

DIARY

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March 4 - 6, 1940

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COPY FOR SECRETARY



DEPARTMENT OF STATE
WASHINGTON

Reply refer to
91.51/527

March 8, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a paraphrase of a confidential telegram of March 4, 1940 received from the Legation at Tehran, Iran, relative to an arrangement for credits for the Iranian Government reported to have been signed recently in London.

Enclosure:

Paraphrase of telegram
from Legation at Iran
dated March 4, 1940.

TO THE SECRETARY
TECHNICAL RECORDS
MARCH 10 1940

TO THE SECRETARY
MARCH 15 1940

RECEIVED
MARCH 15 1940

Paraphrase of confidential telegram
dated March 4, 1940 received from
the American Legation at Tehran.
(891.51/527)

Information has been obtained to the effect that about ten days ago a credit arrangement was signed in London making five million pounds sterling available to the Iranian Government. Of this amount, one million dollars may be used in the United States for immediate purchases.

THE WHITE HOUSE

NOV 8 1940

SECRETARY OF THE TREASURY

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

NOV 15 1940

RECEIVED
TREASURY DEPARTMENT

March 4, 1940.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston, Mr. White, Mr. Cochran, Mr. Cotton, Mr. Schmidt.

We have considered the suggestion of Secretary Hull, expressed in a letter to you, that you participate as one of a committee of three, to include Jesse Jones and a representative of the State Department, to consider the request of the Brazilian government that the United States take steps to forward the development of a steel industry in Brazil, with the prospect that a sizeable investment of public or private American capital might be involved.

It is our opinion that the Treasury does not now possess information sufficient to form a basis of judgment as to whether investment either of public or private American funds in such an industry would be justified.

If this request is to be further examined it is our opinion that it can best be examined either by the Export-Import Bank or by the Inter-American Bank, if that institution should be constituted.

Further, if decision is to be made as to whether public funds of the United States should be invested in such a project, we think the decision is one to be made by the Export-Import Bank and not by the Treasury Department.

If the committee of three, mentioned by Secretary Hull, should be reconstituted with you as Chairman, we think it should take under consideration all financial questions involving the development of South and Central American economies, including debts in default, and this Brazilian steel proposal might then properly come before that committee for examination.



AIR MAIL

No. 60

AMERICAN CONSULATE GENERAL

American Foreign Service, Hanoi, Indochina,
March 4, 1940.

SUBJECT: Cargo transitted to China
during February, 1940.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my despatch no. 54 of February 20, 1940, in regard to the quantity of cargo transitted to China via Indochina during the month of January, 1940, and to submit the following preliminary information in regard to the cargo transitted during the month of February, 1940.

As during the previous month, the Indochina-Yunnan Railway was unable to function at normal capacity because of the damage from Japanese bombing attacks, only a small amount of cargo being transported during the first half of the month. With the restoration of through traffic (but operating mainly at night) on February 16, the daily volume of traffic increased considerably. Certain technical difficulties prevented the railway from transporting a great amount of new cargo, i.e., cargo at Haiphong awaiting shipment to China. I understand that the great bulk of

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cargo carried by the railway in February was cargo loaded during the previous month, which was stranded at various places along the railway as a result of the bombing.

These loaded cars, which had to be moved to Kunming for unloading, caused a shortage in rolling stock, which apparently had not been remedied by the end of the month. On March 1, one source of information reported approximately 6,300 tons of cargo still to be moved before normal traffic conditions could be restored. The majority of this tonnage is believed to be on the Indochina side of the frontier.

Accordingly, the Southwest Transportation Company, which now handles the major portion of the cargo transitted to China via Indochina, transitted only about 2,100 tons of Chinese Government cargo from Haiphong across the frontier. Of this amount approximately 1,300 tons were gasoline and petroleum products. Mr. T. C. Chen of the Southwest Transportation Company estimates that, in addition to the 2,100 tons, about 600 tons of commercial cargo were transitted. As yet I have no information of the amount of cargo carried by the railway for its own needs or that carried from intermediate stations. This information will be available on or about the 10th of the month.

The railway was by far the main route of transportation. The Caobang road carried not over 900 tons - mostly gasoline and spare parts, in 300 used trucks (brought in from China for this purpose) and 115 new trucks (from the assembled stock at Haiphong).

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Transportation by coolies and pony caravans, which is becoming an increasingly important factor, can only be estimated, at probably not over 200 tons during the month.

In sum, the cargo transitted to China during February amounted to approximately 3,800 tons. During the same period, arrivals of cargo at Haiphong for transit to China are estimated to have been approximately 4,500 tons, of which at least 2,800 tons are understood to have been gasoline and petroleum products. Accordingly, the amount of cargo at Haiphong awaiting shipment to China remained about the same as previously reported, although reported increased exports from Haiphong to Hongkong and other ports may mean that some of the accumulation of the last year and one half is being cleared away.

If the Japanese should return to bomb the railway, which is the present main and perhaps the only important route of transportation to China, the prospects of clearing the cargo congestion at Haiphong will be rather remote.

Respectfully yours,

For the Consul at Saigon,

CHARLES S. REED II,

American Consul

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

815.4

CSR:car

the secretary gave a
copy of this to
Mr. Jesse Jones.

7

March 4, 1940

Mr. White

Mr. Schmidt

Subject: Proposed Iron and Steel Development in Brazil

Summary

Brazil has large undeveloped reserves of high grade iron ore and only a trivial domestic iron and steel industry. The richest deposits are still inaccessible by railroad. These deposits have not been developed primarily because there is no suitable fuel in the vicinity and because of transportation difficulties.

The Itabira Iron Ore Company, headed by an American (Percival Farquhar), signed in 1919 a contract with the Federal Government authorizing this company to develop the Itabira deposits. The general plan called for the reconstruction of a 300 mile railroad from the iron deposits east to the Atlantic Coast and the development of a new port (Santa Cruz) three hundred miles north of Rio de Janeiro. Although the construction of a 150,000 ton capacity steel plant was envisaged, the company was primarily concerned with exportation of the ore. For approximately twenty years the plan was successfully opposed by various pressure groups and the contract was cancelled in August 1939.

In the Autumn of 1939, a committee of U. S. Steel experts, at the request of the Brazilian Government, investigated the Brazilian iron and steel situation and recommended that their company participate in the construction and operation of a 285,000 ton capacity plant, provided adequate assurances could be obtained with respect to reorganization of transportation and with respect to tax, labor and foreign exchange policies. They reported that sufficient raw materials are accessible, except for coal which would have to be imported. Some domestic coal could probably be used if mixed with foreign coal in the ratio of one to two. The report estimated that capital requirements for the steel plant would amount to \$35 million (including \$5 million for inventories and operating capital). Twenty-two million would be needed in dollars and the balance could be in milreis. The Committee estimates that such a plant would earn net profits of 15 percent, after allowing for a substantial decline in Brazilian prices of steel products, and after including depreciation and taxes in cost estimates. Prerequisite to the successful operation of the plant, in the Committee's estimation, are: (a) the investment of \$12.6 million in improving Brazilian transportation facilities, and (b) the placing of the management of two governmentally owned railroads under autonomous and efficient management.

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Division of Monetary
Research

According to Mr. Feis of the State Department, the U.S. Steel Corporation has decided not to participate in the project. The reason given for this decision was essentially that the executive branch of the corporation already had many demands upon their time and attention and that they would not be able to, or would not care to, assume the additional burdens which successful management of this venture would require.

The Brazilian Government is determined to develop a domestic iron and steel industry and claim they will attempt to obtain capital elsewhere or attempt to proceed without foreign capital should help not be forthcoming from the United States. According to recent newspaper reports emanating from Brazil, both German and English firms are now offering to participate in such a venture.

At present Brazil consumes 400,000 tons of iron and steel goods a year, of which over 80 percent is imported. Iron and steel goods constitute 10 percent of total Brazilian imports and cost Brazil about \$30 million annually. It is expected that Brazilian consumption of iron and steel would more than double within a few years if prices decline and a domestic steel industry develops. Under such circumstances, Brazil would decrease its imports of semi-manufactured and simple iron and steel products but would probably increase its imports of highly complex machinery, the manufacture of which demands a high degree of technical skill, as well as of steel mill equipment.

OAS:lrs
4/4/40

March 4, 1940

Mr. White

Mr. Schmidt

Subject: Proposed Iron and Steel Development in Brazil

Brazil's iron resources, although world famous since 1910, are still lying dormant.

As early as 1600 it was known that there were sizable deposits of iron in Brazil but through the succeeding two centuries they attracted little attention. In 1910, however, an International Geological Conference convened in Sweden and in its final report published figures about world iron reserves which first called attention to the wealth of the Brazilian deposits. Immediately thereafter, representatives of foreign companies flocked to Minas Geraes and purchased the richest iron properties, hoping to acquire operating concessions for their subsequent development. The most famous of the concessions granted was that of the Itabira Iron Ore Company, concerning which negotiations dragged out over a period of twenty years. Although several small iron plants are today operating in Brazil, the scale of their operations is such that the Investigation Committee of the United States Steel Corporation reported that "the total iron and steel capacity of Brazil ... is no greater than the output of a single small (600 ton) blast furnace in the U.S.A. and the ingot production no greater than two 100 ton Open Hearth furnaces."

Plants currently in operation are using charcoal for fuel and obtain their ores from the lower grade deposits which are located near railroad lines; at present, the famous deposits of very high grade ore are inaccessible by railroad. Brazil is thus in the position of having what are generally conceded to be the largest and richest deposits of iron ore in the world, yet it must import over 80 percent of the small amount of iron and steel which it currently consumes.

Why have these deposits not been developed?

Perhaps the most important reason why Brazil's iron deposits are as yet undeveloped, is that there is no suitable fuel in the vicinity. Coal has been found only in the southern states of Brazil and it is of a very low quality. Had deposits of good coal been located near the iron, Brazil would today have a large iron and steel industry, but the absence of coal led to complications which prevented development of her iron resources.

Another important consideration has been the fact that the large Brazilian iron deposits are located in the interior of the State of Minas Geraes, about three hundred miles from the nearest port on the east coast and somewhat farther from Rio de Janeiro and the Brazilian markets. The rugged nature of the terrain makes transportation difficult and the Brazilian railway system has not as yet been developed to a point where it could handle the volume of traffic which would be required for large scale working of the deposits.

It is highly probable that these two obstacles would have been overcome had there not been a sharp conflict between different groups with divergent points of view concerning the methods to be adopted in developing the iron deposits. As will be observed in the following sections, this conflict of interests, and resulting pressures upon governmental bodies, was an important factor in preventing the development of the Itabira concession.

The "Itabira Iron Project" was the only proposal for the large-scale development of Brazilian iron deposits which received serious consideration prior to 1939.

In 1911 Sir Ernest Cassel, who had controlled the Swedish iron mines, Sir Alexander Henderson, and Baring Bros. formed a syndicate (the Itabira Iron Ore Co.) and acquired deposits of exceptionally high grade ore located at Itabira do Matto Dentro. This group also acquired a controlling interest in the Victoria to Minas Railroad but were unable to obtain a government guarantee of earnings, without which they did not care to rebuild the line as was necessary for the development of their properties. In 1918 they sold their interests to British Ironmasters Dorman, Long & Co., Ltd., Lloyds Bank, and Lord Inverforth who invited Percival Farquhar of New York to form a group to take over and carry through the development of these iron deposits.

Percival Farquhar, who has been the head of the Itabira organization since that time, had already had an extensive career in Brazil, having been a moving figure in the organization and/or construction of the Rio de Janeiro Light and Power Company, the Brazilian Railway Company, the

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Division of Monetary
Research

Port of Rio Grande do Sul, the Port of Para, and the famous Maderia-Mamore Railroad. While he was still in the United States organizing American interests, Epitacio Pessoa, President-elect of Brazil, stopped off in New York on his way home from the Paris Peace Conference. At a banquet held in the Waldorf-Astoria, Farquhar was able to discuss with Pessoa his plan for the development of the Itabira iron deposits and to obtain Pessoa's consent as to its general principles.

The main features of this plan, which was under consideration until the concession was cancelled in August 1939, were the following: The plan was based upon the large-scale exportation of high grade Itabira ore. In order to make this possible, the Itabira Iron Ore Company was to rebuild 300 miles of the Victoria to Minas Railroad and to construct port works at Santa Cruz just north of Victoria. In order to satisfy the desire of the Brazilian Government for a domestic iron and steel industry, the company agreed to construct a refinery and steel mill of 150,000 ton capacity. It was expected that the same boats which carried ore away from Brazil could return with cargoes of coal, thus assuring a supply of fuel for the operation of the steel plant which was to be located at Santa Cruz, just north of Victoria.

Opposition by pressure groups prevented the carrying out of the Itabira Iron Project.

From the first, the project was opposed by several groups which, though small, were powerful enough to cause trouble. These were:

(1) The domestic coal interests who feared that the plan would lead to increased imports of foreign coal.

(2) The owners of the small iron plants already in operation who didn't want the competition of the new and supposedly more efficient plant such as was contemplated.

