By-product gas and tar would be utilized in the plant for fuel, mixed possibly with fuel oil. There would of course be adequate storage facilities for raw materials, and auxiliary equipment for movement of raw materials, hot metal, scrap, et cetera.

There would be two blast furnaces of 550-ton capacity which could be expanded, however, after rollings, to 750 tons. They would be skip-filled. The power house would include three cold blast blowers, three 10,000-kilowatt turbo generators, and four boilers. It is foreseen that ultimately a mutual exchange and standby reserve agreement would be reached with the local electric power company.

The open-hearth furnaces using tar, fuel oil and coke oven gas would be six in number with a load of 100 metric tons apiece. These, with re-lining, might be expanded to 125 metric tons. Serving these facilities would be a 1,000-ton hot metal mixer. To these fundamental elements will be added a blooming mill, a combination rail and structural mill, and the plate finishing sections. Added to these mills would be the plate, sheet and jobbing mills.

Cost

The Commission estimates the capital necessary for the plant at 180,600 contos, local currency, and \$21,470,000, American currency, the total being 610,000 contos, or \$30,500,000. To this should be added 90,000 contos (\$4,500,000) inventories and working capital. In this cost are not included import duties on equipment, the improvements in transportation, nor housing (it is understood that a Government housing project is under consideration near the area of the proposed plant). The cost does, however, include engineering and construction fees.

All materials not purchased in Brazil would be bought in the United States. The freight on imported equipment is estimated on a base rate of \$6.00 per metric ton on the hypothesis that the Government's shipping service recommended is inaugurated. Adding other shipment costs, the Commission estimates that the 70,000 metric tons of American equipment can be delivered at the site for \$15.80 per ton. Although it is contemplated that eventually thirty or forty per cent of the coals will be made from domestic coal, the preliminary cost estimates are based on an importation of all coal requirements.

All costs are predicated upon an output of 285,000 metric tons of finished steel products per annum, divided as follows:

	<u>Metric tons</u>
Open hearth rails and tie plates	100,000
Structurals	25,000
Rounds and flats	60,000
Sheared plates	20,000
Black sheets, jobbing mill	8,000
Black sheets, sheet mills	12,000
Galvanized sheets	10,000
Total	50,000
Tin plate	<u>50,000</u>
Total	285,000

The estimated earnings on the capitalization and production rate above is 15.1 per cent, provided 50,000 tons of foundry coke and 50,000 tons of foundry pig are marketed annually. Prices for steel are figured at 13.5 per cent below average prices in 1936 - 1938.

Gross sales (50,000 tons coke, 50,000 tons pig, 285,000 finished steel)	444,000	centos
Mill cost of said products	<u>259,000</u>	"
Balance	185,000	"
Other expenses (excluding income tax)	<u>72,500</u>	"
	112,500	"
Income tax at six per cent	<u>6,500</u>	"
	106,000	"

Earnings are therefore estimated as follows:

Cost of plant and real estate	610,000	centos
Inventories	70,000	"
Working capital	<u>20,000</u>	"
Total	700,000	"

Annual return - 15.1 per cent.

The capital for plant site, raw materials, labor, et cetera, would be subscribed in Brazil, in common and preferred. The portion which the Commission hopes the Export-Import Bank will put up would be secured by a 6-10 year bond issue. The Export-Import contribution would be applied solely to financing purchase of American equipment. The Commission had counted on persuading the Steel Corporation (provided the Brazilian Government met the conditions regarding transportation, management contract, mining laws, taxation, admittance of technical experts, transfer of profits and dividends, et cetera) to put up \$5,000,000 or more in voting common. During the period of the management contract, the Steel Corporation would have been expected to train promising young Brazilians for key positions.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Eu 865.5151/390

March 5, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a paraphrase of a telegram dated February 29, 1940 from the American Embassy at Rome concerning exchange transactions in Italy.

Enclosure:

Paraphrase of
telegram from Rome,
February 29, 1940.

PTC

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington
From: Rome
Dated: February 29, 1940
Rec'd: 4:50 p.m.
No. 141

The knowledge that in various special cases individual exchange transactions are being carried out with official approval at exchange rates fully as extreme as those previously reported in operations on the black Bourse is disturbing to financial confidence and demoralizing to the prestige of the Italian currency. The great spread between internal prices and import prices and the extreme scarcity of certain raw materials is back of the particular cases in mind.

To cite a case which is typical of the reported operations, a manufacturer of woolen textiles is given a special authorization to import wool which is drastically needed. The Government makes no commitment to supply the necessary foreign exchange but allows the manufacturer himself to find the exchange without being restricted to the legal rate. The manufacturer is willing to pay in lire a price which approaches the internal price for the material. An authorized bank acts as intermediary in carrying

carrying out the operations. The approval of such operations is restricted, it is understood, to cases involving the importation of certain materials. It has not been possible to obtain any official instructions which may have been issued with respect to the system nor the list of materials to which it is applicable. The information that rates such as those mentioned have been paid is gradually spreading and adds to a desire on the part of those possessing exchange for similar rates and increases the difficulty of supporting the official rates. The competent officials, however, are reported to have stated that the special rates will be permitted only for a very short time.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

89 11 MA 7 AM 09

TREASURY DEPARTMENT
RECEIVED

February 29, 1940

Mr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

**"AMERICAN EMBASSY PARIS. FOR MATTHEWS FROM THE SECRETARY OF THE
TREASURY.**

Reference your 270 February 28, 9 p.m.

Please convey through Couve de Murville my sincere thanks
to Minister of Finance Reynaud for his continuing courtesy and
cooperation in informing me in regard to French monetary and
financial plans."



HM:G:cmk

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: February 29, 1940, 5 p.m.

NO.: 144

FOR MATTHEWS FROM THE SECRETARY OF THE TREASURY.

I refer to telegram of February 28, No. 270, from the Embassy.

You are requested to convey to Reynaud, Minister of Finance, through Couve de Murville, my sincere thanks for his continuing courtesy and cooperation in keeping me informed as to the monetary and financial plans of the French Government.

HULL
(FL)

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

March 1, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses a paraphrase of strictly confidential telegram No. 144 of February 29, 1940 sent to the American Embassy, Paris, transmitting a message for Mr. Matthews.

February 29, 1940
9:15 a.m.

HMJr: Hello.

Robert
Jackson: Yes?

HMJr: Hello, Bob.

J: Good morning.

HMJr: Hello?

J: Yes, good morning. How are you, Henry?

HMJr: Fine, I saw a very good story about you in Look.

J: (Laughs)

HMJr: Have you seen it?

J: Yes, I saw that.

HMJr: I thought the picture of you and your wife on horse-
back was particularly nice.

J: It was a very old one.

HMJr: It was very nice anyway.

J: It was overlooking the lake. It was taken up home
years ago.

HMJr: Yeah, it was nice.

Bob, I know my people have been bringing to your
attention our investigation in Indiana.

J: Yes.

HMJr: I'm worried, maybe unjustifiably, about your man
Nolan, who is the United States District Attorney
out there.

J: Yes.

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WJr: And I'd like to make the suggestion that you bring him to Washington, if you could, early -- the first thing next week and have a talk with him. We'll bring our man down who is doing the investigating there, Sullivan. You see?

J: Um-hm.

WJr: And you might, if you thought well of it, have a conference in your office and get the thing first hand. The thing that bothers me, it seems that every move that's made here is reported immediately to the friend of McNutt.

J: Well, Nolan hasn't been in touch with them, has he?

WJr: Well, I don't know. Irey has got me kind of worried about the whole thing and then, this is before you came in, one of the Indiana Senators was working for Nolan for a Judgeship.

J: Yes.

WJr: And it -- you see, we're waiting on Nolan to go to the courts and make this fellow talk, you see? And we haven't -- I'm afraid he's stalling.

J: Well, that may be due -- Guy came over and talked to me sometime ago about it.

WJr: Yes.

J: And he -- he had the impression that I was going to get in touch with Nolan immediately and tell him to go to work. My thought was that I would hear from Guy when he was ready and I would then tell him.

WJr: Yeah.

J: And it may be that his delay has been due to my fault in that respect.

WJr: Well, our people don't think so. You know -- you know Elmer almost as well as I do.

J: Oh, yes.

- 3 -

HMJr: And could you see any harm in having Nolan down and having him -- give you -- bring you up-to-date?

J: No.

HMJr: And then, say if you were going to have him Monday I'd have our man Sullivan, who represents Irey out there, in town too.

J: Uh-huh.

HMJr: And just have a kind of a summary, you see?

J: Yes.

HMJr: And -- because either -- we -- we can't move now under Nolan brings Elder into court, you see? We're blocked. Now, I tried to do this between Christmas and New Years, that's how far back it goes, and -- to make the move to have Elder come into court. There's been one excuse after another. Now it may not be Nolan's fault.

J: Well, it might be right here.

HMJr: And I -- Bob, this -- there are so many people -- now yesterday Harper, the attorney for the Government organization of which McNutt is the head of -- I can't think of his name -- you know.

J: Yes, Fowler Harper.

HMJr: Well, he was over here trying to get in and he wanted to see me. He saw John Sullivan and I told him no. This was not the appropriate time to see me. Well then he got ahold of Sullivan again. He said, "Well, if you want to see Bowman Elder, we'll bring him to town - here." And we sent word back no, the person that Bowman Elder -- that we want him to talk to is our man Sullivan in Indiana. You see?

J: Uh-huh.

HMJr: And Irey has the feeling that between morning and afternoon yesterday everything was reported right back out there. You see? And you and I have

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been through things like this before and I just thought if you would take the time to nail it down on your end and then if we're at fault you tell us, or vice versa.

J: Well, I'll -- I'll have him come in and get it worked out.

HMJr: Well, if you're going to have him in, say Monday, I'll have our agent, Sullivan, in Monday too and available.

J: Well, there might be Grand Juries or something that would prevent him from coming in on Monday so we better.....

HMJr: Will you let me know?

J: I'll -- I'll check into it and let you know.

HMJr: But I'd feel much more comfortable, Bob, if you'd put a little time on it yourself.

J: Well, I'll try to do it.

HMJr: Because it really -- something isn't clicking.

J: Yeah. Well, we'll set it going.

HMJr: And it's important enough, I think, for both of us to give it a little time.

J: Yes. All right, Henry. Thanks for calling.

HMJr: Do you want a good laugh?

J: Yes.

HMJr: Jimmy Roosevelt comes in yesterday just to shake hands with me, see?

J: Um-hm.

HMJr: Nothing at all.

J: Nothing.

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HMJr: Nothing.

J: No more lip?

HMJr: No. And as he gets up he says, "Oh, by the way, Henry, does Joe Schenck stink?" Now, try to say that fast. I said, "What?" He said, "Does Joe Schenck stink?"

J: (Laughs)

HMJr: So I said, "Well, what do you mean, Jimmy?" "Well," he said, "I'm doing business with them and I don't want to do business with him if he stinks."

J: (Laughs again.)

HMJr: So I said, "Well, Jimmy, I've never met him." "Well, do you think I ought to do business with him?" So I said, "Well, time will tell, Jimmy. It's in the hands of the court and until the man is proven guilty he's innocent. So my advice to you is just to sit by -- back and wait."

Isn't that interesting?

J: Yes. (Laughingly.)

HMJr: What?

J: Yes.

HMJr: I thought you'd be amused by it.

J: That's good.

HMJr: It's taken -- took me a long while to say it quickly -- does Joe Schenck stink.

J: That's a good one.

HMJr: O. K. Well now, I'll hear from you on what day Nolan is going to be in.

J: Yes.

- 6 -

HMJr: And then I'll have Nolan -- then I'll have our --
Irey's agent here the same day.

J: Yes. All right.

HMJr: Thank you so much.

J: I'll let you know.

HMJr: Thank you.

J: Goodbye.

February 29, 1940
10:04 a.m.

HMJr: Hello.

Operator: All right. Go ahead.

HMJr: Hello.

Robert Doughton: Mr. Secretary?

HMJr: Hello, Bob.

D: When did you get back?

HMJr: Oh, a few days ago.

D: I hope you had a fine trip and a good rest and are feeling good.

HMJr: Yeah, I'm all fine and ready for a tax bill.

D: Ready for a tax bill? You've got so much money you wouldn't know what to do with it if you had it. You want to loan money, don't you?

HMJr: Well, not if you look at my deficit.

D: Is that so? Well, you're not thinking seriously about a new tax bill, are you?

HMJr: No, but I'm thinking.

D: If you are you know we'd have to get after it -- begin to consider it pretty soon. They are fixing to get away from here, and I understand the President has -- said he had no more legislation and wanted us out of here about the first of May.

HMJr: Uh-huh.

D: What about that?

HMJr: Well, I -- that's news to me. It would be good news.

D: Yeah. Of course, if we were going to consider any tax bill at all it would have to be -- or become

- 2 -

our duty to do it, why we ought to begin to -- to lay the preliminary foundations pretty soon.

HMJr: Well, he'll be back Sunday and all I was thinking about was what he said in his message.

D: Yeah. That's easy, of course now, but if we have to have a tax bill I've expressed my opinion about it that we all ought to get together before we ever start.

HMJr: I'm with you a hundred percent on that, Bob.

D: Yes. Well now then, what I called you about this time is: I don't know whether there has been anything brought to your attention or not, but it has been brought to my attention several times. That there is some trouble down here in this processing tax Board of Reviews.

HMJr: Yes.

D: About the -- among the -- disagreement among the members. There's a very serious disagreement down there. Do you know anything about it?

HMJr: Yes. It's about this fellow from North Carolina.

D: Yes.

HMJr: Hathcock.

D: Yeah, and then the Chairman of the Board, too.

HMJr: Yes. I mean -- I have heard about it and I suggested to Mr. Sullivan two -- yesterday or the day before that he go up and talk to you about it, but I'm available.

D: Talk to me about it?

HMJr: Yeah.

D: Well, I tell you what I'd like for him to do.

HMJr: Yeah.

- 3 -

D:

I'm looking into a lot of things that come to my attention about it and trying to get -- digest them and get down to the base of it. I think this from what I see: I think that both -- Hathcock probably -- he's a fine fellow and very capable and I think one of the most useful men you've got. But I think -- he may sometimes be a little too -- have too much temper, and I think the Board -- the Chairman of the Board -- is a very arbitrary Board. I think they are both doing wrong from what I've -- what light I've got on it so far.

In other words, the Board -- the Chairman of the Board is tentative. No man has ever been appointed on that Board in an election -- exposing him in the presence of the Board and giving him the devil right in the presence of the Board.

HWR:

Well, I don't know anything about that, but if Hathcock did what they said he did, and there is documentary evidence that he wrote twelve different taxpayers and telling them -- complaining to these taxpayers about action of the Board.....

E:

Yeah.

HWR:

..... -- if he did that, that's really inexcusable.

D:

Well, suppose this -- suppose the Chairman of the Board had acted on the case of the taxpayers and dismissed their appeal and signed it as by the Board when the Board had nothing to do with it -- did it all himself. Do you think then that the taxpayer would feel when the Board had done that, as a Board, that there was no use taking up an appeal, but if only one member had done it -- the others had no -- never considered it at all, that they might probably feel like they'd have a chance to take an appeal?

HWR:

Well.....

D:

As I understand, in these cases that the Chairman, without any action whatever of the Board, took the action and signed it as the action of the Board, when the Board had done nothing of the kind.

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HMJr: Well now, Bob.....

D: Yeah.

HMJr:this is something which I'd like to handle fair to everybody. See?

D: I know that. That's the reason I'm talking to you about it.

HMJr: Now.....

D: So do I.

HMJr:supposing we have a meeting on this thing, see? Will you be around -- say, Monday?

D: Yes, I'll be here Monday. I have a meeting of my Committee at ten thirty and then I'll have -- Monday afternoon I'll be free entirely.

HMJr: Well, is three o'clock a good time for you?