(3) The contract between the Itabira Iron Company and the Brazilian Government had stated that the reconstructed Victoria to Minas Railroad could, but would not be obliged to, carry ore which might be mined by other companies. Owners of other iron properties located in Minas opposed the contract on the grounds that it would give the Itabira Iron Ore Company complete control over their welfare through control of the transportation facilities.

(4) Professor Clodomiro de Oliveira of the School of Mines at Ouro Preto believed that Brazil should not allow its ore to be exported and opposed the project for this reason. Since he was influential in Minas Geraes and since the Itabira contract with the Federal Government was dependent upon negotiation of a similar contract with the government of the State of Minas, he was in a position to exert a retarding influence.

No sooner was the contract signed (end of 1919) than the influence of the opponents of the Itabira project was felt. The Tribunal de Contas refused to register the contract and when the President of Brazil ordered that it be registered, the matter was presented to Congress. Furthermore, the State of Minas Geraes refused to negotiate a similar contract.

Years passed while the Itabira Company tried to win over the opposition, and it was not until December 1927 that a revised contract was signed with the State of Minas Geraes under the terms of which the Itabira Company was obliged to transport ores of third parties for the same charges as its own ore, and to allow others to use its docks for loading. Another year passed before the company was able to get an accord with the Federal Government confirming the revised contract. Immediately plans were drawn up for construction of the railroad and in August 1930 the Federal Government approved the detailed plans and maps. By that time, however, the stock market crash and the onset of the depression had made it impossible for the company to finance the plan.

In September 1930 the Farquhar group, unable to begin construction within 24 months as specified by the contract, petitioned for an extension of time. In October, however, the Vargas Government came into power and, suspicious of foreign companies, it refused to grant the extension, forcing the company either to pay a fine of fifty contos (\$2,500) a month or forfeit the concession. The fine was paid for ten months during which time negotiations took place, culminating in the appointment by the government of a committee to study the contract. During the succeeding five years, the contract was studied by five different committees (Revisory Committee, Commissao Nacional de Sidururgia, Commissao Juridica de Ministerio de Viacao, Consultores Technicos e Juridicos of the Ministerios de Viacao, and finally a Committee of Eleven). When in 1935 the newly-established Congress

convened, this body decided that it alone had power to alter the contract of 1920, which in its opinion had not lost its validity. The contract was then studied by the Committee of Public Works and Transportation, the Committee of Finances, the Committee of National Security, the Committee of Transportation and Communication, and was still in committee when the Congress was dissolved by the coup d'etat of November 1937.

In conformance with the wishes of the military element and the nationalist opposition to the exportation of iron ore, Vargas cancelled the Itabira contract in August 1939.

Shortly after the 1937 reorganization of the Brazilian Government, study of the Itabira contract was resumed by the Technical Council of Economics and Finance. After the coup d'etat, Vargas' dependence upon military support was greater than it had previously been and, as a consequence, the wishes of the military element acquired an increased importance. Whereas some of the many committees which had studied the contract had recommended the elimination of the provision requiring the construction of a steel plant, the military element wanted a steel plant in order to make the supply of armaments and munitions less dependent upon foreign markets and foreign exchange. Furthermore, they wanted the plant to be located at Rio de Janeiro rather than at an out-of-the-way place like Santa Cruz. To be sure, other elements entered into the decision, but the wishes of the military forces carried very heavy weight, and in August 1939, the Itabira contract was definitely

cancelled. Shortly thereafter the government let it be known that a steel plant would be constructed with or without the help of foreign capital and President Vargas announced that in the near future Brazil would be making its own iron and steel products.

The United States Steel Corporation recently considered participating in the construction and operation of a plant in Brazil but decided against it.

Shortly after the Itabira contract was cancelled a committee of technical experts of the United States Steel Corporation went to Brazil at the invitation of the Brazilian Government where they spent some months investigating all aspects of the construction and operation of a large modern iron and steel plant. The committee's report is favorable to the project in so far as technical aspects and milreis profit and loss prospects are concerned, but the finance committee of the company decided not to participate in the project.

Type of a plant discussed by the investigation committee.

The committee considered as most desirable a plant capable of producing at the outset 285,000 metric tons of finished steel per year. It would be equipped not only to reduce ore to iron but to manufacture the standard iron and steel products such as rails, structural steel, rounds and flats, sheets, and tin plate, thus providing the iron and steel products basic to developmental projects and industries.

Cost of proposed plant

The committee estimated the capital needs as follows:

Cost of the plant, including real estate	\$30.5 million
Value of stocks and inventories (raw materials, supplies and finished products)	3.5 million
Working capital	<u>1.0 million</u>
Total	\$35.0 million

Of this total, roughly \$22 million would be needed in dollars, but milreis could be used for the \$13 million balance.

Additional capital expenditures on transportation would be necessary to the success of the project.

In order to assure the plant of a constant supply of ore, the committee recommended that \$12.6 million be spent by the Brazilian Government in improving transportation facilities. The money would be used in the following manner:

Improvement of 220 miles of roadbed of the Central Railroad	\$5,000,000
New equipment for the Central Railroad	2,200,000
Improvement of the Dona Thereza Christina Railroad	1,500,000
New equipment for the D.T.C. Railroad	600,000
Improvement of Port at Laguna	250,000
One ship for coastwise service	500,000
Five ships for ocean service	<u>2,500,000</u>
	\$12,550,000

The Plant could use some Brazilian coal

The committee, after a preliminary investigation of this possibility, concluded that Brazilian coal could be used if mixed with imported coal in the ratio of roughly two-thirds imported and one-third domestic.

Other raw materials could all be acquired in Brazil.

In addition to 440,000 metric tons of coal for coking, the committee estimated that the plant would annually require:

530,000 metric tons of iron ore;

9,000 metric tons of manganese ore;

134,000 metric tons of limestone and dolomite

The committee estimates that 15 percent net profit would be earned on the \$55 million plant investment.

In arriving at this figure the committee have assumed that prices for finished products will, on the average, be 13.5 percent below a three year (1936-1938, inc.) average of "landed costs" of similar products in Brazil but they point out that "we think substantially higher prices will prevail". In computing their operating costs they have always made what they call "conservative estimates", leaving a substantial margin of safety. They have assumed, however, that imports of plant material, machinery, and coal would be exempt from import duties — to which the Brazilian Government has doubtless agreed. In arriving at net profits allowance was made for Brazilian sales tax (1 1/4 percent

of invoice value), income tax (6 percent), and other taxes. A depreciation reserve was set up, equal to 5 percent on depreciable property, except rolls, blast furnace linings, and coke oven walls as depreciation of these items was covered in manufacturing costs. The committee's estimate of 15 percent net profits seems on the whole to be conservative.

The committee felt that before participating in the project, the U.S. Steel Corporation should have the following definite assurances:

a. That adequate and economical transportation will be available.

The committee felt that the Brazilian Government could bring about the necessary improvement in transportation facilities by:

1. Investing \$12,550,000 in improving roadbeds and port facilities and buying new equipment;
2. Placing the governmentally-owned and operated Central Railroad under an autonomous and efficient management;
3. Placing the Dona Thereza Christina railroad under the same management as recommended for the Central Railroad.

b. That a reasonable tax policy will be followed.

c. That the company be allowed, as a transitory provision, to employ American skilled technical labor to the extent necessary for efficient operation, and that such men be exempt from existing immigration regulations.

d. That the company will be granted the right to operate mines.

e. That remission of dividends and interest to foreign shareholders will not be restricted.

f. That the company be exempt from payments of import duties on plant materials and machinery for initial construction, and that duties on coal for the plant be either removed or made very low.

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Division of Monetary
Research

Did the U.S. Steel Corporation intend, if it participated in the project, to supply a substantial proportion of the necessary capital?

Apparently not. Although no information concerning this point is contained in the report of the investigating committee, it is understood that the U.S. Steel Company never considered putting more than \$5,000,000 of its own capital into the venture, and expected to have the Import-Export Bank put up the balance of the dollar funds required. The Brazilian Government would supposedly furnish the milreis capital. It is also understood that the United States Steel Corporation's interest on the project was based upon the supposition that it would have complete control of the American share of the investment, and of operation of the plant.

Assuming that the U.S. Steel Corporation were to participate in the project under these conditions, its earnings would be much larger than the anticipated 15 percent on the capital as a whole.

If the plant earned 15 percent on its capital, as is estimated, the U.S. Steel Corporation would earn between 24 percent and 49 percent, depending upon how the company would be organized.

If U.S. Steel were to invest \$5 million, the Brazilian Government, \$13 million, and the Import-Export Bank were to provide \$17 million, the company would probably distribute its earnings somewhat as follows: The Import-Export Bank would receive the usual 5 percent on its \$17 million and the balance would go to the Brazilian Government and U.S. Steel who, presumably, would be holding equities. Assuming that the balance

of the earnings were divided between the Brazilian Government and U.S. Steel in proportion to their stake in the venture, each would receive 24 percent on its invested capital. On the other hand, the company might be so organized that the earnings would be divided between the milreis capital and the dollar capital in proportion to their respective sizes. Since the Import-Export Bank would again be getting only 5 percent, the balance of the dollar earnings would accrue to the U.S. Steel Corporation in which case it would be earning 49 percent on its investment.

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Why was the U.S. Steel Corporation not willing to participate in what appears to be so lucrative a proposition?

Any explanation must, of course, be conjectural as there is no way of knowing why the Finance Committee of the U.S. Steel Corporation acted as it did. Their explanation to the State Department was essentially that the executive branch of the corporation already had many demands upon their time and attention and that they would not be able to, or would not care to, assume the additional burdens which successful management of this venture would require.

It does not seem probable that they are merely jockeying for a better deal and the explanation of their unwillingness to participate in the venture is doubtless based upon their lack of faith in the ability or willingness of the Brazilian Government to fulfill the conditions deemed necessary to the efficient operation of the plant, the safety of their capital, or the transfer abroad of earnings.

The U. S. Steel plan is very different from the Itabira Project for the development of Brazilian iron resources.

The Itabira project counted upon the exportation of high-grade Itabira ore for the major portion of its income and envisaged the construction of a 150,000 ton capacity steel plant at Santa Cruz more or less as a side line. In the U. S. Steel project, the steel plant is the basic feature and it is to be much larger and to be located in Rio de Janeiro. Whereas the Itabira Project was to tap ore resources at present inaccessible by railroad, for which reconstruction of the Victoria to Minas Railroad would be necessary, the U. S. Steel project contemplates the use of the lower grade ore located near the Central Railroad. The capital required for the carrying out of the Itabira Project would have amounted to \$75 million, whereas the capital requirements for the U. S. Steel project (i.e., for the plant alone) is \$35 million.

Brazil imports over 80 percent of its iron and steel products.

Total consumption during recent years has averaged roughly 400,000 tons of finished steel products per year. The amounts produced

within Brazil and imported during the three years 1936-1938, inclusive, are as follows:

Source of Iron and Steel Products Acquired by Brazil
during the years 1936-1938 and Cost of the Proportion Imported

	Imported	Produced Domestically	Total	% of total consumption produced in Brazil	Cost of iron and steel imports (\$1,000,000)	Iron and steel as a % of total imports
	(1000 metric tons)	(1000 metric tons)	(1000 metric tons)			
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Year Average	343	57	400	17	32.9	11.2

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At present per capita consumption of steel in Brazil is very low compared with European and North American standards. Because of the high cost of iron and steel products in Brazil, they have been used very sparingly and only where they were absolutely necessary. Brazilian buildings, for example, contain very little steel and office buildings as high as twenty stories have been constructed without steel framework, using only reinforced concrete. Once iron and steel products are manufactured within Brazil on a large-scale so that they are cheaper in price and their purchase is not dependent upon foreign exchange availabilities, it is expected that Brazilian consumption will increase substantially, rising to 1,000,000 tons per year by 1950, as compared with 400,000 tons at present.

Brazil's tariff on iron and steel products is high.

Brazil has for many years had high tariffs on these products. To the protection afforded by the tariff there has been added the degree of protection resulting from the steady depreciation of the milreis, and, during the last decade, the difficulties of acquiring foreign exchange.

Some of the duties currently in effect are listed below in order to facilitate their comparison with the anticipated sales prices of products which would be produced in the projected steel plant.

U.S. Steel Committee's Estimates as to Costs and Prices Compared
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(Figures in milreis per metric ton)

Type	Estimated mill costs of production (excluding overhead)	Anticipated rise
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Would the construction of a steel plant in Brazil mean the loss of the Brazilian market for American iron and steel products?

The construction of such a plant would alter the type of iron and steel products imported, but need not reduce, and might increase, the volume of Brazil's imports of iron and steel goods.

If United States capital is used in financing the plan, the heavy equipment needed by the plant would doubtless be purchased in this country. Once the proposed plant began operations, Brazil could produce domestically many of the semi-manufactured and the simpler manufactured products today she is forced to import. The very fact that such products are more easily available will doubtless lead to the undertaking of projects today considered impossible and requiring increased imports of more complex machinery which Brazil would not for some time be in a position to produce. Furthermore, the foreign exchange which today must be used to acquire the simple iron and steel goods, will then be available for the purchase of such products. It is hence to be expected that we would lose the Brazilian market for iron rails, structural steel, sheet iron, etc., and find an increased market for products demanding a high coefficient of technical skill, such as elevators, locomotives, turbines, and industrial machinery.

German and British firms have recently offered to participate in a Brazilian steel plant on the same terms which United States Steel rejected.

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According to recent press reports, Brazilian Governmental officials have let it be known that Krupp of Germany and a British firm have approached them with proposals to construct a plant under conditions similar to those rejected by the United States Steel Corporation. While it is not unlikely that such overtures have been made, there is little chance that the Brazilian Government would seriously consider such an arrangement while these countries are at war. Such stories have probably given out in the hope that they will make the United States Government or American private capital more willing to participate in the project.

CAS:lrs
3-4-40

March 4, 1940

Mr. White

Mr. Schmidt

Subject: Proposed Iron and Steel Development in Brazil

Summary

Brazil has large undeveloped reserves of high grade iron ore and only a trivial domestic iron and steel industry. The richest deposits are still inaccessible by railroad. These deposits have not been developed primarily because there is no suitable fuel in the vicinity and because of transportation difficulties.

The Itabira Iron Ore Company, headed by an American (Petroval Pargulnar), signed in 1919 a contract with the Federal Government authorizing this company to develop the Itabira deposits. The general plan called for the reconstruction of a 300 mile railroad from the iron deposits east to the Atlantic Coast and the development of a new port (Santa Cruz) three hundred miles north of Rio de Janeiro. Although the construction of a 150,000 ton capacity steel plant was envisaged, the company was primarily concerned with exportation of the ore. For approximately twenty years the plan was successfully opposed by various pressure groups and the contract was cancelled in August 1939.

In the Autumn of 1939, a committee of U. S. Steel experts, at the request of the Brazilian Government, investigated the Brazilian iron and steel situation and recommended that their company participate in the construction and operation of a 285,000 ton capacity plant, provided adequate assurances could be obtained with respect to reorganization of transportation and with respect to tax, labor and foreign exchange policies. They reported that sufficient raw materials are accessible, except for coal which would have to be imported. Some domestic coal could probably be used if mixed with foreign coal in the ratio of one to two. The report estimated that capital requirements for the steel plant would amount to \$35 million (including \$5 million for inventories and operating capital). Twenty-two million would be needed in dollars and the balance could be in milreis. The Committee estimates that such a plant would earn net profits of 15 percent, after allowing for a substantial decline in Brazilian prices of steel products, and after including depreciation and taxes in cost estimates. Prerequisite to the successful operation of the plant, in the Committee's estimation, were (a) the investment of \$12.6 million in improving Brazilian transportation facilities, and (b) the placing of the management of two governmentally owned railroads under autonomous and efficient management.

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Research

According to Mr. Fels of the State Department, the U.S. Steel Corporation has decided not to participate in the project. The reason given for this decision was essentially that the executive branch of the corporation already had many demands upon their time and attention and that they would not be able to, or would not care to, assume the additional burdens which successful management of this venture would require.

The Brazilian Government is determined to develop a domestic iron and steel industry and claim they will attempt to obtain capital elsewhere or attempt to proceed without foreign capital should help not be forthcoming from the United States. According to recent newspaper reports emanating from Brasil, both German and English firms are now offering to participate in such a venture.

At present Brasil consumes 400,000 tons of iron and steel goods a year, of which over 80 percent is imported. Iron and steel goods constitute 10 percent of total Brazilian imports and cost Brasil about \$30 million annually. It is expected that Brazilian consumption of iron and steel would more than double within a few years if prices decline and a domestic steel industry develops. Under such circumstances, Brasil would decrease its imports of semi-manufactured and simple iron and steel products but would probably increase its imports of highly complex machinery, the manufacture of which demands a high degree of technical skill, as well as of steel mill equipment.

OAS:lrs
4/4/40

March 4, 1940

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Brazil's iron resources, although world famous since 1910, are still lying dormant.

As early as 1600 it was known that there were sizable deposits of iron in Brazil but through the succeeding two centuries they attracted little attention. In 1910, however, an International Geological Conference convened in Sweden and in its final report published figures about world iron reserves which first called attention to the wealth of the Brazilian deposits. Immediately thereafter, representatives of foreign companies flocked to Minas Geraes and purchased the richest iron properties, hoping to acquire operating concessions for their subsequent development. The most famous of the concessions granted was that of the Itabira Iron Ore Company, concerning which negotiations dragged out over a period of twenty years. Although several small iron plants are today operating in Brazil, the scale of their operations is such that the Investigation Committee of the United States Steel Corporation reported that "the total iron and steel capacity of Brazil ... is no greater than the output of a single small (600 ton) blast furnace in the U.S.A. and the ingot production no greater than two 100 ton Open Hearth furnaces."

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Research

Plants currently in operation are using charcoal for fuel and obtain their ores from the lower grade deposits which are located near railroad lines; at present, the famous deposits of very high grade ore are inaccessible by railroad. Brazil is thus in the position of having what are generally conceded to be the largest and richest deposits of iron ore in the world, yet it must import over 80 percent of the small amount of iron and steel which it currently consumes.

Why have these deposits not been developed?

Perhaps the most important reason why Brazil's iron deposits are as yet undeveloped, is that there is no suitable fuel in the vicinity. Coal has been found only in the southern states of Brazil and it is of a very low quality. Had deposits of good coal been located near the iron, Brazil would today have a large iron and steel industry, but the absence of coal led to complications which prevented development of her iron resources.

Another important consideration has been the fact that the large Brazilian iron deposits are located in the interior of the State of Minas Geraes, about three hundred miles from the nearest port on the east coast and somewhat farther from Rio de Janeiro and the Brazilian markets. The rugged nature of the terrain makes transportation difficult and the Brazilian railway system has not as yet been developed to a point where it could handle the volume of traffic which would be required for large scale working of the deposits.

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Research

It is highly probable that these two obstacles would have been overcome had there not been a sharp conflict between different groups with divergent points of view concerning the methods to be adopted in developing the iron deposits. As will be observed in the following sections, this conflict of interests, and resulting pressures upon governmental bodies, was an important factor in preventing the development of the Itabira concession.

The "Itabira Iron Project" was the only proposal for the large-scale development of Brazilian iron deposits which received serious consideration prior to 1911.

In 1911 Sir Ernest Cassel, who had controlled the Swedish iron mines, Sir Alexander Henderson, and Baring Bros. formed a syndicate (the Itabira Iron Ore Co.) and acquired deposits of exceptionally high grade ore located at Itabira de Mato Dentro. This group also acquired a controlling interest in the Victoria to Minas Railroad but were unable to obtain a government guarantee of earnings, without which they did not care to rebuild the line as was necessary for the development of their properties. In 1918 they sold their interests to British Ironmasters Dorman, Long & Co., Ltd., Lloyd's Bank, and Lord Inverforth who invited Percival Fargher of New York to form a group to take over and carry through the development of these iron deposits.

Percival Fargher, who has been the head of the Itabira organization since that time, had already had an extensive career in Brazil, having been a moving figure in the organization and/or construction of the Rio de Janeiro Light and Power Company, the Brazilian Railway Company, the

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Port of Rio Grande do Sul, the Port of Para, and the famous Madeira-Mamore Railroad. While he was still in the United States organizing American interests, Epitacio Pessoa, President-elect of Brazil, stopped off in New York on his way home from the Paris Peace Conference. At a banquet held in the Waldorf-Astoria, Farquhar was able to discuss with Pessoa his plan for the development of the Itabira iron deposits and to obtain Pessoa's consent as to its general principles.

The main features of this plan, which was under consideration until the concession was cancelled in August 1939, were the following: The plan was based upon the large-scale exportation of high grade Itabira ore. In order to make this possible, the Itabira Iron Ore Company was to rebuild 200 miles of the Victoria to Minas Railroad and to construct port works at Santa Cruz just north of Victoria. In order to satisfy the desire of the Brazilian Government for a domestic iron and steel industry, the company agreed to construct a refinery and steel mill of 150,000 ton capacity. It was expected that the same boats which carried ore away from Brazil could return with cargoes of coal, thus assuring a supply of fuel for the operation of the steel plant which was to be located at Santa Cruz, just north of Victoria.

Objections by STRANGLER GROUPS retarded the carrying out of the
Itabira Iron Project.

From the first, the project was opposed by several groups which, though small, were powerful enough to cause trouble. These were:

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(1) The domestic coal interests who feared that the plan would lead to increased imports of foreign coal.

(2) The owners of the small iron plants already in operation who didn't want the competition of the new and supposedly more efficient plant such as was contemplated.

(3) The contract between the Itabira Iron Company and the Brazilian Government had stated that the reconstructed Victoria to Minas Railroad could, but would not be obliged to, carry ore which might be mined by other companies. Owners of other iron properties located in Minas opposed the contract on the grounds that it would give the Itabira Iron Ore Company complete control over their welfare through control of the transportation facilities.

(4) Professor Glencore de Oliveira of the School of Mines at Ouro Preto believed that Brazil should not allow its ore to be exported and opposed the project for this reason. Since he was influential in Minas Gerais and since the Itabira contract with the Federal Government was dependent upon negotiation of a similar contract with the government of the State of Minas, he was in a position to exert a retarding influence.

As soon as the contract signed (end of 1919) then the influence of the opponents of the Itabira project was felt. The Tribunal de Contas refused to register the contract and when the President of Brazil ordered that it be registered, the matter was presented to Congress. Furthermore, the State of Minas Gerais refused to negotiate a similar contract.

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Years passed while the Itabira Company tried to win over the opposition, and it was not until December 1927 that a revised contract was signed with the State of Minas Geraes under the terms of which the Itabira Company was obliged to transport ores of third parties for the same charges as its own ore, and to allow others to use its docks for loading. Another year passed before the company was able to get an accord with the Federal Government confirming the revised contract. Immediately plans were drawn up for construction of the railroad and in August 1930 the Federal Government approved the detailed plans and maps. By that time, however, the stock market crash and the onset of the depression had made it impossible for the company to finance the plan.

In September 1930 the Fargueh group, unable to begin construction within 24 months as specified by the contract, petitioned for an extension of time. In October, however, the Vargas Government came into power and, suspicious of foreign companies, it refused to grant the extension, forcing the company either to pay a fine of fifty centes (\$2,500) a month or forfeit the concession. The fine was paid for ten months during which time negotiations took place, culminating in the appointment by the government of a committee to study the contract. During the succeeding five years, the contract was studied by five different committees (Revisory Committee, Comissão Nacional de Hidrografia, Comissão Jurídica do Ministerio de Minas, Consultores Técnicos e Jurídicos of the Ministerio de Minas, and finally a Committee of Eleven). Then in 1935 the newly-established Congress

convened, this body decided that it alone had power to alter the contract of 1920, which in its opinion had not lost its validity. The contract was then studied by the Committee of Public Works and Transportation, the Committee of Finances, the Committee of National Security, the Committee of Transportation and Communication, and was still in committee when the Congress was dissolved by the coup d'etat of November 1937.

In conformance with the wishes of the military element and the nationalist opposition to the exportation of iron ore, Vargas cancelled the Itabira contract in August 1939.

Shortly after the 1937 reorganization of the Brazilian Government, study of the Itabira contract was resumed by the Technical Council of Economics and Finance. After the coup d'etat, Vargas' dependence upon military support was greater than it had previously been and, as a consequence, the wishes of the military element acquired an increased importance. Whereas some of the many committees which had studied the contract had recommended the elimination of the provision requiring the construction of a steel plant, the military element wanted a steel plant in order to make the supply of armaments and munitions less dependent upon foreign markets and foreign exchange. Furthermore, they wanted the plant to be located at Rio de Janeiro rather than at an out-of-the-way place like Santa Cruz. To be sure, other elements entered into the decision, but the wishes of the military forces carried very heavy weight, and in August 1939, the Itabira contract was definitely

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cancelled. Shortly thereafter the government let it be known that a steel plant would be constructed with or without the help of foreign capital and President Vargas announced that in the near future Brazil would be making its own iron and steel products.

The United States Steel Corporation recently considered participating in the construction and operation of a plant in Brazil but decided against it.

Shortly after the Itabira contract was cancelled a committee of technical experts of the United States Steel Corporation went to Brazil at the invitation of the Brazilian Government where they spent some months investigating all aspects of the construction and operation of a large modern iron and steel plant. The committee's report is favorable to the project in so far as technical aspects and milreis profit and loss prospects are concerned, but the finance committee of the company decided not to participate in the project.

Type of a plant discussed by the investigation committee.

The committee considered as most desirable a plant capable of producing at the outset 285,000 metric tons of finished steel per year. It would be equipped not only to reduce ore to iron but to manufacture the standard iron and steel products such as rails, structural steel, rounds and flats, sheets, and tin plate, thus providing the iron and steel products basic to developmental projects and industries.

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Division of Monetary
ResearchCost of proposed plant

The committee estimated the capital needs as follows:

Cost of the plant, including real estate	\$30.5 million
Value of stocks and inventories (raw materials, supplies and finished products)	3.5 million
Working capital	<u>1.0 million</u>
Total	\$35.0 million

Of this total, roughly \$22 million would be needed in dollars, but milreis could be used for the \$13 million balance.

Additional capital expenditures on transportation would be necessary to the success of the project.