D: It will be fine for me. Anywhere, anyplace that you say.

HMJr: Well, supposing we say at a quarter of three -- three o'clock.

D: All right.

HMJr: And I'll have everything lined up at that time and I may have Hathcock here.

D: You may have who?

HMJr: Hathcock.

D: That would be a good idea.

HMJr: I think I'll have him here.

D: Yeah, that will be fine.

HMJr: Well, at least I'll talk it over and I'll have all of the facts from our standpoint and do you think we ought to have Hathcock here?

- 5 -

D: I think it would be a good idea.

HMJr: You do?

D: It would be a good idea, and it wouldn't hurt if you had the Chairman there as far as I'm concerned.

HMJr: Well, we'll have them both here.

D: That would be a good idea, I think.

HMJr: I'll have them both here.

D: I think that would be fine. Now, do you want anybody else there besides me?

HMJr: Unless you want to bring somebody.

D: From up here?

HMJr: Unless you want to bring somebody.

D: Well, if I wanted to ask somebody it would be some member of the Board -- some member of the -- I wouldn't want to ask anybody unless it would be some member of the Joint Committee.

HMJr: Well, that's up to you. You bring anybody you feel you'd like to.

D: Well, that's fine. And when did you say, a quarter to three?

HMJr: No, three o'clock.

D: Three o'clock at your office.

HMJr: That's right.

D: I'll be right there.

HMJr: On Monday.

D: Yeah. I'll be right there Monday, and I think we just want to get the truth about it.

HMJr: I -- I'm glad to, and I'll be delighted to sit down with you.

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D: Well, that's fine. Thank -- after we hear them why then you and I can talk.

HMJr: That's right.

D: Fine; thank you, Henry.

HMJr: Fine.

February 29, 1940
11:38 a.m.

HMJr: Hello.

Operator: The Attorney General.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Bob
Jackson: Hello.

HMJr: Henry.

J: This is Bob.

HMJr: Hello, Bob.

J: This delay out there was apparently due to the fact that Nolan wanted to refer the petition which your people prepared and handed to him here before he would take the responsibility of filing it, and it has come to my attention this morning. And I think there is a great question whether the -- whether your Department wants, and I'm very sure ours doesn't want, to file that in the form that it's in.

HMJr: I see.

J: Now, here's what it does: It will be very sensational if it's filed in this way and it raises -- in it are questions that were asked by -- in the testimony that's proposed to be filed.....

HMJr: Yes.

J:questions that are asked about McNutt's Presidential campaign which will certainly give color to the theory that he's being pursued because of that. Another question is about the gift of a rich -- of a wrist watch to Senator Minton; another is about the -- what's referred

- 2 -

to by the Agent as the coming out party of McNutt.

WJr: Uh-huh.

J: And I think it does give color to the theory that it's -- that there's a little political direction to it.

WJr: I see.

J: Now I think that thing ought to be carefully revised so that it looks like a pure, legal proceeding against this one man who has refused to testify rather than.....

WJr: That's Bowman Elder.

J:like -- yes. Rather than like a political blast at somebody else. As you know, I have no time for him and I'm -- he wouldn't be even my sixteenth candidate.

WJr: Yeah.

J: But I think we ought to be -- lean backwards to avoid the impression that we're trying to persecute him.

WJr: Well, that's the last thing in the world. I haven't persecuted anybody since I've been here and I'm not going to do it.....

J: No, and I.....

WJr:now.

J: And I think this is open -- we must remember that the press will exaggerate the thing tremendously because if they can make it look that we're after him it will hurt both him and us. They'll be delighted to do it.

WJr: Well, I don't -- I haven't seen it and I didn't know what was in it, but I did want you, as I told you this morning, I thought it was important enough for you to take a look at the whole matter.

- 3 -

J: Yes, I'm glad you called me and I was glad it came to my attention. And what I think should be done is that somebody from Ed's shop or from the Bureau, and somebody from here should sit down and work out of it the -- the things that might cause difficulty immediately and then get it filed.

HMJr: Well, I'm going to ask Ed to do it himself.

J: All right, fine.

HMJr: And take it -- now, who would he see over there?

J: Clark.

HMJr: Well, I'm going to ask Ed to do it himself.

J: Fine, and I've asked Clark to give it personal attention.

HMJr: And then, I take it, after they've fixed it up you'll take a look at it again, won't you?

J: Take a look at it again and we'll put it right through.

HMJr: That'll be fine.

J: Fine.

HMJr: Thank you so much.

J: All right.

HMJr: Goodbye.

J: Goodbye.

TREASURY DEPARTMENT

236

INTER-OFFICE COMMUNICATION

DATE February 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent talked to me by telephone this morning at 11 o'clock. He stated that a reply had now been received from his Government to the inquiry made at our request in regard to the son of H. H. Kung. This individual was reported to have been connected in some way with the discovery in Hong Kong last September of an illegal transmitting set belonging to the Central Trust. There were arrests in October, followed by the imposition of fines upon several individuals. Kung himself evidently was not brought to trial. He left Hong Kong, however, under circumstances which Pinsent said were "not to his credit". Pinsent could not state, from the message which he had received, that Kung was actually expelled. He said he might simply have been asked to leave. Pinsent knew nothing about the identity of the "Central Trust".



In reply address not the signer of this
letter, but the Bureau of Supplies and
Accounts and
Refer to No.

CONFIDENTIAL

NAVY DEPARTMENT
BUREAU OF SUPPLIES AND ACCOUNTS
WASHINGTON, D. C.
29 February 1940.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY.


SUBJECT: Foreign sale of military aircraft by Douglas Aircraft Corporation.

The Aeronautical Board record indicates the following sales by the Douglas Aircraft Corporation of military aircraft:

<u>To the French:</u>	
Between 1/1/38 and 9/5/39	100 - DB7 and DB7A.
Between 9/5/39 and 1/31/40	270 - DB7 and DB7A.
<u>To the British:</u>	
Since 9/6/39	1 - Douglas Transport.
<u>To Canada:</u>	
Since 9/6/39	20 - Douglas Bombers (DB280).
<u>To Iraq:</u>	
Since 11/1/39	15 - 8A-4.
<u>To the Netherlands:</u>	
Since 9/1/39	18 - 8A-3N.

Relative to the news item appearing in yesterday morning's press to the effect that the British had placed a 20million dollar order with the Douglas people, I am informed that this recent order consists of 150 Douglas Bombers, type BB-7B, powered with two Wright 1400 to 1500 horse-power engines. These bombers are similar to the French type, but have approximately twice the gasoline capacity. They are to be completely equipped with British type radio, ordnance and other auxiliary equipment. The Vice President of the Douglas Company advised me yesterday evening that negotiations for this order have extended over a considerable period of time and prior to the formation of the President's Liaison Committee. However, it is possible that Captain Collins had knowledge of this contemplated order.

I am further informed that each of the types listed above had been previously released through the State Department.


RAY SPEAR
Rear Admiral, SC, U.S. Navy
Member, Liaison Committee.

cc: Captain H.E. Collins, Chairman,
President's Liaison Committee,
Procurement Division,
Treasury Department.

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In reply address not the name of this
letter, but the Bureau of Supplies and
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Refer to No.

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Rear Admiral, U.S. Navy
Member, Liaison Committee.

Captain H.E. Collins, Chairman,
President's Liaison Committee,
Procurement Division,
Treasury Department.

February 29, 1940

I tried to phone Mr. Purvis, but found he was in Ottawa. I was going to read to him the attached Dow-Jones ticker and tell him that at the press conference this morning the newspaper men went after the Secretary hard and inasmuch as there were so many runors, HM,Jr felt that it would be to their mutual advantage for HM,Jr to give the attached story. I was going to add that the Secretary gave them this story for background and that he only gave it to them because they pressed him very hard and that HM,Jr hoped Mr. Purvis would be pleased with the statement as it came over the ticker and that HM,Jr also hoped the results would be beneficial.

H. S. Klotz

ALLIED AIR PROCUREMENT

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WASHN - BRITISH AND FRENCH GOVTS HAVE NOT YET DECIDED ON DETAILS OF THEIR CONTEMPLATED BILLION DOLLAR AIRCRAFT PROCUREMENT PROGRAM IN THIS COUNTRY IT WAS LEARNED AUTHORITATIVELY TODAY

NEGOTIATIONS ON NUMBERS AND TYPES OF PLANES WILL BE UNDERTAKEN AS SOON AS MEMBERS OF THE ALLIED AIR MISSION NOW IN EUROPE RETURN TO THIS COUNTRY IT WAS FURTHER LEARNED - IN MEANTIME IT WAS STATED ON HIGH AUTHORITY NO DEFINITE PLAN IS IN EXISTENCE AND THE ONLY DEFINITE DECISION THAT HAS BEEN REACHED WAS THAT ANNOUNCED BY THE ALLIED PURCHASING MISSION IN NEW YORK LAST WEEK TO EFFECT THAT -VERY GREAT- QUANTITIES OF PLANES WOULD BE PURCHASED IN THIS COUNTRY

IT WAS FURTHER LEARNED THAT THE MUCH DISCUSSED PLAN TO PURCHASE ONLY THREE TYPES OF AIRPLANES IN THIS COUNTRY WAS WORKED OUT TENTATIVELY BETWEEN THE ALLIED MISSION AND COMPANIES INVOLVED AND ESTIMATES WERE OBTAINED ON PRICE AND DELIVERY SCHEDULES - THIS SCHEME HAS BEEN LAID BEFORE ALLIED SUPREME WAR COUNCIL AND WHILE IT CANNOT BE SAID THAT IT HAS BEEN REJECTED DEFINITELY THE DATE FOR PLACEMENT OF ORDERS UNDER THE TENTATIVE OPTIONS GRANTED BY THE COMPANIES HAS PASSED

AUTHORITATIVE QUARTERS HAVE TAKEN THIS TO MEAN THAT THE PLAN DID NOT MEET WITH APPROVAL OF ALLIED WAR COUNCIL

WHETHER IT MIGHT BE REVIVED IN FUTURE IS OPEN TO QUESTION BUT A HIGH GOVERNMENT OFFICIAL INSISTED TODAY THAT NO PLAN HAS BEEN DECIDED UPON AND SAID IT WAS HIS UNDERSTANDING THAT NEGOTIATIONS WOULD BEGIN ANEW AFTER THE RETURN OF THE AIR MISSION WHICH IS EXPECTED IN NEAR FUTURE

UNDER THE TENTATIVE THREE-TYPE PLAN THE ENTIRE PROCUREMENT PROGRAM WHICH INVOLVES PURCHASE OF APPROXIMATELY 6 000 BOMBING PLANES AND UPWARDS OF 2 500 PURSUIT SHIPS WOULD HAVE BEEN PLACED WITH THREE COMPANIES - - MARTIN DOUGLAS AND CURTISS-WRIGHT - THESE COMPANIES WOULD THEN HAVE LET SUB-CONTRACTS TO OTHER MANUFACTURERS TO TURN OUT ONE OF THE THREE TYPES BEING PURCHASED

MAIN OBJECTIVE OF THIS PROGRAM WAS SPEED OF PRODUCTION AS RESULT OF STANDARDIZATION - THE SCHEME HOWEVER DREW STRONG OBJECTIONS FROM SMALLER SEGMENTS OF THE INDUSTRY AND FROM CERTAIN ADMINISTRATION QUARTERS - AMONG COMPLAINTS RAISED WERE THE CONTENTIONS THAT THE PROPOSED PROGRAM WOULD HAVE A DETERRENT EFFECT ON RESEARCH AND IMPROVEMENT AND WOULD JEOPARDIZE U S BUSINESS WITH LATIN AMERICAN AND OTHER FOREIGN PURCHASERS OF BOTH MILITARY AND COMMERCIAL TYPES OF PLANES

-0-

GROUP MEETING

February 29, 1940.
9:30 a.m.

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

H.M.Jr: Were you sick yesterday, Harry?

White: Well, I had a cold and was sneezing all over the lot.

H.M.Jr: How are you today?

White: I am not sneezing.

H.M.Jr: I knew you didn't have any minor vices.

White: That is a compliment. My chief vice is that I can't stand temptation.

H.M.Jr: Harry, remember when I went to Scandinavia, a memo on different countries? Do bring the Finland one up to date. I want to give it to Mrs. Roosevelt. I would like to have it by Monday. You see, all of these young youth people are doing everything they can to stop giving aid to Finland and I would like to give her factual information to prove that Finland is a democracy and send it down. All of this Communist propaganda is going on about Finland and about the Putsch of Mannerheim, and so on.

White: Then you won't care about the recent events?

H.M.Jr: No, I would like to know what kind of man he is and what kind of man Ryti and Tanner are. Ryti isn't a Fascist. They have got this thing all around.

White: Mannerheim, they have got a good case on, but we can leave him out.

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H.W.Jr: Who has got a good case which way?
 White: They are right, he was --
 H.W.Jr: Well, he killed a lot of Communists in Finland.
 White: Oh, yes, years ago.
 H.W.Jr: Yes, during their revolution.
 White: Yes, we can have that for you.
 H.W.Jr: It is amazing, the propoganda which is going around.

The other thing which I had this morning, which is in the office here, I have asked the Attorney General to bring U. S. District Attorney Nolan to Washington for a conference, which he has agreed to do. He is going to let me know the day he is coming and we will have our man in, but I thought we had better have Nolan down and give me a chance to talk to him, too. Jackson felt that if any trouble is there, the mix-up is in his office. I asked him to please get Nolan in, which he has agreed to do now. I think that is good, don't you?

Sullivan: Very much so.
 H.W.Jr: But he didn't have the stuff.
 Sullivan: I think somebody out there is talking.
 H.W.Jr: I told him I thought it was important.
 Thompson: Mr. Harris' brother is still alive, although there is little hope for him.
 H.W.Jr: This idea of burying the man while he is still alive is very nice.
 Sullivan: You said he was dead.
 H.W.Jr: That was the report.
 Stutz: He didn't die.

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H.M.Jr: What else?

Thompson: I have nothing else.

H.M.Jr: I am still waiting, young fellow (Mr. Bell) for that report on the debt limit.

Bell: I brought it in.

H.M.Jr: Where is the written report?

Bell: I have got it. I have got a statement showing each date.

H.M.Jr: Is it typed?

Bell: Yes. It is all ready. It has been ready for three days.

H.M.Jr: It wasn't - well, what day were Currie and Harold Smith in here?

Bell: Tuesday. It was ready that evening. I went right back to the office and worked on it.

H.M.Jr: Well, do you want to see me about it today?

Bell: Any time you say.

H.M.Jr: Well, you haven't asked.

Bell: I thought I told you yesterday that I was ready any time that you were, didn't I, yesterday morning?

H.M.Jr: Well, that happens every day. Bell and Haas, I want this afternoon at 4:00 o'clock.

Bell: Fine. I can get away from that Federal Farm Mortgage meeting at 2:30.

H.M.Jr: That is just a political meeting. You come back here at 4:00 o'clock and I want suggestions on how to refund and don't, for God's sake, George, give me, "if, and, and but." I want your opinion, see. Don't give me alternatives. Put yourself on the record, "This is what I recommend."

Haas: I didn't want to appear biased. I will be biased today.

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H.M.Jr: And that goes for you, too, Bell. I don't want to read ten pages - if you do it this way and if you do it that way. "This is what I recommend," please. I don't say write it, but come in and say, "This is what I recommend." I will put myself on record, too. All right?

Bell: Sure.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Harry?

White: There was a note in last week's report from the New York bank which you may have seen that Russia has established some credits, some portion of the 25 million dollar sum which was transferred and they didn't indicate whether it was half or minor. They said they were going to look it up, but I think it might be followed. I don't know who is establishing credits here for Russia. Did you hear anything further?

H.M.Jr: Not a word.

White: Merle, did you?

Cochran: No. I can ask about it.

White: You are going to find out?