In order to assure the plant of a constant supply of ore, the committee recommended that \$12.6 million be spent by the Brazilian Government in improving transportation facilities. The money would be used in the following manner:

Improvement of 220 miles of roadbed of the Central Railroad	\$5,000,000
New equipment for the Central Railroad	2,200,000
Improvement of the Dona Theresa Christina Railroad	1,500,000
New equipment for the D.T.C. Railroad	600,000
Improvement of Port at Laguna	250,000
One ship for coastwise service	500,000
Five ships for ocean service	<u>2,500,000</u>
	\$12,550,000

The Plant could use some Brazilian coal

The committee, after a preliminary investigation of this possibility, concluded that Brazilian coal could be used if mixed with imported coal in the ratio of roughly two-thirds imported and one-third domestic.

Other raw materials could all be acquired in Brazil.

In addition to 440,000 metric tons of coal for coking, the committee estimated that the plant would annually require:

530,000 metric tons of iron ore;

9,000 metric tons of manganese ore;

134,000 metric tons of limestone and dolomite

The committee estimates that 15 percent net profit would be earned on the \$35 million plant investment.

In arriving at this figure the committee have assumed that prices for finished products will, on the average, be 13.5 percent below a three year (1936-1938, inc.) average of "landed costs" of similar products in Brazil but they point out that "we think substantially higher prices will prevail". In computing their operating costs they have always made what they call "conservative estimates", leaving a substantial margin of safety. They have assumed, however, that imports of plant material, machinery, and coal would be exempt from import duties -- to which the Brazilian Government has doubtless agreed. In arriving at net profits allowance was made for Brazilian sales tax (1 1/4 percent

of invoice value), income tax (6 percent), and other taxes. A depreciation reserve was set up, equal to 5 percent on depreciable property, except rolls, blast furnace linings, and coke oven walls as depreciation of these items was covered in manufacturing costs. The committee's estimate of 15 percent net profits seems on the whole to be conservative.

The committee felt that before participating in the project, the U.S. Steel Corporation should have the following definite assurances:

a. That adequate and economical transportation will be available.

The committee felt that the Brazilian Government could bring about the necessary improvement in transportation facilities by:

1. Investing \$12,550,000 in improving roadbeds and port facilities and buying new equipment;
2. Placing the governmentally-owned and operated Central Railroad under an autonomous and efficient management;
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If United States capital is used in financing the plan, the heavy equipment needed by the plant would doubtless be purchased in this country. Once the proposed plant began operations, Brazil could produce domestically many of the semi-manufactured and the simpler manufactured products today she is forced to import. The very fact that such products are more easily available will doubtless lead to the undertaking of projects today considered impossible and requiring increased imports of more complex machinery which Brazil would not for some time be in a position to produce. Furthermore, the foreign exchange which today must be used to acquire the simple iron and steel goods, will then be available for the purchase of such products. It is hence to be expected that we would lose the Brazilian market for iron rails, structural steel, sheet iron, etc., and find an increased market for products demanding a high coefficient of technical skill, such as elevators, locomotives, turbines, and industrial machinery.

German and British firms have recently offered to participate in a Brazilian steel plant on the same terms which United States Steel rejected.

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According to recent press reports, Brazilian Governmental officials have let it be known that Krupp of Germany and a British firm have approached them with proposals to construct a plant under conditions similar to those rejected by the United States Steel Corporation. While it is not unlikely that such overtures have been made, there is little chance that the Brazilian Government would seriously consider such an arrangement while these countries are at war. Such stories have probably given out in the hope that they will make the United States Government or American private capital more willing to participate in the project.

OAS:lrs
3-4-40

March 4, 1940

Mr. White

Mr. Schmidt

Subject: Proposed Iron and Steel Development in Brazil

Summary

Brazil has large undeveloped reserves of high grade iron ore and only a trivial domestic iron and steel industry. The richest deposits are still inaccessible by railroad. These deposits have not been developed primarily because there is no suitable fuel in the vicinity and because of transportation difficulties.

The Itabira Iron Ore Company, headed by an American (Percival Pargueur), signed in 1939 a contract with the Federal Government authorizing this company to develop the Itabira deposits. The general plan called for the reconstruction of a 300 mile railroad from the iron deposits east to the Atlantic Coast and the development of a new port (Santa Cruz) three hundred miles north of Rio de Janeiro. Although the construction of a 250,000 ton capacity steel plant was envisaged, the company was primarily concerned with exportation of the ore. For approximately twenty years the plan was successfully opposed by various pressure groups and the contract was cancelled in August 1939.

In the Autumn of 1939, a committee of U. S. Steel experts, at the request of the Brazilian Government, investigated the Brazilian iron and steel situation and recommended that their company participate in the construction and operation of a 285,000 ton capacity plant, provided adequate assurances could be obtained with respect to reorganization of transportation and with respect to tax, labor and foreign exchange policies. They reported that sufficient raw materials are accessible, except for coal which would have to be imported. Some domestic coal could probably be used if mixed with foreign coal in the ratio of one to two. The report estimated that capital requirements for the steel plant would amount to \$35 million (including \$5 million for inventories and operating capital). Twenty-two million would be needed in dollars and the balance could be in dollars. The Committee estimates that such a plant would earn net profits of 15 percent, after allowing for a substantial decline in Brazilian prices of steel products, and after including depreciation and taxes in cost estimates. Prerequisites to the successful operation of the plant, in the Committee's estimation, are: (a) the investment of \$12.6 million in improving Brazilian transportation facilities, and (b) the placing of the management of two governmentally owned railroads under autonomous and efficient management.

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According to Mr. Feis of the State Department, the U.S. Steel Corporation has decided not to participate in the project. The reason given for this decision was essentially that the executive branch of the corporation already had many demands upon their time and attention and that they would not be able to, or would not care to, assume the additional burdens which successful management of this venture would require.

The Brazilian Government is determined to develop a domestic iron and steel industry and claim they will attempt to obtain capital elsewhere or attempt to proceed without foreign capital should help not be forthcoming from the United States. According to recent newspaper reports emanating from Brazil, both German and English firms are now offering to participate in such a venture.

At present Brazil consumes 400,000 tons of iron and steel goods a year, of which over 80 percent is imported. Iron and steel goods constitute 10 percent of total Brazilian imports and cost Brazil about \$30 million annually. It is expected that Brazilian consumption of iron and steel would more than double within a few years if prices decline and a domestic steel industry develops. Under such circumstances, Brazil would decrease its imports of semi-manufactured and simple iron and steel products but would probably increase its imports of highly complex machinery, the manufacture of which demands a high degree of technical skill, as well as of steel mill equipment.

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Brazil's iron resources, although world famous since 1910, are still lying dormant.

As early as 1600 it was known that there were sizable deposits of iron in Brazil but through the succeeding two centuries they attracted little attention. In 1910, however, an International Geological Conference convened in Sweden and in its final report published figures about world iron reserves which first called attention to the wealth of the Brazilian deposits. Immediately thereafter, representatives of foreign companies flocked to Minas Geraes and purchased the richest iron properties, hoping to acquire operating concessions for their subsequent development. The most famous of the concessions granted was that of the Itabira Iron Ore Company, concerning which negotiations dragged out over a period of twenty years. Although several small iron plants are today operating in Brazil, the scale of their operations is such that the Investigation Committee of the United States Steel Corporation reported that "the total iron and steel capacity of Brazil ... is no greater than the output of a single small (600 ton) blast furnace in the U.S.A. and the ingot production no greater than two 100 ton Open Hearth furnaces."

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Plants currently in operation are using charcoal for fuel and obtain their ores from the lower grade deposits which are located near railroad lines; at present, the famous deposits of very high grade ore are inaccessible by railroad. Brazil is thus in the position of having what are generally conceded to be the largest and richest deposits of iron ore in the world, yet it must import over 80 percent of the small amount of iron and steel which it currently consumes.

Why have these deposits not been developed?

Perhaps the most important reason why Brazil's iron deposits are as yet undeveloped, is that there is no suitable fuel in the vicinity. Coal has been found only in the southern states of Brazil and it is of a very low quality. Had deposits of good coal been located near the iron, Brazil would today have a large iron and steel industry, but the absence of coal led to complications which prevented development of her iron resources.

Another important consideration has been the fact that the large Brazilian iron deposits are located in the interior of the State of Minas Geraes, about three hundred miles from the nearest port on the east coast and somewhat farther from Rio de Janeiro and the Brazilian markets. The rugged nature of the terrain makes transportation difficult and the Brazilian railway system has not as yet been developed to a point where it could handle the volume of traffic which would be required for large scale working of the deposits.

It is highly probable that these two obstacles would have been overcome had there not been a sharp conflict between different groups with divergent points of view concerning the methods to be adopted in developing the iron deposits. As will be observed in the following sections, this conflict of interests, and resulting pressures upon governmental bodies, was an important factor in preventing the development of the Itabira concession.

The "Itabira Iron Project" was the only proposal for the large-scale development of Brazilian iron deposits which received serious consideration prior to 1928.

In 1911 Sir Ernest Cassel, who had controlled the Swedish iron mines, Sir Alexander Henderson, and Darling Bros. formed a syndicate (the Itabira Iron Ore Co.) and acquired deposits of exceptionally high grade ore located at Itabira de Mato Dentro. This group also acquired a controlling interest in the Victoria to Minas Railroad but were unable to obtain a government guarantee of earnings, without which they did not care to rebuild the line as was necessary for the development of their properties. In 1918 they sold their interests to British Ironmasters Dorman, Long & Co., Ltd., Lloyds Bank, and Lord Inverforth who invited Percival Farquhar of New York to form a group to take over and carry through the development of these iron deposits.

Percival Farquhar, who has been the head of the Itabira organization since that time, had already had an extensive career in Brazil, having been a moving figure in the organization and/or construction of the Rio de Janeiro Light and Power Company, the Brazilian Railway Company, the

Part of Rio Grande do Sul, the Port of Para, and the famous Madeira-Mamore Railroad. While he was still in the United States organizing American interests, Epitacio Pessoa, President-elect of Brazil, stopped off in New York on his way home from the Paris Peace Conference. At a banquet held in the Waldorf-Astoria, Farquhar was able to discuss with Pessoa his plan for the development of the Itabira iron deposits and to obtain Pessoa's consent as to its general principles.

The main features of this plan, which was under consideration until the concession was cancelled in August 1939, were the following: The plan was based upon the large-scale exportation of high grade Itabira ore. In order to make this possible, the Itabira Iron Ore Company was to rebuild 300 miles of the Victoria to Minas Railroad and to construct port works at Santa Cruz just north of Victoria. In order to satisfy the desire of the Brazilian Government for a domestic iron and steel industry, the company agreed to construct a refinery and steel mill of 150,000 ton capacity. It was expected that the same boats which carried ore away from Brazil could return with cargoes of coal, thus assuring a supply of fuel for the operation of the steel plant which was to be located at Santa Cruz, just north of Victoria.

Opposition by pressure groups prevented the carrying out of the Itabira Iron Project.

From the first, the project was opposed by several groups which, though small, were powerful enough to cause trouble. These were:

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(1) The domestic coal interests who feared that the plan would lead to increased imports of foreign coal.

(2) The owners of the small iron plants already in operation who didn't want the competition of the new and supposedly more efficient plant such as was contemplated.

(3) The contract between the Itabira Iron Company and the Brazilian Government had stated that the reconstructed Victoria to Minas Railroad could, but would not be obliged to, carry ore which might be mined by other companies. Owners of other iron properties located in Minas opposed the contract on the grounds that it would give the Itabira Iron Ore Company complete control over their welfare through control of the transportation facilities.

(4) Professor Oleguário de Oliveira of the School of Mines at Ouro Preto believed that Brazil should not allow its ore to be exported and opposed the project for this reason. Since he was influential in Minas Gerais and since the Itabira contract with the Federal Government was dependent upon negotiation of a similar contract with the government of the State of Minas, he was in a position to exert a retarding influence.

As soon as the contract signed (end of 1919) then the influence of the opponents of the Itabira project was felt. The Tribunal de Contas refused to register the contract and when the President of Brazil ordered that it be registered, the matter was presented to Congress. Furthermore, the State of Minas Gerais refused to negotiate a similar contract.

Years passed while the Itabira Company tried to win over the opposition, and it was not until December 1927 that a revised contract was signed with the State of Minas Geraes under the terms of which the Itabira Company was obliged to transport ores of third parties for the same charges as its own ore, and to allow others to use its docks for loading. Another year passed before the company was able to get an accord with the Federal Government confirming the revised contract. Immediately plans were drawn up for construction of the railroad and in August 1930 the Federal Government approved the detailed plans and maps. By that time, however, the stock market crash and the onset of the depression had made it impossible for the company to finance the plan.

In September 1930 the Farquhar group, unable to begin construction within 24 months as specified by the contract, petitioned for an extension of time. In October, however, the Vargas Government came into power and, suspicious of foreign companies, it refused to grant the extension, forcing the company either to pay a fine of fifty contos (\$2,500) a month or forfeit the concession. The fine was paid for ten months during which time negotiations took place, culminating in the appointment by the government of a committee to study the contract. During the succeeding five years, the contract was studied by five different committees (Revisory Committee, Comissão Nacional de Sidurgia, Comissão Jurídica do Ministerio de Viacao, Consultores Técnicos e Jurídicos of the Ministerio de Viacao, and finally a Committee of Eleven). Then in 1935 the newly-established Congress

convened, this body decided that it alone had power to alter the contract of 1920, which in its opinion had not lost its validity. The contract was then studied by the Committee of Public Works and Transportation, the Committee of Finances, the Committee of National Security, the Committee of Transportation and Communication, and was still in committee when the Congress was dissolved by the coup d'etat of November 1937.

In conformance with the wishes of the military element and the nationalist opposition to the exportation of iron ore, Vargas cancelled the Itabira contract in August 1939.

Shortly after the 1937 reorganization of the Brazilian Government, study of the Itabira contract was resumed by the Technical Council of Economics and Finance. After the coup d'etat, Vargas' dependence upon military support was greater than it had previously been and, as a consequence, the wishes of the military element acquired an increased importance. Whereas some of the many committees which had studied the contract had recommended the elimination of the provision requiring the construction of a steel plant, the military element wanted a steel plant in order to make the supply of armaments and munitions less dependent upon foreign markets and foreign exchange. Furthermore, they wanted the plant to be located at Rio de Janeiro rather than at an out-of-the-way place like Santa Cruz. To be sure, other elements entered into the decision, but the wishes of the military forces carried very heavy weight, and in August 1939, the Itabira contract was definitely

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cancelled. Shortly thereafter the government let it be known that a steel plant would be constructed with or without the help of foreign capital and President Vargas announced that in the near future Brazil would be making its own iron and steel products.

The United States Steel Corporation recently considered participating in the construction and operation of a plant in Brazil but decided against it.

Shortly after the Itabira contract was cancelled a committee of technical experts of the United States Steel Corporation went to Brazil at the invitation of the Brazilian Government where they spent some months investigating all aspects of the construction and operation of a large modern iron and steel plant. The committee's report is favorable to the project in so far as technical aspects and milreis profit and loss prospects are concerned, but the finance committee of the company decided not to participate in the project.

Type of a plant discussed by the investigation committee.

The committee considered as most desirable a plant capable of producing at the outset 285,000 metric tons of finished steel per year. It would be equipped not only to reduce ore to iron but to manufacture the standard iron and steel products such as rails, structural steel, rounds and flats, sheets, and tin plate, thus providing the iron and steel products basic to developmental projects and industries.

Cost of proposed plant

The committee estimated the capital needs as follows:

Cost of the plant, including real estate	\$30.5 million
Value of stocks and inventories (raw materials, supplies and finished products)	3.5 million
Working capital	<u>1.0 million</u>
Total	\$35.0 million

Of this total, roughly \$22 million would be needed in dollars, but milreis could be used for the \$13 million balance.

Additional capital expenditures on transportation would be necessary to the success of the project.

In order to assure the plant of a constant supply of ore, the committee recommended that \$12.6 million be spent by the Brazilian Government in improving transportation facilities. The money would be used in the following manner:

Improvement of 220 miles of roadbed of the Central Railroad	\$5,000,000
New equipment for the Central Railroad	2,200,000
Improvement of the Dona Theresa Christina Railroad	1,500,000
New equipment for the D.T.C. Railroad	600,000
Improvement of Port at Laguna	250,000
One ship for coastwise service	500,000
Five ships for ocean service	<u>2,500,000</u>
	\$12,550,000

The Plant could use some Brazilian coal

The committee, after a preliminary investigation of this possibility, concluded that Brazilian coal could be used if mixed with imported coal in the ratio of roughly two-thirds imported and one-third domestic.

Other raw materials could all be acquired in Brazil.

In addition to 440,000 metric tons of coal for coking, the committee estimated that the plant would annually require:

530,000 metric tons of iron ore;

99,000 metric tons of manganese ore;

134,000 metric tons of limestone and dolomite

The committee estimates that 15 percent net profit would be earned on the \$35 million plant investment.

In arriving at this figure the committee have assumed that prices for finished products will, on the average, be 13.5 percent below a three year (1936-1938, inc.) average of "landed costs" of similar products in Brazil but they point out that "we think substantially higher prices will prevail". In computing their operating costs they have always made what they call "conservative estimates", leaving a substantial margin of safety. They have assumed, however, that imports of plant material, machinery, and coal would be exempt from import duties -- to which the Brazilian Government has doubtless agreed. In arriving at net profits allowance was made for Brazilian sales tax (1 1/4 percent

of invoice value), income tax (6 percent), and other taxes. A depreciation reserve was set up, equal to 5 percent on depreciable property, except roofs, blast furnace linings, and coke oven walls as depreciation of these items was covered in manufacturing costs. The committee's estimate of 15 percent net profits seems on the whole to be conservative.

The committee felt that before participating in the project, the

U.S. Steel Corporation should have the following definite assurances:

a. That adequate and economical transportation will be available.

The committee felt that the Brazilian Government could bring about the necessary improvement in transportation facilities by:

1. Investing \$12,550,000 in improving roadbeds and port facilities and buying new equipment;
2. Placing the governmentally-owned and operated Central Railroad under an autonomous and efficient management;

3. Placing the Dona Theresa Christina railroad under the same management as recommended for the Central Railroad.

b. That a reasonable tax policy will be followed.

c. That the company be allowed, as a transitory provision, to employ American skilled technical labor to the extent necessary for efficient operation, and that such men be exempt from existing immigration regulations.

d. That the company will be granted the right to operate mines.

e. That restriction of dividends and interest to foreign shareholders will not be restricted.

f. That the company be exempt from payments of import duties on plant materials and machinery for initial construction, and that duties on coal for the plant be either removed or made very low.

Did the U.S. Steel Corporation intend, if it participated in the project, to supply a substantial proportion of the necessary capital?

Apparently not. Although no information concerning this point is contained in the report of the investigating committee, it is understood that the U.S. Steel Company never considered putting more than \$5,000,000 of its own capital into the venture, and expected to have the Import-Export Bank put up the balance of the dollar funds required. The Brazilian Government would supposedly furnish the milreis capital. It is also understood that the United States Steel Corporation's interest on the project was based upon the supposition that it would have complete control of the American share of the investment, and of operation of the plant.

Assuming that the U.S. Steel Corporation were to participate in the project under these conditions, its earnings would be much larger than the anticipated 15 percent on the capital as a whole.

If the plant earned 15 percent on its capital, as is estimated, the U.S. Steel Corporation would earn between 24 percent and 49 percent depending upon how the company would be organized.

If U.S. Steel were to invest \$5 million, the Brazilian Government, \$13 million, and the Import-Export Bank were to provide \$17 million, the company would probably distribute its earnings somewhat as follows: The Import-Export Bank would receive the usual 5 percent on its \$17 million and the balance would go to the Brazilian Government and U.S. Steel who, presumably, would be holding equities. Assuming that the balance

of the earnings were divided between the Brazilian Government and U.S. Steel in proportion to their stake in the venture, each would receive 24 percent on its invested capital. On the other hand, the company might be so organized that the earnings would be divided between the milreis capital and the dollar capital in proportion to their respective sizes. Since the Import-Export Bank would again be getting only 5 percent, the balance of the dollar earnings would accrue to the U.S. Steel Corporation in which case it would be earning 49 percent on its investment.

It is possible to assume various other methods of distribution which would place the earnings of U.S. Steel between these two figures. The point which must be emphasized, however, is that the earnings of those who hold the capital stock of the Brazilian company would be greatly increased were the Import-Export Bank to furnish any sizeable proportion of the capital at 5 percent.

Why was the U.S. Steel Corporation not willing to participate in what appears to be an lucrative a proposition?

Any explanation must, of course, be conjectural as there is no way of knowing why the Finance Committee of the U.S. Steel Corporation acted as it did. Their explanation to the State Department was essentially that the executive branch of the corporation already had many demands upon their time and attention and that they would not be able to, or would not care to, assume the additional burdens which successful management of this venture would require.

It does not seem probable that they are merely jockeying for a better deal and the explanation of their unwillingness to participate in the venture is doubtless based upon their lack of faith in the ability or willingness of the Brazilian Government to fulfill the conditions deemed necessary to the efficient operation of the plant, the safety of their capital, or the transfer abroad of earnings.

The U. S. Steel plan is very different from the Itabira Project for the development of Brazilian iron resources.

The Itabira project counted upon the exportation of high-grade Itabira ore for the major portion of its income and envisaged the construction of a 150,000 ton capacity steel plant at Santa Cruz more or less as a side line. In the U. S. Steel project, the steel plant is the basic feature and it is to be much larger and to be located in Rio de Janeiro. Whereas the Itabira Project was to tap ore resources at present inaccessible by railroad, for which reconstruction of the Victoria to Minas Railroad would be necessary, the U. S. Steel project contemplates the use of the lower grade ore located near the Central Railroad. The capital required for the carrying out of the Itabira Project would have amounted to \$75 million, whereas the capital requirements for the U. S. Steel project (i.e., for the plant alone) is \$35 million.

Brazil imports over 80 percent of its iron and steel products.

Total consumption during recent years has averaged roughly 400,000 tons of finished steel products per year. The amounts produced

within Brazil and imported during the three years 1936-1938, inclusive, are as follows:

Source of Iron and Steel Products Acquired by Brazil
during the years 1936-1938 and Cost of the Proportion Imported

	Imported	Produced Domestically	Total	% of total consumption produced in Brazil	Cost of iron and steel imports (\$1,000,000)	Iron and steel as a % of total imports
	(1000 metric tons)	(1000 metric tons)	(1000 metric tons)			
1936	322	52	374	14	26.7	10.8
1937	433	55	488	9	42.4	12.7
1938	274	65	339	19	29.7	10.0
Three year average	343	57	400	17	32.9	11.2

Brazilian market for iron and steel products will increase substantially.

At present per capita consumption of steel in Brazil is very low compared with European and North American standards. Because of the high cost of iron and steel products in Brazil, they have been used very sparingly and only where they were absolutely necessary. Brazilian buildings, for example, contain very little steel and office buildings as high as twenty stories have been constructed without steel framework, using only reinforced concrete. Once iron and steel products are manufactured within Brazil on a large-scale so that they are cheaper in price and their purchase is not dependant upon foreign exchange availabilities, it is expected that Brazilian consumption will increase substantially, rising to 1,000,000 tons per year by 1950, as compared with 400,000 tons at present.

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Brasil has for many years had high tariffs on these products. To the protection afforded by the tariff there has been added the degree of protection resulting from the steady depreciation of the milreis, and, during the last decade, the difficulties of acquiring foreign exchange.

Some of the duties currently in effect are listed below in order to facilitate their comparison with the anticipated sales prices of products which would be produced in the projected steel plant.

U.S. Steel Committee's Estimates as to Costs and Prices Compared
with Duties on Similar Items

(Figures in milreis per metric ton)

Type	Estimated mill costs of production (excluding overhead)	Anticipated rise
Rails and accessories	559	900
Structurals	611	1,600
Rounds and flats	564	1,500
Plates and sheets	909	1,800

Duties on Similar Articles

Type	General	Minimum
Iron beams	403	328
Iron or steel bars and rods	640	520
Iron or steel plate	800	650
Rails (10 kilograms per meter)	280	228
Rails (over 10 kilograms per meter)	70	57
Strips for fitting and joining	1,075	874

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The construction of such a plant would alter the type of iron and steel products imported, but need not reduce, and might increase, the volume of Brazil's imports of iron and steel goods.

If United States capital is used in financing the plan, the heavy equipment needed by the plant would doubtless be purchased in this country. Once the proposed plant began operations, Brazil could produce domestically many of the semi-manufactured and the simpler manufactured products today she is forced to import. The very fact that such products are more easily available will doubtless lead to the undertaking of projects today considered impossible and requiring increased imports of more complex machinery which Brazil would not for some time be in a position to produce. Furthermore, the foreign exchange which today must be used to acquire the simple iron and steel goods, will then be available for the purchase of such products. It is hence to be expected that we would lose the Brazilian market for iron rails, structural steel, sheet iron, etc., and find an increased market for products demanding a high coefficient of technical skill, such as elevators, locomotives, turbines, and industrial machinery.

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Another important consideration has been the fact that the large Brazilian iron deposits are located in the interior of the State of Minas Geraes, about three hundred miles from the nearest port on the east coast and somewhat farther from Rio de Janeiro and the Brazilian markets. The rugged nature of the terrain makes transportation difficult and the Brazilian railway system has not as yet been developed to a point where it could handle the volume of traffic which would be required for large scale working of the deposits.

It is highly probable that these two obstacles would have been overcome had there not been a sharp conflict between different groups with divergent points of view concerning the methods to be adopted in developing the iron deposits. As will be observed in the following sections, this conflict of interests, and resulting pressures upon governmental bodies, was an important factor in preventing the development of the Itabira concession.

The "Itabira Iron Project" was the only proposal for the large-scale development of Brazilian iron deposits which received serious consideration prior to 1928.