Cochran: I talk to Knoke usually once a week on that. I can find out.

White: Don't you think we ought to know who is establishing it.

H.M.Jr: Yes, definitely, and I wish those semi-monthly reports on Amtorg that I get - I don't get them any more.

Gaston: We have a whole accumulation in Ireys office. They come weekly.

H.M.Jr: Could I see them weekly?

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Gaston: Yes, you can see them weekly.
E.M.Jr: Can I see the last one?
Gaston: Yes.
E.M.Jr: Please.
Gaston: I will get it in to you right away.
E.M.Jr: Then after that, can I see them weekly?
Gaston: Yes, indeed.

White: There is a cable that came in this morning dated February 28 from Butterworth, which you may have noticed, in which he quotes Chamberlain, Chancellor of the Exchequer, in making some reference to depreciation and I would like to call your attention to one or two significant points in connection with it. One is, he said in response to a question from the floor that he could assure the honorable member that currency depreciation will not be resorted to as a means of stimulating exports. Then, however, he goes on to say something that is rather interesting - two things. One is, he said that when the war broke out it was felt that sterling was over-valued. You remember they said they couldn't stop the fall of the pound, it was merely consequences. He now says that because it was over-valued then, they felt it was wise to permit the pound to fall to a rate which would represent the true economic level. This is in support of what I was holding at the time, that they thought it should be lower.

A further significant fact is that he goes on to say - he doesn't say this, Butterworth says it. He says there is a good deal of comment that the price movements, since presumably the pound fell to represent what they call the true economic level, have negated, have nullified most of the effects of the original decline. I am not saying that he isn't sincere in saying he is not going to let it fall, but the point to be raised is when he thought there was a lower level represented the true economic level and that the first chance they had they let it go, they thought it was desirable to let it go, which was contrary to

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what we were led to believe and what many around here thought.

Secondly, he will not use that method to promote exports and thirdly, that a new economic level is being established which should call for a lower - still lower rate. Those three points, I think, can be deduced from that cable.

H.M.Jr: Either in a later cable or in a French cable, there is a statement - I don't know which - that they have not used up their advantage due to the fall of the pound. Did you see that?

Cochran: There were two messages last night.

H.M.Jr: Yes, and that was rather unusual. Harry, I just want to say this in passing, as a side remark. It was very well for Mr. Chamberlain four months later to say what he did in September. His hindsight may be very much better than his foresight, but I am not convinced, even with his remarks on the floor of the House that he deliberately at that time let the thing fall, because if I ever saw a demonstration of unpreparedness and not knowing what they were going to do, I was convinced that it was in September.

White: I think you are right to say that it wasn't a controlled or pre-managed drop.

H.M.Jr: He says - I made a statement and gave a definite reason why each day we raised the price of gold to 35, and all the rest of the stuff.

White: I think there is much in what you say, yet one can't overlook this inherent fact.

H.M.Jr: I am glad you pointed it out. There is an enormously important cable came in seven sections in the most confidential code last night and as soon as it comes in I want Harry - has it come, yet?

Cochran: No, sir, it hasn't.

H.M.Jr: Feis called me twice last night and wanted to come up. I had him finally read it and then he summarized it for me. It is terrifically

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confidential, all about gold, and you fellows better read the damn thing as soon as it gets in.

White: If the pound fell to its economic level, which they claim is around 3.96 or four dollars, it is not an economic level from their point of view.

H.M.Jr: You mean it ought to go lower?

White: From their point of view. That doesn't mean it will, but I say from their own evaluations or judgments.

There was a statement in the report made by Madame Perkins in her annual report about unemployment. I don't know whether you happened to notice it or not. There was quite a little discussion about it around the group at which Lubin and others were present a couple of weeks ago and it referred to the fact that - I am quoting from it now. "It is now probably true that between four and five million persons on any given date represent the normal turnover in industrial unemployment." They should not be regarded as part of the unemployment. Most of us were much upset over that remark. There is no basis for it. The factual material behind it is very dubious, to put it conservatively, and we felt it was a very unwise and unwarranted statement. Lubin's defense was that he was out of town when it was made and signed or he wouldn't have let it go. I didn't know but somebody might call your attention to that remark sometime in talking of the unemployment.

H.M.Jr: You will have to go further, Harry. I don't get the significance.

White: They say five million of the unemployed are the normal amount of unemployed of men who are just seasonal workers, are transferring from one job to another, that even if you had prosperity they wouldn't be taken in unless you had some inflationary boom or war boom, but under normal prosperous conditions you could expect that this five million would be unemployed. I think it is a vicious and unwarranted statement.

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- H.K.Jr: What do you think of the facts?
- White: I think the figures they use are twice as great as they should be.
- H.W.Jr: What do you think it should be?
- White: Oh, between two and three million at the very most, and that difference of a couple of million makes - when you say there is five million that normally are unemployed and all you have got now is six or seven, we are practically all fixed, we are all right. In other words, we have no unemployment problem, almost, that is the implication in that statement.
- Hanson: It is a question of what they mean by normal, Harry, whether it is a historical statement or a statement of necessity.
- White: You raised a very significant point, but the impression --
- H.K.Jr: What was that?
- Hanson: I say, it is a question of what they mean by normally, whether it is a historical statement, if they are just meaning to say that in the past we always have had about that number, or whether they mean it is absolutely necessary that we have to have four or five million unemployed, even under the best conditions.
- H.W.Jr: The easiest way I know to get the President's goat is to quote some unemployment figures.
- White: Look at what this does to the President. Our unemployment figure is six or seven million now and the President can shrug his shoulders and say, "We have practically solved our unemployment problem." I don't know whether he would, but this leads in that direction and I think it is bad.
- H.K.Jr: I am glad you mentioned it. It just forewarns me.
- White: Yes.

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H.Y.Jr: What else?

White: Rowe, who is Director of the Pan American Union, to whom the suggestion we made with respect to this Inter-Treasury bulletin - which he thinks is a very good idea and we think is an excellent idea to develop - came over to say that they would very much like to see it go in. They have no funds nor can they get any funds from Pan American and we talked very tentatively about costs, but before he wants to go any further, I am raising the question with you now, how do you want to proceed. It apparently - it appears as though either this Treasury will have to foot all or most of the bill, not all, but most of the bill, if it wants to go forward with it, unless you want to get some kind of Congressional action, and it probably will cost - I don't know, but he talked in terms of around fifty thousand dollars a year.

H.C.Jr: Why wouldn't that be a perfectly good thing for this new bank to have as its publication?

White: He raised that point as one of the possibilities and it is one of the things you want to talk over in connection with that. There are certain grave disadvantages, I think. One is, it is a cost on the bank which they start out with, but, secondly, and more important, I think it is something that has great possibility for Treasuries themselves to get together.

H.C.Jr: Let's leave it this way. Some time when I see you for some meeting, bring it up at that time.

White: Yes. There is no immediate hurry. O. K. That is all.

H.C.Jr: George?

Wass: I have nothing, Mr. Secretary, but this report (handing report to Secretary).

H.Y.Jr: Do you (Cotton) know all about the State Department and this bill?

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- Cotton: I know something about it.
- H.M.Jr: Would you sort of steep yourself with it? I would be curious. And then if you stay behind, I want to talk to you about this steel mill. I want to read the memorandum.
- Cochran: I have nothing.
- H.M.Jr: John?
- Sullivan: The complaints that are arising out of a recent Treasury decision in regard to rubbing alcohol are very, very extensive and the best solution of the problem would be that we could find a denaturant that would be approved by Public Health --
- H.M.Jr: Oh, go on. Do you know why I say that? I went all through this the first two years I was here. It is wood alcohol, isn't it?
- Sullivan: That is right, rubbing alcohol, but while you were in Arizona you didn't go through it and they are coming in with bushels of wires and telegrams and everything and the trade is very much distracted.
- H.M.Jr: What did you do that distracted them?
- Sullivan: The Treasury Decision ruled that no one except the registered pharmacists can sell rubbing alcohol, and of course the dry goods stores and similar establishments, all the retail stores, put up quite a fuss. Now, we are working on denaturants and we sent two formulas to Public Health. I think if you could talk with Dr. Farran and --
- H.M.Jr: Now, listen. I am not going to get down to rubbing alcohol. The person that worked on that with me originally was Wollner, who is here as Consulting Chemist to me. He is working under Harold Graves. Was it you (Graves) or Mac went all through this alcohol with me?
- Graves: I did.
- H.M.Jr: There is your expert. He knows more about it than anybody in the Treasury.

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Sullivan: If you will let me finish my sentence, I think I have got a good idea here.

H.M.Jr: Yes.

Sullivan: We send a formula over there and we don't hear from it for two or three months. If we could get permission from Parran to have one of our chemists go over there and work these formulas out with their men, I think we would get some action and be able to solve the problem.

H.M.Jr: What do you want me to do?

Sullivan: If you could talk with Parran and - or if you could authorize me to talk with him for you.

H.M.Jr: Sure you can, but I am not going to get down to this thing.

Sullivan: That is all right, if you want me to talk with him and say that you --

H.M.Jr: But before you do it, this man has been all through this thing. Has he been consulted?

Sullivan: No.

H.M.Jr: Well, he knows more about it than anybody in the Treasury and my suggestion is that you and Harold Graves handle it and you have got full authority.

Sullivan: All right, fine.

White: It is rumored that the original complaints came from the Coca Cola people. Is that true at all? They were using Coca Cola with the rubbing alcohol and Coca Cola was getting a bad name. That is the story I heard. I wonder if there is any truth in it.

Sullivan: No, they do use Coca Cola --

White: With it?

H.M.Jr: That is put out by Pepsi Cola.

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White: You can't tell these days.

H.M.Jr: This fellow here (Graves) knows more about this business than I know. I have spent years on this, actually. I saw that wood alcohol got a case. I went all through it. Bob Jackson was interested in it, too, his mountaineer fellows up in that part of Pennsylvania. I lived with that thing. It is just like old times, but this man here - and if you ever want to get - if you ever get stuck on the question of labels, you know the greatest living authority - do you want to know who the greatest authority is? McReynolds. We had 20 different bottles here on my desk and Mac had them all worked out, but on rubbing alcohol and wood alcohol, see Harold Graves.

Sullivan: Do you want me to wean him?

H.M.Jr: When these things come back after all these years, you can't blame me for forgetting a little, but take this fellow, he has lived with alcohol.

Sullivan: This isn't coming back, this is just breaking.

H.M.Jr: I still say he is willing to give the time and he has got all the background, but you have got full authority to use my name as Secretary of the Treasury any way you want to.

Sullivan: Will you bring one of your samples?

H.M.Jr: All right?

Sullivan: Yes, sir.

H.M.Jr: Call up Parran or anybody else.

Sullivan: Thank you.

H.M.Jr: You can even call up McNutt.

Sullivan: Oh, you think he is going to need some, do you?

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W.W.Jr: Either that or smelling salts. I don't think it would be right to go to Parran without going through McNutt.

Sullivan: I didn't hear that suggestion. I guess I will go direct to Parran.

W.W.Jr: All right. Anything else important?

Sullivan: That is all. Wait until you have one of those delegations land on you. You will think it is important.

W.W.Jr: I have been all through it. I have had these delegations.

What is the matter, Ed?

Foley: I will see you afterward.

W.W.Jr: What is that, just a lapwarmer?

Foley: This is for John and this is for you. I will give it to you afterward.

Gaston: We are holding a meeting on political conventions in a few minutes, at 10:00 o'clock. I think you ought to know that we are - as we anticipated, we are right now holding the bag on this Atlantic weather reports. Admiral Land finds that he can't go through with his part with Callahan and that they would provide ships, so I think that I will get hold of Callahan and probably hold a meeting of all the people concerned. The arrangement was this, that we would put the cutters on this weather advice between the Azores and Bermuda temporarily contingent on Admiral Land trying to find the money in his new appropriations to provide ships which would be put on those stations. Land now says that his lawyers advise him that he can't use any of his funds for that purpose and that he didn't get enough money, so he is just sort of waiving responsibility, so I think we will have to --

W.W.Jr: That means --

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Gaston: It means we are stuck with this weather patrol until we can find some new arrangement, unless we simply give them a cut off date and say that after that date we won't provide it, but I think before we make any such decision as that we need to get hold of Callahan and the other people concerned and see if we can't work out something, and that is what we are proposing to do.

H.M.Jr: Well, in my younger days when I used to be ambitious, the Coast Guard was very anxious that they have the supervision of radio and weather off shore.

Gaston: Still we have that in mind.

H.M.Jr: I was wondering if you are going to have to do this, couldn't you make that a condition, if that is what you want?

Gaston: I would like very much to do that, because I think you are going to get into a serious situation of duplication if we have the Aeronautics Authority handling light services and radio communication, beacon services for Transatlantic aircraft, and then you have a lighthouse system for ships. It is just going to be a duplication of service.

H.M.Jr: Are you on top of it?

Gaston: Yes.

H.M.Jr: All right.

Who is on my political committee?

Thompson: Helvering and Gaston and Foley and myself.

H.M.Jr: I see. Well, these are just a lot of amateurs. We don't rate.

Sullivan: What is the committee?

H.M.Jr: The political committee.

Gaston: You may need another man to dissolve a tie here.

- 15 -

H.M.Jr: Who is on that committee?

Gaston: Mr. Foley, Mr. Thompson, Mr. Helvering and myself.

H.M.Jr: Well, when you want a couple of professionals, John and I will get in on it. What else?

Gaston: I think perhaps you are advised that on request of the State Department all investigations of Italian countervailing duty matters were suspended.

H.M.Jr: Pending Mr. Welles' return?

Gaston: Yes.

H.M.Jr: Well, he has left.

Gaston: But that hasn't been released by the State Department yet. They are doing nothing on Italian matters at the present. The orders to make some investigations were countermanded by wire.

H.M.Jr: By whom?

Gaston: Johnson.

H.M.Jr: Well, he has gone away.

White: Yes, he has gone. They rushed through an order indicating that the Italian attitude was satisfactory and they would not apply countervailing duty. We didn't know at the time, but they wanted it to get there right before Welles. Had they told us --

H.M.Jr: All Mr. Hull asked me was not to do something for the day or two Mr. Welles was there, which was a perfectly courteous thing, so I did it.

White: That is taken care of.

Gaston: They could go ahead, then?

Gaston: He is coming back to see Mussolini, isn't he? You had better be careful.

- 16 -

- H.M.Jr: Here is a very interesting story I think everybody should read by Herbert Matthews on Welles' visit in Rome. It is very interesting and not one of these hand-outs.
- White: That is right, Welles is coming back, but --
- H.M.Jr: Mr. Hull only asked me to do it in the two days he was there, so I would go ahead.
- Gaston: We had a conference on opium reserve stocks and the Customs agreed to provide space and a special room in the appraiser's stores to handle the overflow. The old Sub-Treasury is chock-a-block full and they had to provide additional space, so they are taking care of it.
- H.M.Jr: O. K. Any afterthoughts?

GENERAL E M WATSON
SECRETARY TO THE PRESIDENT
AT SEA

FEBRUARY 29, 1940

PRESIDENT SAID HE WOULD SEE ME ON MARCH THIRD. I WOULD
APPRECIATE IT IF YOU WOULD ADVISE ME TIME OF APPOINTMENT.
HOW MANY FISH DID YOU CATCH. REGARDS.

HENRY MORGENTHAU JR

~~Restricted~~

(Sent to Mr. Forster at the White House for despatch)

Note:

259

Naval Com would
not accept this
message for transmission

McKay is arranging
for new copy to be trans-
mitted thru White House

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

*GT*GENERAL E M WATSON
SECRETARY TO THE PRESIDENT
AT SEA (VIA NAVAL COMMUNICATIONS)

FEBRUARY 29, 1940

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

5-14117

~~*[Signature]*~~PRESIDENT SAID HE WOULD SEE ME ON MARCH THIRD. I WOULD
APPRECIATE IT IF YOU WOULD ADVISE ME TIME OF APPOINTMENT.
HOW MANY FISH DID YOU CATCH. REGARDS.