In 1911 Sir Ernest Cassel, who had controlled the Swedish iron mines, Sir Alexander Henderson, and Haring Bros. formed a syndicate (the Itabira Iron Ore Co.) and acquired deposits of exceptionally high grade ore located at Itabira de Mato Dentro. This group also acquired a controlling interest in the Victoria to Minas Railroad but were unable to obtain a government guarantee of earnings, without which they did not care to rebuild the line as was necessary for the development of their properties. In 1918 they sold their interests to British Ironmasters Dorman, Long & Co., Ltd., Lloyds Bank, and Lord Inverforth who invited Percival Farquhar of New York to form a group to take over and carry through the development of these iron deposits.

Percival Farquhar, who has been the head of the Itabira organization since that time, had already had an extensive career in Brazil, having been a moving figure in the organization and/or construction of the Rio de Janeiro Light and Power Company, the Brazilian Railway Company, the

Port of Rio Grande do Sul, the Port of Para, and the famous Madeira-Mamore Railroad. While he was still in the United States organizing American interests, Epitacio Pessoa, President-elect of Brazil, stopped off in New York on his way home from the Paris Peace Conference. At a banquet held in the Waldorf-Astoria, Farguhar was able to discuss with Pessoa his plan for the development of the Itabira Iron deposits and to obtain Pessoa's consent as to its general principles.

The main features of this plan, which was under consideration until the concession was cancelled in August 1939, were the following: The plan was based upon the large-scale exportation of high grade Itabira ore. In order to make this possible, the Itabira Iron Ore Company was to rebuild 300 miles of the Victoria to Minas Railroad and to construct port works at Santa Cruz just north of Victoria. In order to satisfy the desire of the Brazilian Government for a domestic iron and steel industry, the company agreed to construct a refinery and steel mill of 150,000 ton capacity. It was expected that the same boats which carried ore away from Brazil could return with cargoes of coal, thus assuring a supply of fuel for the operation of the steel plant which was to be located at Santa Cruz, just north of Victoria.

Opposition by Messrs. Groux prevented the carrying out of the Itabira Iron Project.

From the first, the project was opposed by several Groux which, though small, were powerful enough to cause trouble. These were:

(1) The domestic coal interests who feared that the plan would lead to increased imports of foreign coal.

(2) The owners of the small iron plants already in operation who didn't want the competition of the new and supposedly more efficient plants such as was contemplated.

(3) The contrast between the Itabira Iron Company and the Brazilian Government had stated that the reconstructed Victoria to Minas Railroad could, but would not be obliged to, carry ore which might be mined by other companies. Owners of other iron properties located in Minas opposed the contract on the grounds that it would give the Itabira Iron Ore Company complete control over their welfare through control of the transportation facilities.

(4) Professor Glodencio de Oliveira of the School of Minas at Ouro Preto believed that Brazil should not allow the ore to be exported and opposed the project for this reason. Since he was influential in Minas Gerais and since the Itabira contract with the Federal Government was dependent upon negotiation of a similar contract with the government of the State of Minas, he was in a position to exert a retarding influence.

So soon as the contract signed (and of 1919) than the influence of the opponents of the Itabira project was felt. The Tribunal de Contas refused to register the contract and when the President of Brazil ordered that it be registered, the matter was presented to Congress. Furthermore, the State of Minas Gerais refused to negotiate a similar contract.

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Division of Monetary
Research

Years passed while the Itabira Company tried to win over the opposition, and it was not until December 1927 that a revised contract was signed with the State of Minas Geraes under the terms of which the Itabira Company was obliged to transport ores of third parties for the same charges as its own ore, and to allow others to use its docks for loading. Another year passed before the company was able to get an accord with the Federal Government confirming the revised contract. Immediately plans were drawn up for construction of the railroad and in August 1930 the Federal Government approved the detailed plans and maps. By that time, however, the stock market crash and the onset of the depression had made it impossible for the company to finance the plan.

In September 1930 the Fargueh group, unable to begin construction within 24 months as specified by the contract, petitioned for an extension of time. In October, however, the Vargas Government came into power and, suspicious of foreign companies, it refused to grant the extension, forcing the company either to pay a fine of fifty centes (50,000) a month or forfeit the concession. The fine was paid for ten months during which time negotiations took place, culminating in the appointment by the government of a committee to study the contract. During the succeeding five years, the contract was studied by five different committees (Revisory Committee, Comissão Nacional de Hidrografia, Comissão Jurídica do Ministerio de Minas, Consultores Technicos e Juridicos of the Ministerio de Minas, and finally a Committee of Eleven). When in 1935 the newly-established Congress

convened, this body decided that it alone had power to alter the contract of 1920, which in its opinion had not lost its validity. The contract was then studied by the Committee of Public Works and Transportation, the Committee of Finances, the Committee of National Security, the Committee of Transportation and Communication, and was still in committee when the Congress was dissolved by the coup d'etat of November 1937.

In conformance with the wishes of the military element and the nationalist opposition to the exportation of iron ore, Vargas cancelled the Itabira contract in August 1939.

Shortly after the 1937 reorganization of the Brazilian Government, study of the Itabira contract was resumed by the Technical Council of Economics and Finance. After the coup d'etat, Vargas' dependence upon military support was greater than it had previously been and, as a consequence, the wishes of the military element acquired an increased importance. Whereas some of the many committees which had studied the contract had recommended the elimination of the provision requiring the construction of a steel plant, the military element wanted a steel plant in order to make the supply of armaments and munitions less dependent upon foreign markets and foreign exchange. Furthermore, they wanted the plant to be located at Rio de Janeiro rather than at an out-of-the-way place like Santa Cruz. To be sure, other elements entered into the decision, but the wishes of the military forces carried very heavy weight, and in August 1939, the Itabira contract was definitely

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Division of Monetary
Research

cancelled. Shortly thereafter the government let it be known that a steel plant would be constructed with or without the help of foreign capital and President Vargas announced that in the near future Brazil would be making its own iron and steel products.

The United States Steel Corporation recently considered participating in the construction and operation of a plant in Brazil but decided against it.

Shortly after the Itabira contract was cancelled a committee of technical experts of the United States Steel Corporation went to Brazil at the invitation of the Brazilian Government where they spent some months investigating all aspects of the construction and operation of a large modern iron and steel plant. The committee's report is favorable to the project in so far as technical aspects and milreis profit and loss prospects are concerned, but the finance committee of the company decided not to participate in the project.

Type of a plant discussed by the investigation committee.

The committee considered as most desirable a plant capable of producing at the outset 285,000 metric tons of finished steel per year. It would be equipped not only to reduce ore to iron but to manufacture the standard iron and steel products such as rails, structural steel, rounds and flats, sheets, and tin plate, thus providing the iron and steel products basic to developmental projects and industries.

Cost of proposed plant

The committee estimated the capital needs as follows:

Cost of the plant, including real estate	\$30.5 million
Value of stocks and inventories (raw materials, supplies and finished products)	3.5 million
Working capital	<u>1.0 million</u>
Total	\$35.0 million

Of this total, roughly \$22 million would be needed in dollars, but milreis could be used for the \$13 million balance.

Additional capital expenditures on transportation would be necessary to the success of the project.

In order to assure the plant of a constant supply of ore, the committee recommended that \$12.6 million be spent by the Brazilian Government in improving transportation facilities. The money would be used in the following manner:

Improvement of 220 miles of roadbed of the Central Railroad	\$5,000,000
New equipment for the Central Railroad	2,200,000
Improvement of the Dona Theresa Christina Railroad	1,500,000
New equipment for the D.T.C. Railroad	600,000
Improvement of Port at Laguna	250,000
One ship for coastwise service	500,000
Five ships for ocean service	<u>2,500,000</u>
	\$12,550,000

The Plant could use some Brazilian coal

The committee, after a preliminary investigation of this possibility, concluded that Brazilian coal could be used if mixed with imported coal in the ratio of roughly two-thirds imported and one-third domestic.

Other raw materials could all be acquired in Brasil.

In addition to 440,000 metric tons of coal for coking, the committee estimated that the plant would annually require:

530,000 metric tons of iron ore;

95,000 metric tons of manganese ore;

134,000 metric tons of limestone and dolomite

The committee estimates that 15 percent net profit would be earned on the \$35 million plant investment.

In arriving at this figure the committee have assumed that prices for finished products will, on the average, be 13.5 percent below a three year (1936-1938, inc.) average of "landed costs" of similar products in Brasil but they point out that "we think substantially higher prices will prevail". In computing their operating costs they have always made what they call "conservative estimates", leaving a substantial margin of safety. They have assumed, however, that imports of plant material, machinery, and coal would be exempt from import duties -- to which the Brazilian Government has doubtless agreed. In arriving at net profits allowance was made for Brazilian sales tax (1 1/4 percent

of invoice value), income tax (6 percent), and other taxes. A depreciation reserve was set up, equal to 5 percent on depreciable property, except rolls, blast furnace linings, and coke oven walls as depreciation of these items was covered in manufacturing costs. The committee's estimate of 15 percent net profits seems on the whole to be conservative.

The committee felt that before participating in the project, the U.S. Steel Corporation should have the following definite assurances:

a. That adequate and economical transportation will be available.

The committee felt that the Brazilian Government could bring about the necessary improvement in transportation facilities by:

1. Investing \$12,550,000 in improving roadbeds and port facilities and buying new equipment;
2. Placing the governmentally-owned and operated Central Railroad under an autonomous and efficient management;
3. Placing the Dona Theresa Christina railroad under the same management as recommended for the Central Railroad.

b. That a reasonable tax policy will be followed.

c. That the company be allowed, as a transitory provision, to employ American skilled technical labor to the extent necessary for efficient operation, and that such men be exempt from existing immigration regulations.

d. That the company will be granted the right to operate mines.

e. That remission of dividends and interest to foreign shareholders will not be restricted.

f. That the company be exempt from payments of import duties on plant materials and machinery for initial construction, and that duties on coal for the plant be either removed or made very low.

Did the U.S. Steel Corporation intend, if it participated in the project, to supply a substantial proportion of the necessary capital?

Apparently not. Although no information concerning this point is contained in the report of the investigating committee, it is understood that the U.S. Steel Company never considered putting more than \$5,000,000 of its own capital into the venture, and expected to have the Import-Export Bank put up the balance of the dollar funds required. The Brazilian Government would supposedly furnish the milreis capital. It is also understood that the United States Steel Corporation's interest on the project was based upon the supposition that it would have complete control of the American share of the investment, and of operation of the plant.

Assuming that the U.S. Steel Corporation were to participate in the project under these conditions, its earnings would be much larger than the anticipated 15 percent on the capital as a whole.

If the plant earned 15 percent on its capital, as is estimated, the U.S. Steel Corporation would earn between 24 percent and 49 percent depending upon how the company would be organized.

If U.S. Steel were to invest \$5 million, the Brazilian Government, \$13 million, and the Import-Export Bank were to provide \$17 million, the company would probably distribute its earnings somewhat as follows: The Import-Export Bank would receive the usual 5 percent on its \$17 million and the balance would go to the Brazilian Government and U.S. Steel who, presumably, would be holding equities. Assuming that the balance

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of the earnings were divided between the Brazilian Government and U.S. Steel in proportion to their stake in the venture, each would receive 24 percent on its invested capital. On the other hand, the company might be so organized that the earnings would be divided between the milreis capital and the dollar capital in proportion to their respective sizes. Since the Import-Export Bank would again be getting only 5 percent, the balance of the dollar earnings would accrue to the U.S. Steel Corporation in which case it would be earning 49 percent on its investment.

It is possible to assume various other methods of distribution which would place the earnings of U.S. Steel between these two figures. The point which must be emphasized, however, is that the earnings of those who held the capital stock of the Brazilian company would be greatly increased were the Import-Export Bank to furnish any sizeable proportion of the capital at 5 percent.

Why was the U.S. Steel Corporation not willing to participate in what appears to be an lucrative a proposition?

Any explanation must, of course, be conjectural as there is no way of knowing why the Finance Committee of the U.S. Steel Corporation acted as it did. Their explanation to the State Department was essentially that the executive branch of the corporation already had many demands upon their time and attention and that they would not be able to, or would not care to, assume the additional burdens which successful management of this venture would require.

It does not seem probable that they are merely jockeying for a better deal and the explanation of their unwillingness to participate in the venture is doubtless based upon their lack of faith in the ability or willingness of the Brazilian Government to fulfill the conditions deemed necessary to the efficient operation of the plant, the safety of their capital, or the transfer abroad of earnings.

The U. S. Steel plan is very different from the Itabira Project for the development of Brazilian iron resources.

The Itabira project counted upon the exportation of high-grade Itabira ore for the major portion of its income and envisaged the construction of a 150,000 ton capacity steel plant at Santa Cruz more or less as a side line. In the U. S. Steel project, the steel plant is the basic feature and it is to be much larger and to be located in Rio de Janeiro. Whereas the Itabira Project was to tap ore resources at present inaccessible by railroad, for which reconstruction of the Victoria to Minas Railroad would be necessary, the U. S. Steel project contemplates the use of the lower grade ore located near the Central Railroad. The capital required for the carrying out of the Itabira Project would have amounted to \$75 million, whereas the capital requirements for the U. S. Steel project (i.e., for the plant alone) is \$35 million.

Brazil imports over 80 percent of its iron and steel products.