HENRY MORGENTHAU JR

*BT Proby**horne*

CTION

261

NAVAL COMMUNICATION SERVICE

NAVY DEPARTMENT

RECEIVED AT ROOM 2629
DI 2800—EXT. 87—187

FROM MILITARY AID TO PRESIDENT
TO SECRETARY OF THE TREASURY

2-29-46

RESTRICTED ROUTINE

NAVY DEPARTMENT PRINTING OFFICE 4-7000

PRESIDENT SAYS IF YOU EXPECT TO BE IN WASHINGTON HE SUGGESTS
FOUR O CLOCK SUNDAY AFTERNOON, OTHERWISE MONDAY LUNCHEON
WOULD BE JUST AS GOOD. FINE TRIP, REGARDS,

BRIGEN WATSON

*Phoned
933 Pur
mc*

FROM MILITARY AID TO PRESIDENT
TO SECRETARY OF THE TREASURY

RESTRICTED ROUTINE

PRESIDENT SAYS IF YOU EXBECT TO BE IN WASHINGTON HE SUGGESTS
FOUR O CLOCK SUNDAY AFTERNOON, OTHERWISE MONDAY LUNCHEON
WOULD BE JUST AS GOOD.FINE TRIP,REGARDS,

BRIGEN WATSON

February 29, 1940.

My dear Harriner:

I was very glad to receive your letter of February 27, because it gives me an opportunity to say to you frankly what I think about your letter of February 9 to David Lasser, which was published in the New York Times of Monday, February 26, a copy of which, together with Lasser's letter to you dated February 5, you were good enough to enclose.

I did make the statement at my press conference on Monday that I thought it would be a good idea if both you and Lasser were to read the President's Budget Message. The explanation of that statement is, I think, quite simple. Lasser's questions to you and your replies were directed to matters of budget and fiscal policy. The budget and fiscal policy of the Administration for the current and coming fiscal years were authoritatively outlined in the Budget Message for the fiscal year 1941.

My own concern with Government fiscal policy, I think you will agree, is as immediate as yours, but I should feel it distinctly improper for me to attempt to indicate publicly ways in which the President's fiscal policy could be improved. You say that your letter was confined to statements of fact, but when you point out that prior administrations were content with smaller working balances — and without any attempt to explain the present justification for a larger working balance — it seems quite evident to me that you are, by inference at least, criticizing or suggesting amendment of the President's fiscal policy. The same inference is contained in your listing of other fiscal resources that might be utilized.

You say that you are at a loss to see how you could have responded to the inquiry at all without giving these purely factual answers. If you will permit me to suggest, I think that you might with entire propriety have responded that the matters of which Mr. Lasser wrote and on which he sought information did not fall within the sole jurisdiction of the Board of Governors. Mr. Lasser's letter doesn't give me the impression that he was in search of facts. Factual answers to the questions he put are contained in Treasury publications and his letter seems to indicate that he already had the answers. What he appears to have been seeking was to use the name and authority of a highly placed Government officer in support of his propaganda for larger relief appropriations. If you had considered this aspect of the matter carefully, I think you would not have been surprised that he made your letter public.

- 2 -

You regret that before giving you an opportunity to give me the facts in the matter I made remarks at a press conference "that can only have the effect of stirring up adverse newspaper comment." This, my dear Harriner, is, I must submit, putting the cart before the horse. You had from about February 6 to February 26 an opportunity to give me the facts in the matter.

But I should add a word about my press conferences. It is very seldom that I volunteer anything, and then only when I have some important announcement to make about Treasury business. I didn't volunteer anything in this case. I was asked what I thought about your letter to Lasser. I thought my comment was exceedingly restrained. The newspaper man have learned that I don't talk at conferences about matters that are outside of Treasury jurisdiction and they don't ask me to comment on what somebody else has said unless that other person has been dealing with Treasury matters. I didn't think I was justified in refusing to answer this particular question. I am at a loss to know how I could have answered it differently.

I am no less anxious than you to avoid adverse comment and newspaper controversy. It can be avoided if we both stick strictly to our own knitting. I, for my part, intend to do this.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Harriner S. Eccles,
Chairman, Board of Governors of the Federal Reserve System,
Washington, D.C.

HEG/mah

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY
By Messenger)⁰⁰ pm 2/29/40

February 29, 1940

To: The Secretary

From: Mr. Bell

2-17

At our conference on Tuesday with Messrs. Smith and Currie regarding the recapture of some \$700M from governmental corporations and credit agencies during the fiscal year 1941 as contemplated in the 1941 Budget, you asked me to prepare a statement showing the estimated financial position of the Government for the twelve-month period ending December 31, 1940. Such a statement is attached.

You will note that according to these estimates the Treasury will go into the next fiscal year (July 1, 1940) with a working balance of \$1,100M; that the gross public debt will be \$43,426M; and that the balance of the borrowing authorization under the Second Liberty Bond Act will be reduced to 1,310M. These estimates include for the next six months, new money in the form of the Treasury offerings of \$500M on June 15th and \$150M for account of the Reconstruction Finance Corporation in May.

For the following six months ending December 31st, you will note that the Treasury will end this period with a working balance of only \$506M, with a gross public debt of \$44,359M and a balance of borrowing authorization of only \$242M. The only new money raised during this period will be \$150M in July for account of the Commodity Credit Corporation and \$200M in September for account of the U. S. Housing Authority.

These estimates do not include any part of the \$700M which the Budget contemplates recapturing from the governmental corporations and credit agencies; nor any part of the \$142M balance of gold increment which was included in the working balance as estimated in the Budget document; nor any estimate of additional taxes contemplated by the Budget; nor any reduction in expenditures which may result if Congress continues to reduce the appropriation estimates. Even if Congress should reduce the appropriations by as much as, or more than, the amount of new taxes requested, the reduction in expenditures caused thereby would cease for the most part after January 1, 1941.

It is important that some action be taken before Congress leaves to commit the governmental corporations and credit agencies to return the \$700M to the Treasury before December 31st. Otherwise, I do not believe we can go through January with a balance of \$242M borrowing authority. This would not even take care of the U. S. Savings Bonds that we would normally sell during that month. Furthermore, the working balance of \$506M does not afford much leeway in an expenditure program such as we are now carrying on.

DWB

STATEMENT SHOWING ESTIMATES FOR THE PERIOD JANUARY TO DECEMBER 1940 ON
 (1) NET CASH REQUIREMENTS, (2) NET CASH AVAILABLE, (3) WORKING BALANCE AT THE END OF EACH MONTH,
 AND (4) GROSS PUBLIC DEBT AND BALANCE OF BORROWING AUTHORIZATION AT THE END OF EACH MONTH.

(In millions of dollars)

	NET CASH REQUIREMENTS			NET CASH AVAILABLE				WORKING BALANCE AT END OF MONTH	PUBLIC DEBT AND BORROWING AUTHORITY AT END OF MONTH	
	BUDGET DEFICIT	AGENCY, TRUST FUND, ETC. TRANSACTIONS	TOTAL NET CASH REQUIREMENTS	WORKING BAL- ANCE AT BEGIN- NING OF MONTH	SAVINGS BONDS AND OTHER DEBT RECEIPTS	AGENCY FINANCING	TOTAL NET CASH AVAILABLE		GROSS PUBLIC DEBT (Obligated)	BALANCE OF BORROWING AUTHORIZATION
1940										
January	407	40	467	1,709	324	--	2,033	1,566	42,110	2,770
February	364	71	435	1,566	345	--	1,911	1,476	42,405	2,435
March	68	88	156	1,476	86	--	1,562	1,406	42,401	2,411
April	510	80	590	1,406	115	--	1,521	931	42,491	2,397
May	388	201	589	931	300	150RFC	1,381	792	42,776	1,989
June	140	131	271	792	579 1/	--	1,371	1,100	43,426 3/	1,314
Total-Jan.-June	1,877	631	2,508	1,709	1,729	150	3,608			
July	332	83	415	1,100	135	150CCC	1,385	970	43,634 3/	1,096
August	211	54	265	970	303	--	1,273	1,008	43,922	763
September	81	54	135	1,008	52	200RFA	1,260	1,125	43,959	702
October	389	53	442	1,125	97	--	1,222	780	44,041	608
November	329	66	395	780	285	--	1,065	670	44,311	318
December	152	90	242	670	78	--	748	506	44,359	242
Total-July-Dec.	1,694	400	1,894	1,100	950	350	2,400			

1/ Includes 1500 \$ of new cash.

2/ Includes 111 \$ non-cash items which improve debt.

3/ Includes 111 \$ non-cash items which improve debt.

Note: See schedule only available for the return to the Treasury during the fiscal year 1941 of 1940
 of capital items of construction under program, and the additional amount of 2,000 \$, per the 1940
 debt instrument volume, as contemplated by the Treasury's Budget Message.

Statement of Cash Receipts
January, 1940 to June, 1941
(In millions of dollars)

	1940 January	February	March	April	May	June	July	August	September	October	November	December	1941 January	February	March	April	May	June	Total
Balance at beginning of period	1,791	1,944	1,476	1,408	931	793	1,100	970	1,008	1,125	780	670	506	311	294	473	167	-28	1,769
Receipts:																			
General revenue	281	311	408	253	267	680	301	392	650	295	289	643	287	351	452	287	310	312	4,154
Trust accounts, etc.	14	6	12	12	7	6	7	7	10	10	7	7	7	7	10	17	7	7	113
Old-age reserves account	37	111	1	31	113	-1	30	105	-4	27	101	-8	20	100	-12	18	91	-18	741
Unemployment Trust Fund	18	109	-	18	129	5	15	140	1	15	124	1	17	129	1	18	125	1	840
U. S. Savings Bonds	279	125	88	60	65	79	90	75	55	55	60	85	179	75	75	65	85	75	1,638
Treasury bills (additional)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	500
Treasury bonds and notes	-	-	-	-	-	500	-	-	-	-	-	-	-	-	-	-	-	-	500
Government Corporation financing	-	-	-	-	140	844	150	644	270	444	-	-	113	77	77	54	75	75	1,543
Reconstruction Finance Corp. etc. (general)	124	114	120	75	82	66	100	76	92	73	-	-	-	-	-	-	-	-	-
Silver certificates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total receipts	2,499	2,342	2,402	1,861	1,797	2,323	1,799	1,749	1,993	1,670	1,439	1,673	1,128	1,290	1,718	435	640	724	15,756
Disbursements:																			
General (including recovery and relief)	677	655	706	693	645	629	613	584	556	614	628	688	634	626	681	587	534	573	11,280
Interest	18	20	170	70	19	197	20	20	195	78	10	185	20	20	172	78	20	19	1,474
Government Corp. transactions (general)	62	87	100	118	120	137	157	100	98	98	113	119	101	73	73	64	68	40	1,178
Government Corporation financing	-	35	10	5	123	8	5	3	3	3	3	3	2	2	15	10	20	15	455
Debt redemptions	18	15	81	20	15	40	20	11	11	11	15	30	26	15	10	-	-	-	440
Treasury bills	105	70	5	5	-	-	-	-	-	-	-	-	20	20	20	20	20	21	394
Trust accounts, etc.	16	19	20	19	19	21	19	19	20	21	20	21	20	20	20	20	20	21	294
Total disbursements	893	866	1,086	929	945	1,023	826	741	807	820	791	866	777	756	823	766	662	670	11,704
Balance at end of period	1,566	1,476	1,428	931	793	1,100	970	1,008	1,125	780	670	506	311	294	473	167	-28	34	34
Excess receipts:																			
Treasury bills	500	470	400	400	500	400	500	400	400	500	400	400	500	400	400	500	400	400	2,800
Treasury bonds	-	-	-	-	-	1,353	-	-	-	-	-	-	-	-	2,543	-	-	-	3,896
Treasury notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
New Owners' Loan Corporation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal Farm Mortgage Corporation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commodity Credit Corporation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal Home Loan Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total excess receipts	500	470	400	400	500	1,401	500	400	400	500	400	1,167	500	400	1,650	500	400	400	11,174

Note - No effect is given in this statement to the return to Treasury during fiscal year 1941 of \$700,000,000 of capital funds by governmental agencies, as included in President's Budget Message of January, 1940.
Treasury 2-1/2% bonds of 1940-41 due June 15, 1943, callable on and after June 15, 1940, on four months' notice.
Treasury 3-1/2% bonds of 1942-43 due March 15, 1943, callable on and after March 15, 1941, on five months' notice.

TREASURY FINANCING

(Exclusive of regular Treasury Bills and special obligations issued directly to trust funds)

(In Millions of Dollars)

268

		MARCH 15	JUNE 15	SEPTEMBER 15	DECEMBER 15	TOTAL
1940	Notes	76	738	-	737	1,904
	Bonds	-	353	-	-	-
1941	Notes	677	504	-	304	2,764
	Bonds	545	834 (8/1)	-	-	-
1942	All Notes	426	-	342	232	1,000
1943	Notes	-	629	-	421	2,905
	Bonds	-	454	1,401 (10/15)	-	-
1944	Notes	515	416	283	-	3,770
	Bonds	1,519 (4/15)	-	-	1,037	-
1945	All Bonds	-	-	1,214	541	1,755
1946	" "	489	819 1,036	-	-	2,344
1947	" "	-	-	799 (10/15)	701	1,460
1948	" "	1,223 - 51	-	2 1/2 451	571 - 50	2,245
1949	" "	-	-	-	491 - 50 1,786 - 53	2,277
1950	" "	-	-	1,186 - 52	-	1,186
1951	" "	-	1,627 - 54	755 - 55	1,107 1,091 - 53	3,473
1952	" "	-	-	-	-	-
1953	" "	⊖	-	-	-	-
1954	" "	-	-	-	-	-
1955	" "	2,611 - 60	-	-	-	2,611
1956	" "	-	-	982 - 59	-	982
1957	" "	-	-	-	-	-
1958	" "	-	919 - 63	-	-	919
1959	" "	-	-	-	-	-
1960	" "	-	-	-	1,485 - 65	1,485
		8,081	8,329	7,373	9,297	33,080

OFFICE OF UNDER SECRETARY

January 19, 1940

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

269

INTER-OFFICE COMMUNICATION

DATE February 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Leroy-Beaulieu telephoned from New York at 4:40 this afternoon. He had arrived two hours earlier by an Italian steamship. He had been instructed telegraphically to inform the Secretary of the new arrangement between the French Treasury and the Bank of France, as he had hoped to receive a message to be delivered to him by Mr. Pleven. The latter was scheduled to arrive in the United States last Tuesday, but is still held at Lisbon awaiting a plane, so Leroy-Beaulieu has no message from him. I told Leroy-Beaulieu that we had received a communication from Minister Reynaud through Matthews. He presumed that this gave more than he himself could tell us. Leroy-Beaulieu is coming to Washington tomorrow forenoon, however, to see the French Ambassador, and requested an appointment for the afternoon to give Secretary Morgenthau a personal message from Finance Minister Reynaud in regard to prospective sales of dollar securities by the French. In accordance with the Secretary's instructions, I told Mr. Leroy-Beaulieu that he would be received tomorrow afternoon, but should telephone Lieutenant McKay at 2:15 to ascertain the exact hour.

In answer to my question, Leroy-Beaulieu stated that Professor Rist should arrive next week on the American steamship Washington.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 29, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market became more active today as a weak tone developed in the quotations for sterling, French francs and Dutch guilders.

Prior to the opening of the New York market, sterling declined in Amsterdam from 3.94-1/2 to 3.93-7/8. The easier tendency abroad was attributed to disquieting reports regarding conditions along the Belgian and Dutch frontiers bordering on Germany.

Shortly after the opening rate of 3.94 in New York, an order to sell a large block of sterling was received by one of the New York banks from the Far East. When received, this order carried a price limit which was above the market and the New York bank advised its correspondent that it was unable to execute the order. Although the order was again sent to the New York bank later in the day, only a small portion of the sterling was sold. At about the time the order was originally received, sterling began to decline and reached 3.93-1/2 in the early forenoon. It remained at that level until mid-afternoon, then eased further to close at a low of 3.92-1/2 on general selling.

Sales of spot sterling by the six reporting banks totaled £707,000, from the following sources:

By commercial concerns.....	£ 295,000
By foreign banks (Europe, South America and Far East).....	£ 412,000
Total	£ 707,000

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

By commercial concerns.....	£ 347,000
By foreign banks (Europe, Far East and South America).....	£ 207,000
Total	£ 554,000

The following reporting banks sold cotton bills totaling £38,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 35,000 by the Guaranty Trust Company
3,000 by the Chase National Bank
£ 38,000 Total

The discount on sterling for one- and three-months forward delivery widened today to 1-1/4¢ and 3-3/4¢ per pound respectively, as compared with yesterday's close of 7/8¢ and 3-1/4¢.

- 2 -

The other important currencies closed as follows:

French francs	.0222-1/2
Guilders	.5313
Swiss francs	.2242-1/2
Belgas	.1687
Canadian dollars	13-7/8% discount

As shown in the list above, the French franc declined in sympathy with the downward movement in sterling. Owing to the disturbing political news, the Dutch guilder also showed a weak tendency all day. The quotation for the belga reached a low of .1686-1/2 just before noontime but then received support from an order which was sent to a New York bank from Holland to purchase 500,000 belgas.

Reversing its tendency of the past few days, the discount for the Cuban peso widened today to 8-3/16%. The Mexican peso was unchanged at .1672.

The Federal Reserve Bank purchased 50,000 belgas for 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 from England:

\$ 2,252,000 shipped by the Bank of England to the Federal Reserve Bank of New York for account of the Swiss National Bank, the disposition of which is unknown at the present time.

757,000 shipped by Samuel Montagu & Company to the Bankers Trust Company, New York, for sale to the U. S. Assay Office.

54,000 shipped by Samuel Montagu & Company to the Guaranty Trust Company, New York, for sale to the U. S. Assay Office.

\$ 3,063,000 Total

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

\$ 13,311,000 from Sweden, representing three shipments by the Bank of Sweden to the Federal Reserve Bank of New York for account of the Bank of Sweden, the disposition of which is unknown at the present time.

2,258,000 from England, shipped by the Bank of England to the Federal Reserve Bank of New York to be earmarked for the account of the Swiss National Bank.

419,000 from Sweden, shipped by the Bolidensgruv Aktiebolag to the New York Trust Company for sale to the U. S. Assay Office.

163,000 from Hong Kong, shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N.A., San Francisco, for sale to the U. S. Mint.

147,000 from England, shipped by Samuel Montagu and Company to the Chase National Bank, New York, for sale to the U. S. Assay Office.

\$ 16,298,000 Total

In London, the price fixed for spot silver rose 1/16d to 20-1/2d. The forward quotation was unchanged at 20-7/16d. The U. S. equivalents were 36.39¢ and 36.10¢ respectively.

The Bombay silver quotation worked out to the equivalent of 41.12¢, a gain of 5/16¢.

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

We made two purchases of silver totaling 200,000 ounces under the Silver Purchase Act. Of this amount, 150,000 ounces represented a sale from inventory by one of the refining companies, and the other 50,000 ounces were new production from foreign countries, for forward delivery.

We also purchased 45,000 ounces of silver from the Bank of Canada, which raises the total bought from Canada during February to the agreed limit of 1,200,000 ounces.

During the month of February, we purchased a total of 12,992,700 ounces of silver under the Silver Purchase Act. The sources of this silver were as follows:

<u>TYPE OF SILVER</u>	<u>OUNCES</u>
New Production from Abroad	
1. From Canada under agreement	1,200,000
2. From foreign countries	6,030,700
Secondary Materials	66,000
Inventory Silver	4,848,000
Trading Silver	848,000
Total	<u>12,992,700</u>

CONFIDENTIAL

B. W. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Febr. 29, 1940

TO Secretary Morgenthau
FROM Mr. Haas *GA*

Reports of the Work Projects Administration show 2,306,000 employes for the week ended February 14, 1940, an increase of 19,000 persons over the 2,287,000 reported for the previous week.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week Ending	Number of Workers (In thousands)
1939-40	
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,082
August 9	2,054
August 16	1,977
August 23	1,897
August 30	1,842
September 6	1,662
September 13	1,696
September 20	1,735
September 27	1,790
October 4	1,834
October 11	1,875
October 18	1,898
October 25	1,901
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,189
January 17	2,222
January 24	2,244
January 31	2,265
February 7	2,287
February 14	2,306

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1937	
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,901
November	2,024
December	2,152
1940	
January	2,265

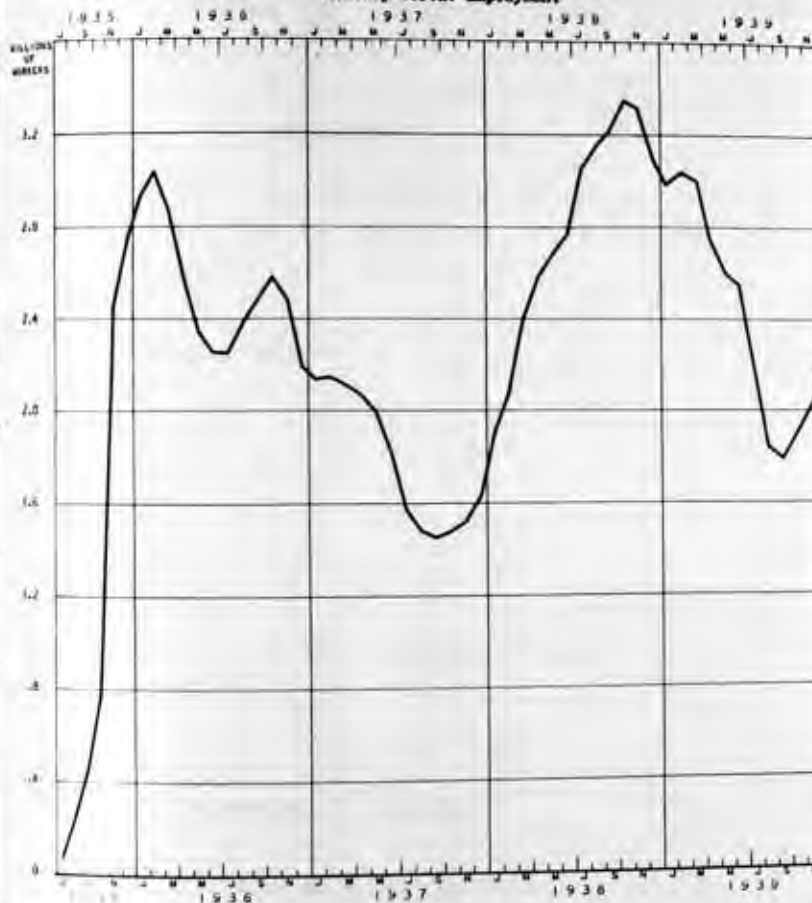
Source: Work Projects Administration.

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

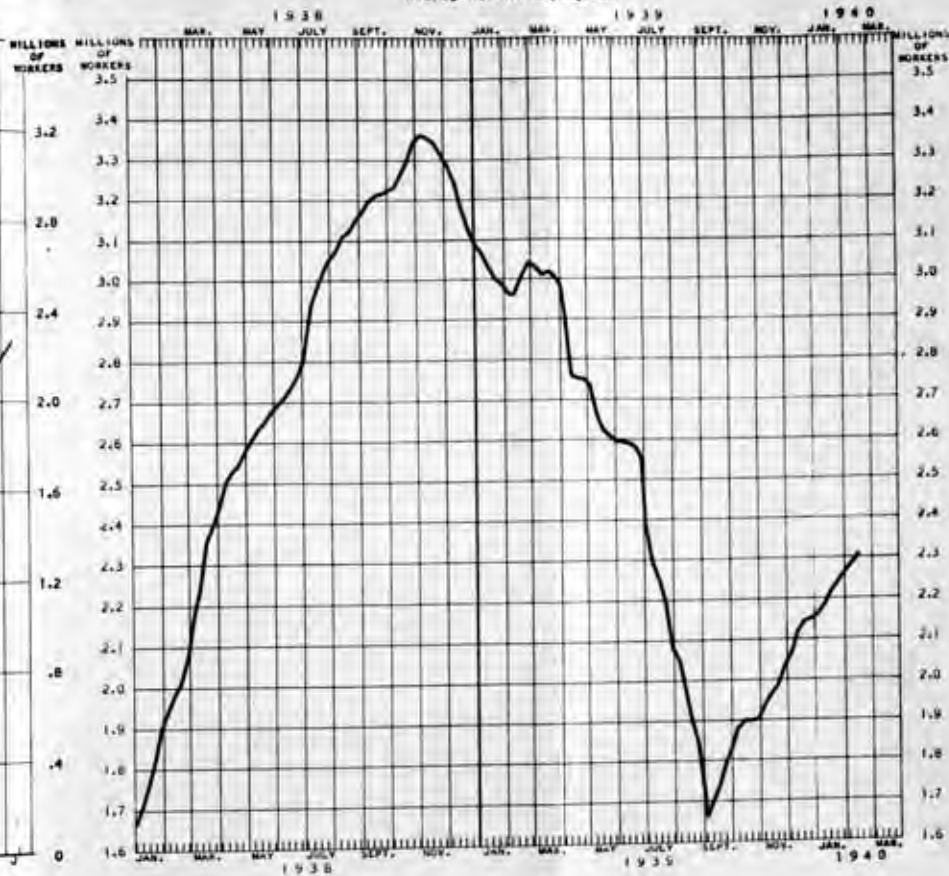
They include certified and noncertified workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

TREASURY DEPARTMENT

277

INTER-OFFICE COMMUNICATION

DATE February 29, 1940

TO Secretary Morgenthau

FROM W. H. Hadley

MARCH FINANCING

My recommendation for the refunding operation is:

- (1) Reopen the Sept. 1944 1% notes at 101 or 101-1/8,
- and, (2) Offer a new 2-1/4% 13-16 year bond.

Reopen September 1944 notes:

<u>Coupon</u>	<u>Term</u>	<u>Amount Outstanding (millions)</u>	<u>Offering Price</u>	<u>Present Market Price</u>	<u>Premium</u>
Reopen 1%	Sept. 1944's	283	101 101-1/8	102.4 102.4	1 pt. 4/32 1 point

New Bond Issue:

<u>Coupon</u>	<u>Term</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Estimated Market Price</u>	<u>Premium</u>
2-1/4%	13-16 yrs.	2.13 2.15	100 100	101.12 101.4	1 pt. 12/32 1 pt. 4/32

An alternative recommendation, if an unsettled market should develop, would be:

- (1) Reopen the September 1% notes at a price,
- and, (2) Reopen the 2% 1948-50 bonds at a price.

POSSIBLE NEW ISSUESNotes:

<u>Coupon</u>	<u>Term</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Estimated Market Price</u>	<u>Premium</u>
3/4%	5 years	0.56	100	100.30	30/32
		0.60	100	100.23	23/32
7/8%	5 years	0.56	100	101.17	1 pt. 17/32
		0.60	100	101.11	1 pt. 11/32

Bonds:

2%	10-12 yrs.	1.82	100	101.20	1 pt. 20/32
		1.84	100	101.14	1 pt. 14/32
	10-13 yrs.	1.86	100	101.8	1 pt. 8/32
		1.88	100	101.2	1 pt. 2/32
2-1/8%	12-14 yrs.	2.01	100	101.7	1 pt. 7/32
		2.03	100	101.	1 point
2-1/4%	13-15 yrs.	2.09	100	101.26	1 pt. 26/32
		2.11	100	101.18	1 pt. 18/32
→	13-16 yrs.	2.13	100	101.12	1 pt. 12/32 ←
		2.15	100	101.4	1 pt. 4/32
	13½-15½ yrs.	2.12	100	101.15	1 pt. 15/32
		2.14	100	101.8	1 pt. 8/32

REOPENING OF OLD ISSUES

<u>Coupon</u>	<u>Term</u>	<u>Amount Outstanding (millions)</u>	<u>Offering Price</u>	<u>Present Market Price</u>	<u>Premium</u>
→ Tr. Notes 1%	Sept. 44's	283	101	102.4	1 pt. 4/32 ←
			101-1/8	102.4	1 point
Tr. Bonds 2%	1948-50's	571	101-3/4	103.4	1 pt. 12/32
			102	103.4	1 pt. 4/32
Tr. Bonds 2½%	1951-53's	1,107	101-1/2	102.30	1 pt. 14/32
			101-3/4	102.30	1 pt. 6/32

February 29, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



I am attaching reports of the Amtorg general and payroll accounts for the weeks ending February 10th and February 17th. There is also attached a list by Commander Thompson, taken from the transcripts of the bank account, which shows payments to the Whipple & Choate Company for molybdenum. Mr. Cochran has given you memoranda on this subject. Another memorandum attached deals with industrial diamonds.

Customs reported today that there is no more molybdenum in storage at Los Angeles. 2,328,971 pounds were exported on Norwegian Steamship TUNGSHA, December 21, and 442,789 pounds on the Russian Steamship VLADIMIR MAYAKOVSKY on February 8.

February 29, 1940.

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60.00 - Cross Gear & Machine Co.
 248.67 - C. J. Tagliabue Mfg. Co.
 268.32 - Harlem Lumber Co. Inc. 5417-1
 54.72 - Olson Marine Supplies Inc.
 3,778.50 - Ingersoll Milling Machine Co.
 1,073.19 - The Ideal Electric & Mfg. Co.
 1,848.50 - Guaranty Trust Co.
 190.55 - The Fellows Gear Shaper Co. 750,000.00
 157.49 - Arthur H. Thomas Company
 1,583.63 - To meet eventual drawings against -
 L/C #25867 - Heald Machine Co., Worcester, Mass.
 4,551.41 - To meet eventual drawings against -
 L/C #25933 - Fellows Gear Shaper Co., Springfield, Vt.
 407.88 - Mason-Neilan Regulator Co.
 246.37 - John Bean Mfg. Co.
 7,549.74 - Schwab Brothers Corp.
 20,000.00 - J. Montezinos
 375.73 - Snap-on-Tools Corp.
 1,515.00 - Commercial Engineering Laboratories
 99,190.89 - N. Y. Trust Co.
 48,874.97 - N. Y. Trust Co.
 8,944.94 - Irving Trust Co.
 38,793.05 - N. Y. Trust Co.
 10,448.92 - To meet eventual drawings against -
 L/C #25935 - Allegheny Ludlum Steel Cor., NY
 2,704.64 - To meet eventual drawings against -
 L/C #25936 - Sundstrand Machine Tool Co.,
 Lockport, Ill
 801.59 - To meet eventual drawings against -
 L/C #25282 - Sundstrand Machine Tool Co.
 40,123.14 - Draft - G & N Trading Co.
 15,722.00 - Duquesne Smelting Corp.
 23.46 - Norma-Hoffmann Bearings Corp.
 253.77 - General Motors Overseas Operations
 239.23 - General Motors Overseas Operations
 49,603.28 - Moore-McCormack Lines Inc.
 2,950.00 - American Machine & Foundry Co.
 100,811.48 - Revere Copper & Brass, Inc.
 6,570.36 - Draft-Blanchard Machine Co.
 60,050.98 - To meet eventual drawings against -
 L/C #25977 - Bilgram Gear & Machine Works
 Phila., Pa. \$3,906.50
 L/C #25976 - Bohnberg-Jacobson Mfg. Co.
 Rockford, Ill. 7,374.40
 L/C #25975 - Ex-Cell-O Corp., Detroit, Mich. \$11,770.08
 L/C #25968 - Agencia Commercial y Maritima,
 Mexico, D.F. \$37,000.
 18,206.10 - Irving Trust Co.
 9,635.34 - Chemical Bank & Trust Co.
 14,401.98 - Chemical Bank & Trust Co.
 1,393.28 - Howell Electric Motors Co.
 25,003.44 - Schwab Bros. Corp.
 26,043.72 - Pope Trading Corp.
 11,776.64 - Moore-McCormack Lines Inc.
 2,343.77 - American Wool Stock Corp.
 41,110.99 - Foster Machine Co.
 5,402.25 - The Carborundum Co.
 3,527.33 - Independent Pneumatic Tool Co.
 407.49 - The E. Horton & Son Co.
 507.37 - Wyanbeck & Staff Inc.
 38,672.32 - The Whipple & Choate Co.
 16,356.08 - Driver-Harris Co.
 4,383.72 - E. S. Androvette
 41,281.83 - Standard Oil Co. of California
 5,525.14 - Draft - National Tool Co., Cleveland
 16,079.22 - Draft - National Tool Co., Cleveland

(2/10/40 - Cont.)