Total consumption during recent years has averaged roughly 400,000 tons of finished steel products per year. The amounts produced

within Brazil and imported during the three years 1936-1938, inclusive, are as follows:

Source of Iron and Steel Products Acquired by Brazil
during the years 1936-1938 and Cost of the Proportion Imported

Imported (1000 metric tons)	Produced Domestically (1000 metric tons)	Total (1000 metric tons)	% of total consumption produced in Brazil	Cost of iron and steel imports (\$1,000,000)	Iron and steel as a % of total imports
322	52	374	14	26.7	10.8
433	55	488	9	42.4	12.7
274	65	339	19	29.7	10.0
343	57	400	17	32.9	11.2

Brazilian market for iron and steel products will increase substantially.

At present per capita consumption of steel in Brazil is very low compared with European and North American standards. Because of the high cost of iron and steel products in Brazil, they have been used very sparingly and only where they were absolutely necessary. Brazilian buildings, for example, contain very little steel and office buildings as high as twenty stories have been constructed without steel framework, using only reinforced concrete. Once iron and steel products are manufactured within Brazil on a large-scale so that they are cheaper in price and their purchase is not dependent upon foreign exchange availabilities, it is expected that Brazilian consumption will increase substantially, rising to 1,000,000 tons per year by 1950, as compared with 400,000 tons at present.

Brazil's tariff on iron and steel products is high.

Brazil has for many years had high tariffs on these products. To the protection afforded by the tariff there has been added the degree of protection resulting from the steady depreciation of the milreis, and, during the last decade, the difficulties of acquiring foreign exchange.

Some of the duties currently in effect are listed below in order to facilitate their comparison with the anticipated sales prices of products which would be produced in the projected steel plant.

U.S. Steel Committee's Estimates as to Costs and Prices Compared
with Duties on Similar Items

(Figures in milreis per metric ton)

Type	Estimated mill costs of production (excluding overhead)	Anticipated rise
Rails and accessories	559	900
Structurals	611	1,600
Rounds and flats	564	1,500
Plates and sheets	909	1,800

Duties on Similar Articles

Type	General	Minimum
Iron beams	403	328
Iron or steel bars and rods	640	520
Iron or steel plate	800	650
Rails (10 kilograms per meter)	200	228
Rails (over 10 kilograms per meter)	70	57
Strips for fitting and joining	1,075	874

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Would the construction of a steel plant in Brazil mean the loss of the Brazilian market for American iron and steel products?

The construction of such a plant would alter the type of iron and steel products imported, but need not reduce, and might increase, the volume of Brazil's imports of iron and steel goods.

If United States capital is used in financing the plan, the heavy equipment needed by the plant would doubtless be purchased in this country. Once the proposed plant began operations, Brazil could produce domestically many of the semi-manufactured and the simpler manufactured products today she is forced to import. The very fact that such products are more easily available will doubtless lead to the undertaking of projects today considered impossible and requiring increased imports of more complex machinery which Brazil would not for some time be in a position to produce. Furthermore, the foreign exchange which today must be used to acquire the simple iron and steel goods, will then be available for the purchase of such products. It is hence to be expected that we would lose the Brazilian market for iron rails, structural steel, sheet iron, etc., and find an increased market for products demanding a high coefficient of technical skill, such as elevators, locomotives, turbines, and industrial machinery.

German and British firms have recently offered to participate in a Brazilian steel plant on the same terms which United States Steel rejected.

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Division of Monetary
Research

According to recent press reports, Brazilian Governmental officials have let it be known that Krupp of Germany and a British firm have approached them with proposals to construct a plant under conditions similar to those rejected by the United States Steel Corporation. While it is not unlikely that such overtures have been made, there is little chance that the Brazilian Government would seriously consider such an arrangement while these countries are at war. Such stories have probably given out in the hope that they will make the United States Government or American private capital more willing to participate in the project.

OAS:lrs
3-4-40

March 4th 12. PM

88

Currie said should use gold
in stat. fund. Both Eccles
and Currie agreed I should
go to Congress to get their
approval before doing so.

Currie talked just exact same
language as Harry White did this
P. M. said we would be enticed for
paying interest on debt when
we had idle gold in stat. fund.

Pres. wants daily tax ^{receipt} figures

Gettins I should drop interest in Baby Bonds

Eccles said to tell Pres in Jan. to put
in spending and advisable to use
some of stat. fund. But to wait to
see until after March 1st to make
his mind.

COPY

March 4, 1940

MEMORANDUM FOR THE PRESIDENT:

Re: Refunding Debt.

The issue boils down to this: If the \$738 million of notes are refunded we will have, in effect, ruled out the possibility of using a portion of the Stabilization Fund for debt retirement during this session.

If, on the other hand, the \$353 million of bonds are refunded, the possibility of retiring debt is left open for decision in, say, April or May. We favor the latter course as business or Congressional developments may make it very desirable to use a portion of the Fund to retire debt this spring.

LAUCHLIN CURRIE

MARRINER ECCLES



THE SECRETARY OF THE TREASURY
WASHINGTON

March 4, 1940

My dear Mr. President:

Purely on a fiscal basis, Marriner Eccles would favor doing a refunding for both notes and bonds. However, with the use of part of the Stabilization Fund in mind, Eccles prefers only refunding the bond issue equal to \$353,000,000. As your Secretary of the Treasury, I am recommending that we go ahead with the refunding of the \$738,000,000 notes. I cannot take the responsibility of having such a large amount of Government securities hanging over the Treasury at this time.

I would appreciate your O. K. on this program before four o'clock, at which time I have a press conference.

Sincerely yours,

Henry M. Vothman Jr.
Wm. B. E.
OK
File

The President,
The White House.

March 4, 1940

My dear Harriner:

I am sending you herewith a photostatic copy of my letter of today addressed to the President, giving my recommendations on the March 15th financing. The President returned this letter to me, with his approval of the program.

Sincerely yours,

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

March 4, 1940

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Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 86

DATE: March 5, 1940

Reference is made to my telegram 79 of March 1 and to the Department's 48 of March 2 and 51 of March 4.

In confirmation of the telephone conversation I had with Feis, the reason which is given by Aranha for increasing Grade IV to 45 percent is that he was forced to do so in order to pacify the French for their loss of further application of the gold clause contained in franc loans. Instead of a one to five ratio the French bondholders have been claiming a one to 13.8 ratio, and to back their claims they have the 1928 decision of the Hague Court in their favor. The Brazilian Government, however, is insisting on the one to five ratio.

For the purpose of meeting the increase in Grade IV and our much larger increase, deductions were made from the amortizations in Grades I and II in spite of strong opposition from the British. As has been previously reported, the Government of Brazil is perfectly willing to spend in the United States an additional \$10,000,000 for amortization of dollar bonds during the next four years.

As

-2-

As I have previously reported, we hold only 35.4 percent (repeat 35.4 percent) of the entire debt and are to receive 38.9 percent (repeat 38.9 percent) of the payments to be made, while the British hold 60.8 (repeat 60.8) and are to receive only 58.4 (repeat 58.4); the French 3.4 (repeat 3.4) and to receive 2.4 (repeat 2.4); and the Dutch .4 (repeat .4) and are to receive .3 (repeat .3)

This morning Aranha made me the promise that he would make no objection to the proposed statement to be given out by the Council, as was set forth in telegram no. 51 from the Department, dated March 4.

CAFFERY

EA:EB

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 54

DATE: March 5, 1940

Discussions with the Bondholders Council are continuing; we hope that a favorable result will be attained tomorrow. We shall appreciate it if you will try to hold matters open. Perhaps it would be possible for Aranha to secure authority from President Vargas to make the offer whenever the proposed assurances from the Council are received by Aranha.

EA:EB



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Eu 871.5151/152

March 7, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his information a paraphrase of a telegram dated March 4, 1940 from the American Legation at Bucharest concerning the currency situation in Rumania.

Enclosure:

Paraphrase.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

NOV 15 1940

TECHNICAL ASSISTANT
OFFICE OF THE

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington

From: American Legation, Bucharest.

Dated: March 4, 1940, 3 p.m.

Rec'd: March 4, 1940, 4:46 p.m.

No. 63.

On March 3 legislation was published to be effective March 10 abolishing the negotiable bourse and reestablishing fixed rates for the free currencies at a 50% premium over the "official" rates plus the former premium of 38%. No official new rates have as yet been issued by the National Bank but presumably the dollar will be valued at about approximately 211 lei inclusive of the various premiums.

Control of import and export permits is retained by the Ministry of Foreign Commerce. The National Bank will apparently handle the free currencies merely as depositary. There is no change in the rates established by treaty for the clearing currencies.

This change is equivalent to an unadmitted devaluation by 50% of the leu in as much as the negotiable rate is now about 214 lei to the dollar. Exporters to free exchange countries, after they have sold 30% of their exchange

to

-2-

to the National Bank at 141, now receive an average of 192 lei to the dollar. The new legislation will increase their receipts by 10%. Therefore the relative buying power of the clearing currencies will be decreased by that amount and the Germans may on that ground demand a further upward revaluation of the mark.

TO THE SECRETARY
TECHNICAL BUREAU
OF THE
OF THE
OF THE

1940 MAR 15 PM 5 20

RECEIVED
TECHNICAL BUREAU
OF THE
OF THE

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 4, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*

The attached tables and chart show an increase of 13,000 persons in the number employed by the Work Projects Administration, from 2,306,000 persons during the week ended February 14, 1940 to 2,319,000 persons during the week ended February 21, 1940.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week Ending 1939-40	Number of Workers (In thousands)
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
February 21	2,319

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

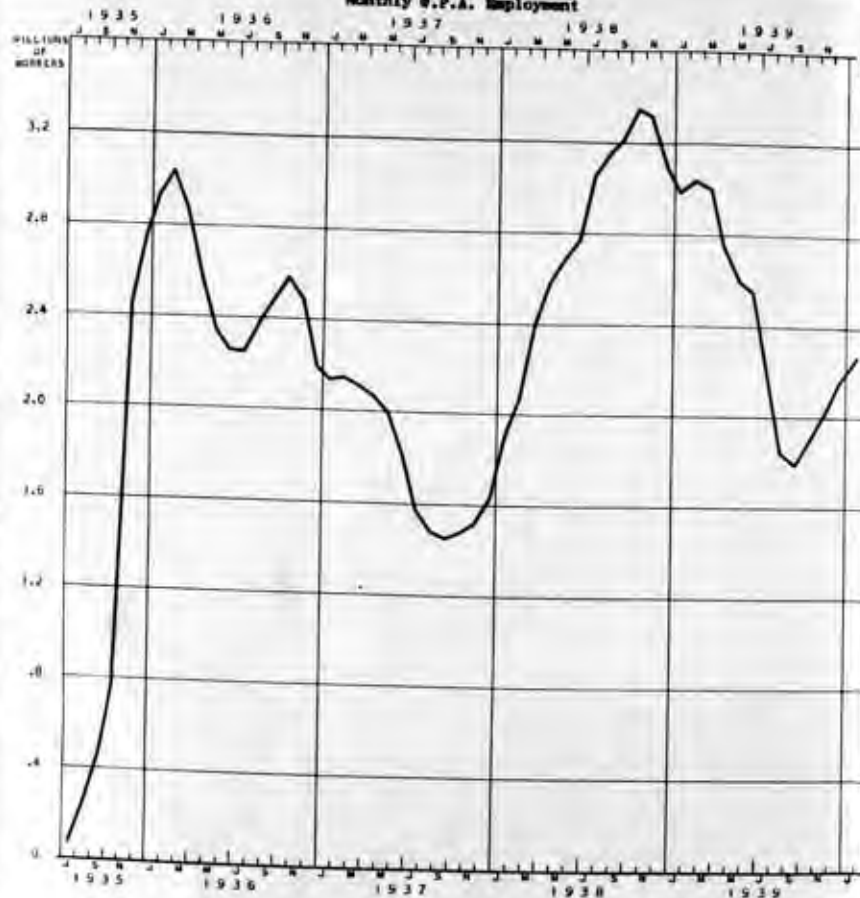
Source: Work Projects Administration.