882

\$ 4,586.70	- National City Bank	\$500,000.00
12,210.03	- New York Trust Co.	
125,429.56	- New York Trust Co.	
1,356.30	- National City Bank	500,000.00
4,705.48	- Chemical Bank & Trust Co.	
3,391.75	- To meet eventual drawings against - L/C #25996 - Hammond Mfg. Co. Cleveland, Ohio	
20.50	- Reed Prentice Corp., Worcester	
1,627.39	- To meet eventual drawings against - L/C #23198 - Ex-Cell-O Corp., Detroit, Mich.	

Balance 2/10/40	-	\$ 787,415.63
Credits	-	<u>1,750,000.00</u>
		2,537,415.63
Debits	-	<u>965,401.62</u>
Balance 2/16/40		\$1,572,014.01

2/10/40

\$18,006.59

\$ 89.10 G. Murox
54.45 Sema Levine
66.83 E. Morris
148.50 J. Ohsol
86.62 J. Lewin
155.92 Y. Sharov
54.45 M. Vergun
25.16 M. Vergun
81.67 L. Weiss
81.68 F. Papert
184.75 K. Novikov
144.79 N. Yegorov
74.25 A. Selby
186.61 V. Kalinin
93.56 K. Gazonova
79.20 T. Swan
133.15 V. Teyganov
133.16 C. Lissitsyn
133.16 V. Bogatchev
85.75 L. Kryzak
86.62 J. Kaplan
73.50 B. Dansker
85.75 M. Zaret
24.75 J. Rubin
69.30 R. Engelbourg
123.75 B. Gourin
85.75 L. Greeze
85.75 A. Rubinstein
74.25 L. Cashuk
139.59 S. Malov
74.25 J. Kenner
145.53 S. Kousin
133.16 I. Zouev
11.88 Leon Rutman
175.73 P. Vinnikov

591.70

- \$88.20 C. Golosman
- 74.25 M. Kroll
- 123.75 J. Budish
- 85.75 N. Chirchin
- 54.45 C. Ross
- 85.75 B. Wolk
- 36.75 N. Fedoseeva
- 73.50 P. Litvackova
- 90.65 A. Morin
- 85.75 A. Bronstein
- 85.75 U. Shuldiner
- 172.75 A. Fedoseev
- 133.15 I. Maslakov
- 133.16 I. Maslakov
- 133.15 I. Maslakov
- 53.46 S. Joukov
- 106.43 A. Dondin
- 175.73 A. Krutchkov
- 104.76 M. Vinnikov
- 23.42 P. Vinnikov
- 175.72 S. Seminov
- 181.17 V. Ignatiev
- 49.50 A. Grigorieva
- 50.31 T. Beymann
- 85.75 A. Gamburg
- 207.41 O. Rubanoff
- 122.26 P. Kashin
- 199.49 A. Petrov
- 26.73 M. Riabtchitski

2/16/40

\$11,505.37

2/10/40: Opening Balance	-	\$18,006.59
Total Credits	-	-0-
		<u>18,006.59</u>
Total Debits		6,501.22
2/16/40: Closing Balance		<u>\$11,505.37</u>

1/17/40

\$1,572,014.01

117,849.23 - To meet eventual drawings against -
 L/C #26033 - Westinghouse Electric
 International Co., NYC
 15,290.09 - Transfer to Regular Account
 3,000.00 - General Steamship Corp. 198.00
 146,233.21 - American Smelting & Refining Co.
 40,054.62 - G. & N. Trading Co.
 34,062.12 - Cone Automatic Machine Co.
 23.51 - Eastman Kodak Company
 750.00 - Morgan Construction Co.
 5,117.75 - Norton Co.
 65.26 - Hygrade Sylvania Corp.
 624.01 - The L. S. Starrett Co.
 232.89 - The Fellows Gear Shaper Co.
 25,897.45 - National Broach & Machine Co.
 662.71 - Ford Motor Co.
 281.60 - Wilson Mechanical Instrument Co. Inc.
 581.55 - Zenith Carburetor Division, Bendix Aviation
 Corp. 750,000.00
 75.90 - American Air Filter Company Inc.
 14,890.77 - Gogen Machine Corp.
 450.00 - Special Machine Tool Engineering Works Inc.
 75.89 - Firestone Tire & Rubber Export Co.
 4,009.42 - E. I. du Pont de Nemours & Co. Inc.
 679.15 - The E. Horton & Son Co.
 320.62 - General Electric X-Ray Corporation
 8,617.14 - Gleason Works, Inc.
 340.16 - Weston Electrical Instrument Corp.
 27,452.15 - The Fellows Gear Shaper Co.
 283,364.55 - E. J. Schwabach Co.
 6,156.25 - To meet eventual drawings against -
 L/C #24631 - Greenlee Bros. & Co., Rockford, Ill.
 37,460.34 - To meet eventual drawings against -
 L/C #26091 - Substrad Machine Tool Co.,
 Rockford, Ill.
 268.47 - To meet eventual drawings against -
 L/C #25936 - Sundstrand Machine Tool Co.,
 Rockford, Ill.
 1,715.77 - Cornell-Dubilier Electric Corp.
 12,973.59 - Transfer to Regular Account
 1,600.00 - General Steamship Corp. 750,000.00
 3,412.22 - The Ideal Electric & Mfg. Co.
 750.00 - Moore - McCormack Lines Inc.
 1,926.28 - Gleason Works
 331.05 - The De Vilbiss Co.
 254.10 - Howell Electric Motors Co.
 967.93 - Howell Electric Motors Co.
 2,000.00 - Detroit Tap & Tool Co.
 7,535.71 - City Pattern Works
 21,054.12 - G & N Trading Co. Inc.
 14,449.63 - National Broach & Machine Co.
 430.00 - Central Hanover B & T
 362.36 - National City Bk
 204.33 - Central Hanover B & T
 22,057.43 - Chemical Bank
 29,850.33 - N. Y. Trust
 24,506.49 - N. Y. Trust
 10,221.53 - Central Hanover B & T
 24,491.45 - N. Y. Trust
 84,264.91 - N. Y. Trust
 1,502.39 - General Steamship Corp.
 111,664.00 - SS "Wildwood" (Amer. Foreign Steamship Corp)
 4,055.70 - Norton Co. 500,000.00
 62,987.25 - International Metal Co.
 50,000.00 - Consolidated Aircraft Corp.
 7,668.00 - National Acme Co.
 2,200.00 - General Steamship Corp.

2/17/40 Cont.)

785

JDM7

7,493.84	- Weston Elec. Instrument Corp.	180.76
13,112.50	- National Acme Co.	
50,784.72	- Philipp Bros. Inc.	
204,263.37	- Revere Copper & Brass, Inc.	
26,040.00	- Pope Trading Corp.	
395.00	- Huber Pump Co. Inc.	
147,872.85	- Continental Grain Co.	
2.05	- General Steamship Corp.	
139,435.52	- E. J. Schwabach & Co.	
139,432.28	- E. J. Schwabach & Co.	

Balance 2/17/40	- \$1,572,014.01
Credits	- <u>2,000,378.76</u>
	3,572,392.77
Debits	- <u>2,009,156.02</u>
Balance 2/23/40	- \$1,563,236.75

2/17/40

\$11,505.37

\$ 35.27	H. Osherow	
111.38	K. Sobolev	
159.89	P. Fedosimov	
24.60	B. Courin	
224.24	A. Rostarchuk	
85.75	L. Levenson	
68.60	R. Ronick	
85.75	K. Amatneek	
85.75	A. Gochfeld	
129.21	M. Tcherkassov	
129.19	M. Tcherkassov	
1.48	H. Machok	
79.20	E. Kalinin	
53.46	A. Shubina	
145.53	S. Kouzin	
199.49	I. Morozov	
170.30	E. Finick	
99.00	A. Vislousov	
85.75	M. Moshinsky	23,000.00
79.20	M. Katz	
79.20	M. Katz	
133.16	A. Migounova	
93.56	V. Poverenny	
79.20	M. Katz	
111.38	J. Feinstein	
207.40	O. Rubanoff	
145.53	V. Capouzin	
79.20	N. Khimatch	
79.20	Z. Krutchkova	
79.20	I. Swan	
79.20	L. Corelova	
54.45	S. Levins	
61.88	M. Evans	
84.15	L. Butman	

#1

395

\$144.79 N. Yegorov
207.41 P. Baranov
175.73 S. Seminnov
56.93 E. Kochta
59.40 I. Weinstein
49.50 A. Krieger
54.45 G. Marcus
93.56 S. Bochkareva
49.50 A. Grigorieva
34.86 H. Steffen
61.88 F. Berk
54.45 M. Ostlund
81.68 F. Papert
123.75 B. Gourin
71.78 A. Dixon
86.62 J. Lewin
103.95 B. Solasko
173.25 S. Seidenbond
79.20 M. Mokrova
133.16 V. Pezak
48.16 L. Adomian
93.56 L. Rezak
29.11 Selma Bernstein
98.01 R. Koudriavtzeva
56.93 M. Cohen
123.75 M. Udel
89.10 J. Finkelberg
139.59 E. Serreev
106.43 A. Nikolskaia
74.25 A. Selly
186.61 V. Kalinin
145.77 K. Sobolev
167.06 A. Anisimov
111.38 H. Wilson

\$ 81.68 H. Osherow
106.43 R. Freedman
159.89 G. Odrov
56.93 J. Verbit
186.61 N. Strigin
222.75 K. Lukashov
219.29 T. Ivanov
86.62 A. Gorinstein
123.75 J. Budish
69.30 V. Vergun
199.49 M. Gousev
98.01 S. Shishkina
93.56 E. Golovina
49.50 B. Radin
54.45 F. Zalon
111.28 R. Wittenberg
81.68 R. Moskowitz
69.30 A. Schumacher
74.25 Lucien Rutman
20.79 N. Balagupchik
74.25 H. Bowlen
69.30 J. Carbus
79.20 E. Class
69.30 H. Kachok
89.10 I. Wiener
81.68 L. Elion
191.57 M. Fomin
74.25 E. Hartman
64.35 F. Squire
106.42 L. Ivanova
183.65 Ivan Stepanov
79.20 M. Yegorova
86.63 M. Bernstein
69.30 J. Rubin

35524

\$159.89 M. Riabtchitski

74.25 R. Bidner

69.30 A. Tchertkow

59.40 R. Chodrow

94.05 H. Lipman

49.50 Y. Anschein

69.30 J. Simon

89.10 P. Janson

99.00 N. Post

74.25 P. Gold

81.68 H. Isaacson

59.40 J. Goldsmith

81.68 K. Rottger

159.89 I. Agapov

159.89 I. Agapov

207.40 Ilya Stepanov

74.25 S. Geneson

111.38 B. Levins

204.93 A. Vislousov

145.53 A. Shurupov

159.89 S. Konstantinov

159.89 P. Fedosimov

74.25 S. Friedenbergr

81.68 W. Jacobson

99.00 T. Everett

172.76 G. Amosov

64.35 D. Cewirtz

66.83 N. Bell

54.45 M. Ruderman

81.68 J. Isaacson

69.30 F. Lees

159.89 B. Glybin

93.56 A. Shurupova

56.93 N. Balagurchik

595WS

\$139.59 S. Malov
 86.63 A. Svenchansky
 69.30 R. Eisenberg
 54.45 H. Zucker
 159.89 Y. Mokrov

2/23/40

\$20,207.81

2/17/40 Opening Balance - \$11,505.37
 Total Credits - 23,000.00
 34,505.37
 Total Debits - 14,297.56
 2/23/40 Closing Balance - \$20,207.81



TREASURY DEPARTMENT

WASHINGTON

February 29, 1940.

MEMORANDUM FOR MR. IREY:

A check-up of the Amtorg matter reveals the payments made to the Whipple & Choate Company as follows:

11/13/39	\$ 57,438.13
11/13/39	58,202.35
11/20/39	79,648.80
12/23/39	17,496.22
12/23/39	7,174.30
12/30/39	43,352.70
1/6/40	35,810.06
1/6/40	14,900.08
1/6/40	59,484.02
1/13/40	14,367.47
1/13/40	116,482.47
1/13/40	28,335.06
1/13/40	28,851.72
1/13/40	27,283.45
1/13/40	11,818.56
1/13/40	21,575.47
1/20/40	27,163.75
1/20/40	37,825.11
2/3/40	28,815.57
2/3/40	16,579.81
2/10/40	<u>38,672.32</u>
Total	\$575,988.14

The last payment to the Climax Molybdenum Company, for the week ending November 20, 1939, was \$646,156.08.

T
B. M. Thompson.



TREASURY DEPARTMENT
WASHINGTON

February 28, 1940.

MEMORANDUM FOR MR. GASTON.

Commander Thompson in looking over the Amtorg accounts yesterday found two items of purchases by Amtorg from the Mogor Industrial Diamond Corporation in the amounts of \$33,350.73 and \$8,010.00, or a total of \$41,350.73. These purchases appear in the statement for the week ended November 13, 1939. As I told you this morning, we have not been doing anything further on the commercial diamond matter since you referred it to Mr. White, but I am to-day communicating with New York to learn of any further developments in the matter of the sales which were under consideration at the time of our last inquiry. Upon the receipt of a reply, you will be promptly advised.

A handwritten signature in dark ink, appearing to be 'J. A. White', written in a cursive style.

HSM

PLAIN

London

Dated February 29, 1940

Rec'd 11 a. m.

Secretary of State,
Washington.

495, February 29.

FOR TREASURY FROM BUTTERWORTH.

1. REFERENCE my 486, February 28. Asked in the House of Commons whether he was aware that the inadequate response of the holders of the $4\frac{1}{2}$ percent loan to the recent 2 percent conversion offer (see paragraph 1, my 378, February 13) was largely due to the widespread belief that the Treasury is unable or unwilling to enforce a thorough-going policy of cheap money and whether he is in a position to assure the House of Commons that the Government will take timely steps to restore confidence in the cheap money policy before issuing any big loan, the Chancellor of the Exchequer replied:

"So far from being regarded as being inadequate, the response to the conversion offer was in fact extremely satisfactory having regard to the great reduction made in the interest rate. I do not think that the House needs any further reassurance from me that the policy of His Majesty's

Government

Government continues to be one of favouring the lowest possible interest rates."

2. Although the details are not yet available on the South African Government's budget proposal to cease preempting the amount above 150 shillings an ounce on gold and to levy a new tax on profits, gold mining stocks in London have appreciated considerably, particularly those of marginal or low grade ore producers. For it seems clear that by abandoning what was in effect a heavy direct levy on gross revenues gold production will be increased. From a market point of view gold mining stocks likewise are now thought to have some utility as a hedge against inflation.

3. That such an amount as the £18 million Australian Government loan could be easily raised in the Australian market is regarded here as being due to the easier money conditions created (a) by the recent part payment by the British Government for the Australian wool clip and (b) to the fact that the last loan of £12 million was taken up directly by the Commonwealth Bank and the operation thus had the effect of releasing credit.

JOHNSON

CSB

HSM

PLAIN

London

Dated February 29, 1940

Rec'd 11:25 a. m.

Secretary of State,
Washington.

496, February 29.

FOR TREASURY FROM BUTTERWORTH.

Last night Maynard Keynes addressed in the House of Commons one of the largest private meetings ever held of members of Parliament on his latest scheme for financing the war (see paragraph 2, my 432, February 21, 5 p. m.) copies of which will go forward by pouch as soon as printed. His elucidation of his proposals evoked sufficient response from the 250 members of all parties to result in a request for another meeting. Whether these discussions and those being conducted in Parliament, the press and in private will lead to the acceptance of Keynes' or some other concerted plan of action remains to be seen. But the very improvement of popular economic knowledge which would make it easier to apply a comprehensive financial policy is also depriving this country of that protective cover of ignorance which successfully carried it through the crisis of 1931.

Incidentally

ham -2- No. 496, February 29, from London

Incidentally Lord Hankey, speaking on behalf of the Government, in a debate in the House of Lords on wages and prices stated: "I will only say in reply to the specific question put by the noble Lord that Mr. Keynes' scheme has been carefully studied and that it has not been rejected."

In the same debate Lord Stamp, the adviser to the Government on economic coordination (my 219, January 24, 7 p. m.) made official statements regarding the problem of inflation which are worth quoting:

"It is important that we should watch the total payroll, as our American friends call it, and the way in which it is being dispensed, because it is at that point that we reach the vital situation referred to by the noble Lord who initiated this discussion--the vital point as to whether we are taking enough from current consumption to get rid of the competition between the two great using sides, the services and the civilian side, in which lies the germ of inflation. As I said before, and I think I can repeat it now, there are no very clear signs of inflation at the present time, but I think we may say that possibly some of the seeds of inflation have been sown and that if the temperature is too high they will very easily spring into full flower; but at the moment we are not suffering from inflation. We think of inflation as a fixed quantity of goods

hsm -3- No. 496, February 29, from London

goods with an increased amount of purchasing power applied to them, but the problem we have to face is a diminished quantity of goods against an undiminished quantity of money. Now whether that is inflation or not is largely a matter of definition but that is the situation that we are likely to be faced with and that together with the competition between the two purchasing sides (i.e. the fighting services and civilian requirements) is the situation to which we wish to apply our correctives and those correctives, as has been said in this House, are scarcity and because of it and rightly, the system of rationing. But to apply these correctives to pretty well every class of merchandise is almost an impossible administrative task. We may have a scarcity and, outside the particular cost of living items, allow prices to rise. You only have to realise all that to see that that is not a solution of the problem of paying for the war. What we want to do is to apply to scarcity automatically reduced spending power in order that there should be no price rise benefiting people abroad, but that the transfer of spending power to the Government shall be complete. When I refer to no price rise I would remind your Lordships that we must have price rises which correspond to really increased costs, otherwise the whole economic machine jams. It is the price rise beyond that figure which we have to fear. This is a problem
which

hsm -4- No. 496, February 29, from London

which should be studied by itself before the question of shipping resources and before the maximum we can buy are brought into the picture. If we start with the maximum that we can possibly get from abroad and then leave it to find its level afterwards we may find ourselves impelled to inflation by means which we cannot avoid. But if we budget ourselves upon a clear idea of the total that we ought to spend as civilians--and that, I take it, is the real purpose of this debate--then I think that the shipping problem and the exchange problem can be dealt with more rationally. But the foremost problem is competition between the purchasing services and civilians for a limited amount of commodities, compelling an unhealthy dislocation of our price system and ultimately the vicious spiral".

JOHNSON

WWC

COPIES FOR SECRETARY

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

February 29, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his confidential information one copy of paraphrase of telegram No. 272 of February 29 from Paris transmitting a special message from Mr. Matthews.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE
SECRETARY OF STATE
DND FEB 29 AM 11 45
RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 29, 1940, noon

NO.: 272

RUSH.

PERSONAL AND STRICTLY CONFIDENTIAL FOR THE SECRETARY
OF THE TREASURY FROM MATTHEWS.

I refer to telegram of February 28, No. 270 from
the Embassy, second paragraph.

I just received a telephone call from Couve de
Murville, who tells me that they have definitely fixed
at thirty billion francs the amount of gold which is to
be ceded to the Treasury by the Bank of France.

At this moment, he said, a meeting of the Cabinet
is considering the whole program.

MURPHY.

EA:LWW

HSM

GRAY

Paris

Dated February 29, 1940

Rec'd 3 p. m.

Secretary of State,
Washington.

273, February 29, 6 p. m. (SECTION ONE).

FOR THE TREASURY FROM MATTHEWS.

Today's Journal Officiel publishes a decree setting forth in general the formalities to be observed by French importers with respect to the settlement of merchandise imported from the "sterling countries" and territories included in list A of the Ministry of Commerce's announcement--my telegram No. 267, February 28, 6 p. m. Prior to the entry of such merchandise the importer is merely required to submit to an "approved intermediary" of the Foreign Exchange Office, a declaration describing the terms of settlement of the desired import. After importation, the importer must furnish all necessary proofs regarding the use made of the means of payment placed at his disposal and the origin, source and price of the merchandise imported. He is required to return to the Foreign Exchange Office any exchange delivered to him the disbursement of which could not be warranted.

PEG
CSB

MURPHY

HSM

GRAY

Paris

Dated February 29, 1940

Rec'd 3:07 p. m.

Secretary of State,
Washington.

273, February 29, 6 p. m. (SECTION TWO)

Incidental costs (freight insurance, et cetera) in sterling relating to French exports to sterling countries may be settled merely through the submission ~~by~~ the exporter to an approved intermediary of a request for the necessary sterling exchange.

An addition to instruction relating to the settlement of imports into and exports from the metropolitan area in time of war (my telegram No. 2887, December 2, 5 p. m., and despatches numbers 5386, December 6, and 5508, December 26, 1939) brings it into line with the new arrangements and sets forth in detail the provisions outlined in the above mentioned decrees. The only exchange formality required of an importer (begin underlining) unwilling to authorize (end underlining) importing merchandise originating in and coming from a "sterling country" is the submission to an approved intermediary of a declaration in duplicate (form number 2/4S) describing the means of payment to be employed (pounds, francs
or

hsm -2- No. 273, February 29, 6 p.m. (Section 2) from Paris
or a statement to the effect that the importation does
not involve any payment). A copy of this declaration
shall be forwarded by the intermediary to the Foreign
Office.

MURPHY

CSB

HSM

GRAY

Paris

Dated February 29, 1940

Rec'd 3:23 p. m.

Secretary of State,
Washington.

273, February 29, 6 p. m. (SECTION THREE)

Imports must be effected within three months after declaration if originating in a "sterling country" in Europe or four months if coming from a "sterling country" outside of Europe. As an additional subsequent check on the bona fides of an import transaction, the customs office through which the merchandise has been cleared fills in two additional copies of the various customs forms connected with the operation and submits one of each to the Foreign Exchange Office.

Payments for merchandise imported from "sterling countries" may only be made in sterling or francs. After filing declaration form No. 2/4S, the importers may immediately be furnished the necessary sterling exchange from an approved intermediary or obtain a certificate from the intermediary to the effect that francs may be utilized in the settlement of the imports and that, if need be such francs may be credited to a foreign franc account.

(END OF SECTION THREE)

PEG

MURPHY

JT

GRAY

PARIS

Dated February 29, 1940

Rec'd 4:33 p.m.

Secretary of State,
Washington.

273, February 29, 6 p.m. (SECTION FOUR)

Arretes of the Ministry of Finance and the Ministry for Colonies provide for the changes necessitated by the foregoing in the wording of the arretes of November 30, 1939 relating to prohibited or authorized operations in foreign exchange affecting approved intermediaries.

The JOURNAL OFFICIEL also publishes a notice of the Foreign Exchange Office to approved intermediaries regarding the recent changes made in the text of Article VIB of the arrete of November 30 defining prohibited or authorized operations (my telegram No. 259, February 26, 6 p.m.). Approved intermediaries are instructed to advise their clients of the importance of these changes and of the desirability of cashing as soon as possible all coupons which have fallen due on the foreign securities held by them. The notice points out, however, that intermediaries should not refuse to cash coupons presented after the expiration of the three month time limit.

MURPHY

NPL

JT

GRAY

PARIS

Dated February 29, 1940

Rec'd 5:56 p.m.

Secretary of State,
Washington.

273, February 29, 6 p.m. (SECTION FIVE)

Finally the JOURNAL OFFICIEL publishes a resume of the terms of the Franco-Hungarian commercial payments accord which was signed on February 12 and which will be in force from March 11 to September 12, 1940. Payments for the settlement of French imports of Hungarian products will be made through deposits of francs in a special account opened in the name of the National Bank of Hungary with the Bank of France for the account of the French Compensation Office. This account will be drawn against (*) for the settlement in francs of Hungarian imports of French products. Presume a similar account will be maintained in the name of the Bank of France with the National Bank of Hungary for the settlement in pengos in Hungary of imports from and exports to France.

(END OF MESSAGE)

MURPHY

(*) Apparent omission

NPL:EMB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 29, 1940, 8 p.m.

NO.: 274

FOR THE TREASURY FROM MATTHEWS.

This afternoon I visited the Under Governor of the Bank of France, Mr. Rueff. He had been in London for four days conferring with officials of the Bank of England and "only" such British Treasury officials as the Bank desired him to see, and returned to Paris a few days ago. - he remarked that he was a central banker now, and that the Bank of England is quite suspicious of the Treasury just now.

Rueff said that one result of his visit to London was the relaxation of the exchange restrictions on the franc and sterling which is now appearing; references - telegrams of February 28, No. 267 and of February 29, No. 273, from the Embassy. He appreciated the real spirit of collaboration between the financial authorities of France and Great Britain, and spoke of the surprising lack of friction between them. He expressed the hope that the United States would understand that the reason for the progressive elimination of exchange formalities between the French and the British is so that in war they can follow as liberal a policy as is possible. He emphasized that the December agreement on financial matters between France and Great Britain

- 2 -

Britain gave the French free access to most of the British Empire. Thus for the duration of the war, any gold or exchange worries about sterling purchases were removed. Sadly he added that on the same conditions they would be only too happy to make a similar agreement with the United States.

I asked about the gold operations and restrictive measures which are now being adopted. Rueff expressed the same conviction as did Couve de Murville, that in France they would be well received - reference, telegram of February 28, No. 270, from the Embassy. This evening a radio address to make appropriate explanation of the measures is to be made by Reynaud. He said that most people are wondering why France has not adopted them before now. He said that France could carry on for a long time through the gold replenishment of the stabilization fund, and that the step was a wise one, adding that they must however do all that they could to out indefinitely their dollar purchases, and that the time would come when they would simply have to get credits to carry on, though this would not be for another year. Note: In this connection, I carefully refrained from giving him any encouragement.

Rueff said that internal conditions are as satisfactory as could be expected in view of the war. He emphasized that of the franc advance from the Bank of France in the amount
of

- 3 -

of 25 billions which he had arranged when he was still Director of the Movement General des Fonds, nearly 7 billion had not been utilized, whereas, he said, the whole sum had been designed to carry the Government through only the first month of hostilities.

As for conditions after the war, he spoke more optimistically than did others with whom I have talked recently - references, the views of Rist, transmitted in telegrams of February 16, No. 224 and of February 21, No. 247 from the Embassy. Rueff said in effect that he hoped we realize that one of the main war aims they look forward to is to produce a Europe wherein people will cease thinking in terms of vital spaces. They want to get away from systems of quotas, high tariffs, control of exchange, and all the other evils which prevailed before the present war broke out. He said he thought it could be managed if the right type of leaders were in power in the several countries. He realized it would require great effort, and strong vested interests for defending autarchic practices would be created by the conditions necessarily imposed by the war, but if they had the will and leadership they could return to a liberal economy, and much would depend on the attitude of the United States. He said that a great role could be played by the United States.

END OF MESSAGE.

MURPHY.

EA:LWW

Regraded Unclassified

A paraphrase of the following telegram was sent to the AMERICAN CONSUL, RANGOON, February 29, 1940, 7 p.m.

The Secretary of the Treasury would appreciate receiving an air mail report on possibilities for transporting goods from Rangoon to China by using Irrawaddy River. Please report present state of river traffic, indicating volume of trade, describing facilities at upper head of navigation, stating capacity of vessels now in the service and estimating opportunity for increased use of this means of transportation.

EA:LWW

Telephone Conversation February 29 at 4:05 p.m.

Mr. Sullivan called Fowler Harper.

Harper: Hello John

Sullivan: Hello Fowler. I had that discussion this afternoon and it is apparent that nothing is to be gained by having Elder come in to talk to anybody. You recall yesterday that I suggested to you the thing for you to do is to drop the matter and consider it closed. In all friendliness, I repeat that advice today. I think it is extremely doubtful that you could be helpful, and considering the position you occupy, I think you might be making a serious mistake.

Harper: Of course, the idea of him coming to Washington was specifically to find out what you thought he owed on the basis of any figures.

Sullivan: I understood that and reported it. Just take this as a friendly tip -- won't you Fowler?

Harper: You mean that as you just expressed it?

Sullivan: Right.

This conversation occurred while Mr. Helvering was in Mr. Sullivan's office.

JHS

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

13

INTER-OFFICE COMMUNICATION

DATE February 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 4 p.m. today the Secretary received Mr. Chen by appointment. Mr. Chen thanked the Secretary most graciously for the assistance the Secretary has rendered in fostering and promoting the idea of China obtaining a loan from the Export-Import Bank against tin. Mr. Chen gave Secretary Morgenthau the prospective terms of the credit, and stated that he was working now with Mr. Warren Pierson on drawing up the contract. The 40,000 tons of tin are to be delivered over a period of seven years. Mr. Chen stated that if it is agreeable to the Secretary, he plans to leave the United States in April to visit his country, with the principal purpose of visiting the tin mines, modernizing the production of tin, and looking into transportation facilities. He stated that Mr. Sheahan and Mr. Buck will be here shortly to report to him on the transportation situation in China. Secretary Morgenthau indicated his interest in seeing these two men, particularly Mr. Sheahan.

Mr. Chen was elated over the prospects for higher prices for tin, as a result of the reduction of the quota fixed two days ago by the British cartel. He was also able to report a marked increase in the price of the Chinese tung oil which he is now marketing in this country.

In connection with his planned return to China, Secretary Morgenthau asked who would be in charge of the Universal Trading Corporation in his absence, and was informed that there would be a board, including Messrs. Ben and Lochhead. The Secretary then stated that he had not planned to bring up the subject, but in view of Mr. Chen's contemplated departure, he thought he should mention it frankly. He then spoke of the report that David Kung had been in difficulty in China and was coming to this country. He reported the further gossip that Kung would occupy a position in this country with the Universal Trading Corporation. Mr. Chen was aware that Kung had gotten into difficulties in Hong Kong in connection with operations of a radio station, had left China for Manila and would be coming on to this country to study. He was aware further that David was a "bad boy", but thought a little more schooling might help him. The Secretary indicated his concern lest this man would be associated with the Universal Trading Corporation with which we have direct contact. Mr. Chen insisted they had no word from Mr. H. H. Kung in regard to his son, and had not the slightest intimation that he was to enter Universal Trading. Mr. Chen is definitely and positively of the opinion that this is not so.

In answer to the Secretary's question as to the identity of the Central Trust, Mr. Chen replied that this was a branch of the Central Bank which attends to tung oil shipments, etc. at Hong Kong. He thought David Kung was

- 2 -

about 22 years old and that his one brother is younger.

The Secretary brought up the subject of the possibility of transporting goods, including part of those now stored at Haiphong, by utilizing the Irrawaddy River from Rangoon to China. Mr. Chen promised to look into this question, and Mr. Cochran was instructed to send a cablegram to the American Consul at Rangoon requesting a report thereon. Mr. Chen will remain in Washington over the weekend and will be available if the Secretary desires to speak to him.

B. M. S.

RE INDIANA INVESTIGATIONS

February 29, 1940.
3:00 p.m.

Present: Mr. Sullivan
Mr. Helvering
Mr. Irej
Mrs Klotz

H.M.Jr: I asked you people to come here, but the thing moved so fast that unless you sat in my office you couldn't keep up with me. This morning - I don't know whether John Sullivan told you about his talk yesterday. Are you up on that, with Harper?

Helvering: Yes. I got a memorandum from --

Irej: I made copies of that memorandum and the Secretary has got it.

H.M.Jr: Then you are up on that? Well, this morning I called up the Attorney General and I had a talk with him and I said, "You know, Bob, I would like to get in on this thing," and so forth and so on, "and I wish you would bring Nolan on here and talk to me," and so forth and so on, the United States Attorney. Well, he didn't know much about it and he said he would look into it and before lunch he tried to get me and couldn't and he got hold of Foley and then Foley and I both talked to him and he said that he felt the way this - you call it petition, is that what you call it?

Irej: Yes.

H.M.Jr:was drawn was entirely too political, that it mentioned things in there which he suggested didn't belong in the position at all and he said that the thing had got to be re-drawn and he wanted Foley to send somebody over there. I don't know whether you know about this.

Sullivan: I had lunch with Ed and he told me about it.

H.M.Jr: So I asked Ed and he said this was a legal matter and would fall in his shop and I felt this important enough that Ed himself ought to do it, because we want this thing done right, so I spoke to the Attorney General with Ed sitting

- 2 -

here and I take it he is over there now.

Helvering: Yes.

H.M.Jr: I don't - oh yes, the most important thing of all was that Jackson said after we had re-written it and he, Jackson, would read it once and send it out and see that this thing was presented to the judge at once.

Irey: Yes.

H.M.Jr: I think that I have told everybody everything that I know.

Helvering: There may have been one or two questions, Mr. Secretary, in that petition, the basis of the petition, I mean. It might be construed that way, but those wouldn't necessarily have to be a part of the petition unless they were - I don't know, I haven't seen that.

H.M.Jr: To be perfectly frank, I have never seen a petition in my life, I don't even know what one is, but if the Attorney General says there are a couple of things in there which he doesn't like, and I don't think it can make any difference if you leave out the fact that somebody was supposed to give Senator Minton a wrist watch and that somebody else mentions - talks about Mr. McNutt's coming out party. Those were the two things that the Attorney General objected to. I have never seen a petition and I don't know how one is written and I couldn't write one. I wouldn't know how to present it.

Irey: I called Sullivan after I left your office to find out just what the situation was and they were questioning that - they had asked Elder in for an interview and he submitted a transcript of that interview to the United States, but that transcript of the interview isn't necessary to file with the petition and doesn't become public, so they can do what they want with the petition, work it any way they want. They don't need to write those questions in.

Helvering: Those questions don't need to be entered into the petitions at all, but if Nolan included

- 3 -

reference to those questions in the petition to the court, Jackson is absolutely right.

H.M.Jr: I don't know, but all I know is Ed is over there now. He is working with Sam Clark. I take it he is over there now. When it is done, Mr. Jackson is going to look at it and he is going to send it out and tell Nolan to present it to the court and that is what you gentlemen want.

Helvering: Yes.

Irey: That is right.

Helvering: I had a talk with Jackson just before I left and his attitude was entirely cooperative on the matter.

H.M.Jr: Let me ask the advice of you three gentlemen to this extent: Do you think, with this going on and with instructions from the Attorney General to Nolan to present it to the court, do you think it is necessary to bring Nolan to Washington? That is what I asked this morning. Do you think I ought to press for that?

Helvering: Well, I don't see any need of it, Mr. Secretary, if Jackson gives him instructions.

Irey: If these instructions are as specific as they undoubtedly will be and because of the shortness of time, I think it would be better to wait and see if Nolan goes through with it. If he weakens, then I think you might bring him on, but if he follows his instructions and goes through with it, we will just lose time.

H.M.Jr: The purpose I had in asking him to come was I was afraid he wasn't going to present the petition.

Irey: I believe it would be better to leave him out there.

H.M.Jr: What do you think?

Sullivan: I think so.

- 4 -

- Irey: The way things developed this morning, I think the views we had yesterday have sort of changed somewhat.
- H.M.Jr: The whole thing has changed.
- Sullivan: How about Harper's offer to have Elder talk with anybody?
- Helvering: There is only one man for him to talk to and that would be Sullivan.
- Sullivan: Do you want me to tell Harper to tell Elder to get in touch with Sullivan?
- Irey: They have been in touch with each other for months. It is just the last week he has this list of questions.
- Sullivan: Just in the last week?
- Irey: In the preparation of this petition.
- Sullivan: Was this during the last week?
- Irey: Well, maybe last Tuesday, see, preparing for this petition. I don't know what date it was.
- H.M.Jr: What do you think, Guy?
- Helvering: Well, now that we have had two interviews with Elder, one by Mr. Leming and one by Mr. Sullivan, both interviews were evasive and some questions he refused to answer, and everything like that, and I don't think it is wise procedure to continue to have interviews with a fellow who has had two opportunities to tell the truth about it. I think the thing is to get him under a court order and then he is in contempt of court if he doesn't answer the questions, whether he tells the truth or not you can't tell, of course, but if he refuses to answer the questions he can be put in contempt of court.
- H.M.Jr: Let me just think. I am thinking out loud. Supposing I call up Mr. Harper and say, "Mr. Harper, Mr. Sullivan has reported to me his conversation

- 5 -

with you of yesterday. Let me give you a little friendly advice. Keep out of this. If the Treasury Department wants to get in touch with Mr. Elder or Elder wants to get in touch with the Treasury Department, he knows how to do it."

Sullivan: I don't think that answers it. I mean, I assume you are inviting comment on that.

H.M.Jr: I am asking you.

Sullivan: Now, I don't know whether Mr. Halvering understands what has happened or not, but yesterday morning Mr. Harper came to see me and in the course of his conversation he rather casually said if - he said, "I know that none of McNutt's friends have done anything dishonest. If they have, maybe it is unfair, but he will have to pay the penalty for that, loss of prestige and public disfavor for associating with that type of person." He said, "On the other hand, some of them may have been careless, may have been sloppy in the way they reported and if anybody, Bo Elder or anybody, failed to report things he should have reported, why, he should pay all he owes, together with all penalties and interest," and he said, "He would be willing to do it." "Why," he said, "I would make him do it, even if it broke him," and then later on in the conversation he came back to that again. He expressed the desire yesterday morning to talk with the Secretary and I said I didn't know whether the Secretary would care to see him or not, but that I would notify him and when evidently the Secretary didn't want to talk to him, I so advised him and he seemed very much disappointed.

About an hour later I was paged over at the hotel, went upstairs into the lobby, and here was Fowler Harper, and he said, "I hate to bother you, but did you get the full significance of what I said about Harper?"

H.M.Jr: You don't mean about Harper.

Sullivan: About Elder, and I said, "yes, I think I understood what you meant." I mean, he put it so

- 6 -

casually that he was afraid I didn't get what he was driving at. Of course, the purport of his remarks was, why don't we settle this whole business. "You tell us what you want Elder to pay and that ends the investigation," and I said, "Yes, I understand," and then he wanted to know if I would submit that to the Secretary.

H.M.Jr: What I want to do, unless you people think I am wrong, I want to cut off Harper acting as a messenger. I don't want Harper in this picture. I want him out of the picture.

Sullivan: Well, excuse me. Isn't what you really want to end negotiations?

H.M.Jr: I want Harper out of this picture. I don't want him sticking his nose into something which is none of his business.

Sullivan: Well then, somebody else will come in when he gets out.

H.M.Jr: No, Mr. Bo Elder has his chance and has had his chance and will have his chance when the United States District Attorney presents his petition and then he has to appear before the judge and answer these questions and that is the time he should do the talking, and as far as I am concerned, any other opportunity is out.

Sullivan: That is what I say, what you want is to end anybody negotiating, not necessarily --

Irey: He is a Government officer doing this negotiating.

H.M.Jr: That is highly improper on the part of Harper. I want to get Harper out of this picture.

Sullivan: That is all right, then.

H.M.Jr: The reason I am saying it is, Mr. Elder can retain counsel and we can't refuse to see his counsel. I am sticking just to my one thing, I want to get Harper, who is on the payroll as counsel for this organization. I want to get him out of this picture.

- 7 -

Sullivan: I see.

H.M.Jr: I mean, I know what I am saying, but after having said it, I will now sit back and you can argue or anybody else can argue why he should stay in the picture, but I want to make plain what I have got in my mind.

Sullivan: My comments were made because I thought that this was really a half measure when what you wanted to do was to end all negotiations.

H.M.Jr: I want to get Harper out of this picture.

Sullivan: That is the way to do it then, just as you suggested. Or, if you would rather have me --

H.M.Jr: No, I am perfectly willing to call him.

Irey: Of course, Harper doesn't know what it is all about.

H.M.Jr: I am perfectly willing to call up if it were just one thing - I don't - just stop and think a minute, I don't want it to look in any way as though I was using that to slap you down.

Sullivan: No, that wouldn't look that way.

H.M.Jr: Be sure.

Klotz: Don't you think it would accomplish the same thing if someone else tells him he is a Government official, to stay out of this?

H.M.Jr: Yes. What do you think, Guy?

Helvering: Well, there is a direct request to see you on this thing, isn't there?

Sullivan: Yes.

Klotz: And you refused to see him?

H.M.Jr: Yes.

Klotz: Oh, that is one reason why you shouldn't call him up and tell him, then.

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H.M.Jr: The message I sent said this was an inappropriate - what did I say, time?

Sullivan: You thought it would be inadvisable.

H.M.Jr: Inadvisable. I think that if you would call him up, John, and tell him that you had 24 hours and you talked it over with me, and that you would like to point out to him that he is a Government official, and so forth and so on, or any other way you want to put it, and leave - close the door once and for all. He is out of it.

Sullivan: Have you (Irey) got my memorandum? I haven't a copy.

H.M.Jr: I want to get him out of this thing. He has nothing to do with any other representation that Bo Elder might want to send as counsel for anybody else, but just this fellow, I want to get him out.

Klotz: I agree with you, but I wouldn't do it yourself. You refused to see him.

H.M.Jr: I did, yesterday. I didn't know what Sullivan wanted to do.

Helvering: I believe the way, Mr. Secretary, is to assume the attitude that as far as you know he has asked to see you and you have refused to see him and as far as you know he is out of it.

H.M.Jr: I said it just like that yesterday. But he didn't take that and he went after Sullivan again at noon, you see, after I told him. I am right on that, John, am I not?

Sullivan: That is right.

Irey: And he is waiting to hear from you, John, is he?

Sullivan: Oh yes, he called this forenoon and wanted to know what had happened and I said the matter was to be discussed this afternoon and that I would call him after this had been discussed.

- 9 -

H.M.Jr: As I remember it - you check me - sometime during the morning I saw Sullivan and he told me this. I said, "I don't want to see him and close the door firmly but gently in his face."

Sullivan: And I did that.

H.M.Jr: And he did that and he comes back at him at noon again, you see, and then - what I am trying to do is get this fellow out and have him stay out and have him stopped being used as an approach.

Irey: I hate to see you go into it as long as you have kept out of it.

H.M.Jr: All right, is that what you think?

Klotz: Yes.

Sullivan: I advised him that his repeated inquiries, although prompted by his personal regard for Mr. McNutt, might well be construed as a disfavor to him. I said I thought he should consider that from now on the door was closed and that he should make no further inquiries from me or from Mr. Foley.

H.M.Jr: Then, it seems to be the unanimous opinion, if you concur, that you call, and what will you tell him?

Sullivan: I am going to tell him that we discussed this matter, that nothing is to be gained from his coming - from Elder's talking with anybody any more, that he has twice been interrogated, and that, as I have told him yesterday, he was doing McNutt a distinct disservice by making further inquiries. He is an official of the Government and that he had better take the advice I gave him yesterday and drop this matter.

H.M.Jr: And may I add one thing, and as a friendly tip, profit himself. But just remember whose payroll he is on, just as a friendly tip.

Sullivan: Yes, I will tell him that. Do you want me to call him now?

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H.M.Jr: No. When it gets to that, John, that is a bad thing for both of us.

Sullivan: Oh no, I didn't mean that you distrusted me, I didn't know but you would want to know what he had to say.

H.M.Jr: Oh, no. All right?

Helvering: Yes.

H.M.Jr: Now, two other things. I have got this reporter, to be a little facetious, and I always like to give Colonel Knox's reporters a little extra break on account of the fact that John's father represented them.

Sullivan: How about me?

H.M.Jr: And he is outside and he is asking me some questions which are perfectly silly and he knows that he can't be answered, but his editor is crowding him so when he is through I have asked him to come in. He is a terribly nice fellow and he can say, "I saw them all," and he can send the word back. We will have him in in a minute.

But after that - before that - you talk to me about Guy Helvering's pal from North Carolina who is on the Board of Processing Taxes.

Sullivan: Hathcock.

H.M.Jr: Have you had a chance to see Doughton?

Sullivan: No. You recall in our conversation early yesterday morning that we said we would consider for 24 hours whether or not there was to be a hearing and if so, before whom.

H.M.Jr: Right.

Sullivan: And I asked Mr. Foley to consider that and I do not yet have a report from him.

H.M.Jr: Well, time moves and Mr. --

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Klotz: Time marches on.

H.M.Jr: And Mr. Doughton called me up this morning and he is very much exercised about it, and so forth and so on, and he wants to see me and he wants Schwarz and this fellow here, so I said from 3:00 to 4:00 on Monday to see Mr. Doughton, Mr. Schwarz and Mr. Hathcock.

Sullivan: Splendid. That can be the hearing.

H.M.Jr: Says you.

Klotz: I didn't hear that.

H.M.Jr: He says, "Splendid, that can be the hearing." So if you two gentlemen would be here and talk it over between you - I mean, so that you have the stuff at your fingertips, and so forth and so on. You don't get in on this, Irey, but if you two fellows would come in. He is making a lot of statements about Schwarz back and forth and all the rest of the stuff, see. This thing of Hathcock's - I am going to come in and say, "Doughton, what is all the shooting for?" And I think we will let Doughton talk first and then - but one or the other of you will have to be prepared to - or both of you --

Helvering: Of course, the Chief Counsel of the Bureau ought to be here, although - because Mr. Hathcock was associated up in his Bureau.

H.M.Jr: Well, will you two gentlemen --

Helvering: Not on this, but he used to be.

H.M.Jr: Will the two of you get together and be prepared to handle this meeting for me and I will act as Chairman and I will ask, "Now, Mr. Doughton, you have asked for a hearing before these people and we are here. Now, what is the trouble?" And that will start the thing going.

Sullivan: I have memoranda on what he did and what Edward did. They just came in and you (Helvering) can take them back and be familiar with them by Monday morning.

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H.M.Jr: Would you two fellows be ready to be in my office at 3:00 o'clock Monday? And if you want your Counsel - what is his name?

Helvering: Wenchel.

H.M.Jr: Bring anybody you want. Doughton said could he bring anybody he wants. He said he might bring some other members of the committee, so that is that. I think we are going to get somewhere.

Irey: The objection he raises can be met very easily.

H.M.Jr: O. K.