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

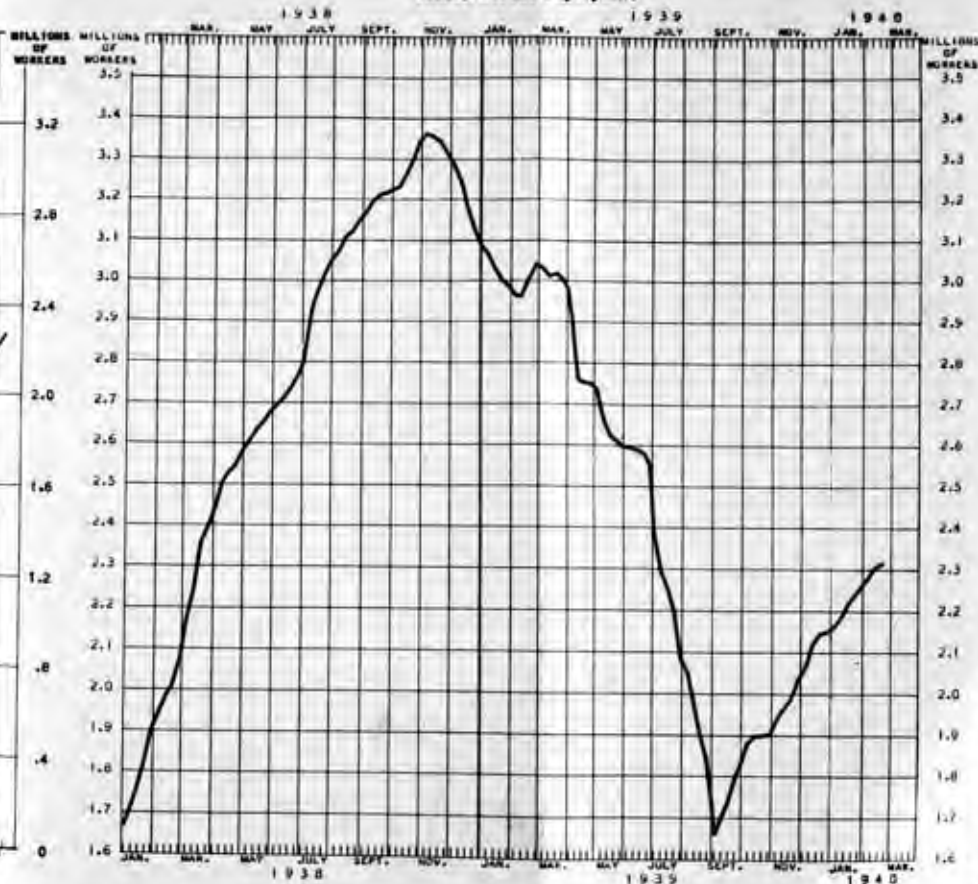
They include certified and noncertified workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

March 4, 1940

I asked General Watson to ask the President in my presence whether he O. K'd this and whether he would tell Watson to inform the Secretary of War and the Secretary of the Navy that it was O. K. and the President did that at one o'clock.

418-1/P(123)(00)

NAVY DEPARTMENT
BUREAU OF SUPPLIES AND ACCOUNTS
WASHINGTON, D. C.
1 March 1940

CONFIDENTIAL.

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

SUBJECT: Anglo-French Purchasing Board requests release of
smokeless powder by United States Army and Navy to
replace a 4 months' productive capacity amounting
to 2,000 tons lost by a recent explosion in England.

Enclosure: (A) Memorandum request of the Anglo-French Purchasing
Board for the above release.

1. Acting upon the above request, the President's Liaison Committee
has been able to obtain the following concessions from both military branches
of the United States Government:

From the Navy.

The Navy is willing to surrender 4 months' capacity from the
DuPont Company, which Company is now delivering to the Navy at the
rate of 150,000 pounds of smokeless powder per month, 4 months being
equal to 600,000 pounds of normal capacity at the present rate of
deliveries. It is possible that the DuPont Company, by reason of
the Navy's surrender of deliveries during the next 4 months, may by
shift operations increase the quantity of production which the Navy
might expect to receive during this 4 months period. But the quantity
surrendered by the Navy is at least 600,000 pounds.

From the Army.

Due to the fact that the Army has recently released 600,000 pounds
of smokeless powder to the Government of Finland, and because of a defin-
ite loading program now being carried out, the Acting Secretary of War
desires to limit the release of powder to the Anglo-French Purchasing
Board to a definite quantity, i.e., 1,200,000 pounds during the four
months, March, April, May, and June 1940. This release will pertain to
powder under contract with the Hercules Powder Company, Wilmington, Del.

2. The Committee will await your instructions before taking further
action.

RAY S. SEABY
Rear Admiral, U.S.N.
Member, President's Liaison Committee.

CANNON NITROCELLULOSE POWDER
EMERGENCY REQUIREMENT FOR GREAT BRITAIN

Reason for requirement:

As a result of an explosion at one of the important cordite factories in Great Britain, an unexpected shortage of 2000 tons of cannon powder has developed. As all calculations of requirements had been based on the assumption that the maximum capacity of all British factories would be available, it is not possible to secure any replacement of these 2000 tons from Great Britain. The deficit can only be made up from outside sources, and by the employment of nitrocellulose powder which, although not the standard charge, can be used in certain British guns.

Position of American supplies:

The only U.S. manufacturers of cannon nitrocellulose powder (apart from the U.S. Government) are the du Pont and Hercules companies. Their plants are already fully occupied in producing material for the U.S. Government and it has not therefore been possible to obtain from them any material to meet the British emergency requirement.

Negotiations with both du Pont and Hercules are in hand with a view to the erection of a new plant or plants for the production of cannon nitrocellulose powder for Great Britain (or France) in the United States. It will, however, be many months before any new factory for cannon powder is in production and this source of supply cannot meet the present situation.

Possibility of U.S. Government concessions:

Provided the U.S. Government are prepared to make the necessary concessions, it might be possible to meet the emergency requirement in two ways:

- (a) From existing stocks already held by the U. S. Government.
- (b) By switching over the production from existing plants from U. S. Government orders to the manufacture of material for Great Britain.

It is recognized that under procedure (b) there would be some delay in meeting the requirement but, even so, a concession of this kind of the U. S. Government would be extremely valuable.

Nature of powder required:

Owing to shortage of time and lack of a range of British guns in North America, it has not been possible to carry out the exhaustive ballistic tests with modern cannon nitrocellulose powders.

which would have enabled a decision to have been made as to the suitability of a large range of sizes of powder for British guns. Some tests have, however, been made in Canada and, subject to final confirmation by Great Britain (which has been asked for by cable), the following types of powder would be suitable:

- (1) Material of web thickness 0.021" (multi-perforated) and of composition 87 parts nitrocellulose of nitrogen content 13.1%, 10 parts dinitrotoluene, 3 parts dibutylphthalate, and stabilized with one part diphenylamine.
- (2) Material of web thickness 0.0225" and of composition 85 parts nitrocellulose as in (1) 10 parts dinitrotoluene, 5 parts dibutylphthalate with 1 part diphenylamine. It is understood that material of this kind approximates to the standard U. S. powder for the 75 mm. A.A. gun.
- (3) Material of composition as in (2), but with web thickness 0.021". It is understood that powder of this kind was formerly used in the 75 mm. U.S. Pack Howitzer which is regarded as to some extent obsolescent.

If material of the above types is not available, or if the quantities which can be obtained are insufficient, any cannon nitrocellulose powder which would be expected to give ballistics equivalent to the above types would receive the most serious consideration by the British authorities.

B. Whitworth

Feb. 28, 1940

Anglo-French Purchasing Board

C. T. Ballantyne
CHARLES T. BALLANTYNE
Secretary General

March 4, 1940
3:43 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Charles Edison: Hello, Henry.

HMJr: Hello, Charlie.

E: How are you, sir?

HMJr: I'm all right.

E: Did you recover from church all right?

HMJr: Oh, yes. That's always nice.

E: I recovered too.

HMJr: Good.

E: I think that's a swell service.

HMJr: Lovely.

E: Say, I called you in connection with this powder.

HMJr: Yes.

E: I understand that's O.K. to go ahead on?

HMJr: Well, the President told me yesterday, he told me today, and he instructed General Watson to advise the Secretary of the Navy and Secretary of War it was O.K.

E: Yeah, all right.

HMJr: I mean -- the President told me twice.

E: Yeah.

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HMJr: And told General Watson.

E: Well, Watson did call me and I just wanted to be sure we were talking about the same memorandum.

HMJr: Well, I have a copy here so.....

E: It's the one that Risdale wrote to you, isn't it?

HMJr: That's the one that Spear wrote to me in which it says the Navy would give up 600,000 pounds over four months.

E: I see.

HMJr: Is that right?

E: Yeah, that's the one.

HMJr: That's right. From Dupont.

E: Yeah.

HMJr: O.K.?

E: All right, fine; we'll go ahead.

HMJr: I gather you're -- you wanted to be sure, is that it?

E: I -- yeah, I don't like -- you know you get things over the telephone -- we might be selling the Washington Monuement. (Laughs) Some fellow talks about one thing.....

HMJr: No.

E:and I just wanted to be doubly sure.

HMJr: No, it's based on the Spear memo.

E: What?

HMJr: It's based on Admiral Spear's memorandum.

E: Yeah, that's the 600,000 pound one.

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HMJr: That's right.
E: All right, sir.
HMJr: Thank you.
E: Goodbye.

March 4, 1940
4:25 p.m.

HMJr: Mr. Purvis, I saw the President today.

Arthur
Purvis: Yes.

HMJr: And showed him the memorandum that Admiral Spear had prepared.

P: Yes.

HMJr: And -- on the powder.

P: Yes, sir.

HMJr: And the President approved it.

P: Oh. hurray! That is good of you, and of him.

HMJr: And -- unhesitatingly, and he has advised the Secretary of War and Navy to that effect.

P: Good.

HMJr: Now, that affects, let's see, 600,000 pounds from Dupont on contract for the Navy.....

P: Yes.

HMJr:and a million two of Hercules which was on contract for the Army.

P: Yes.

HMJr: Delivery to begin as of March first.

P: Oh, excellent!

HMJr: So -- now, if you can.....

P: Yes.

HMJr:write a letter to the Hercules and Dupont and then get them to write a letter to the Army and Navy.....

P: Yes.

- 2 -

HMJr:it would help, see?

P: I shall -- I shall arrange that immediately.

HMJr: I don't say that if you don't do it you can't get it, but it would help us.

P: Well, I shall - I'm pretty sure I shall manage to get that immediately. And I'm ever so grateful, of course, to both.

HMJr: So the rest is up to you now.

P: And may I say one other thing. I also was delighted to hear that we have a prospect of getting through on the tax thing. We haven't quite done it yet but it does look -- thanks again to your help -- to -- as if it were going to be successful.

HMJr: Well, we had a meeting in my office Friday from 9:30 in the morning.....

P: Yes.

HMJr:until two o'clock.

P: (Laughs) Will you ever be able to work for your own country?

HMJr: Well, I think I have -- sometimes. And at that thing it was decided that if we can give a ruling,....

P: Yes.

HMJr:there is no reason why we can't give a closing agreement.

P: No, quite. Well, of course it's going to help enormously and it is really encouraging after -- it's just a little difficult time.

HMJr: Well.....

P: Mr. Secretary, one other thing. There is some news that Monsieur Pleven and M Jacquin have arrived on the -- from the Clipper and are on the train on the way from Baltimore here.

- 3 -

HMJr: Oh, so. Good. Now, just to go back a minute. That doesn't mean that if a company, for instance, wants to settle a lot of things which we wouldn't give them a ruling on, we won't be able to give them any closing agreement.

P: No, and of course that's what we've been trying to drag -- knock down and drag out Hercules on.

HMJr: See?

P: Yes, I -- I fully appreciate that point.

HMJr: I mean if they want us to pass on future salaries, we can't do anything like that.

P: No, exactly.

HMJr: But if we can give a ruling, there's no reason why we can't give a closing agreement.

P: Well, I think that should be sufficient. It does look to me as if it should work out all right.

HMJr: Well, it took a little time to convince the people around the shop, but everybody now is very happy and there's no bad feeling about it.

P: Oh, I'm delighted.

HMJr: There's no bad feeling. Everybody has agreed that that's the thing to do.

P: Oh, thank you very much indeed, sir.

HMJr: And that's that -- and Collins is back.

P: Yes, he -- he rang me this morning. Now, sir, Henry Self, Plevin and Jacquin, I'm sure, would very quickly -- would like to have the possibility of seeing you.

HMJr: Henry Self?

P: Sir Henry Self. He's the British.....

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HMJr: How do you spell that?

P: S-E-L-F.

HMJr: Just like yourself.

P: Yes.

HMJr: Right.

P: He's the head of the British end of it.

HMJr: Well, I.....

P: And Pleven and Jacquin, of course, you know.

HMJr: Well I'm anxious to see them but they ought to give me 24 hours' notice.

P: I'll arrange that. Now, there's one other thing, Mr. Secretary. I have somebody here who would very much like to have a word with you on the telephone.

HMJr: Right.

P: Professor Rist.

HMJr: Oh.

P: Could he just have a personal.....

HMJr: Oh, surely. Surely.

P: He's in my office now.

HMJr: Yes.

Professor
Rist: Hello.

HMJr: How do you do Professor Rist.

R: Hello, Mr. Secretary.

HMJr: How are you?

R: Oh, very well, thank you. I am so pleased to hear your voice and so pleased to hear your voice

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and so pleased to be here and have an opportunity of calling on you as soon as possible.

HMJr: Well, that will be very nice.

R: I would be so glad to have a quiet talk with you.

HMJr: Well, when.....

R: Do you think it would be possible perhaps tomorrow afternoon?

HMJr: Well, that -- I don't think so, Professor Rist. I'm going to have to be a little bit formal about this, you see?

R: Well.....

HMJr: I'm afraid. I think that -- I mean -- if you don't mind I think your Ambassador is going to have to ask for it for the first time.

R: All right.

HMJr: You see?

R: All right.

HMJr: I think for the first time, I think I'm going to have to ask, if you don't mind, that your Ambassador arrange it.

R: Not at all, I'll do as you like best.

HMJr: And after that we won't have to be so formal.

R: Thank you.

HMJr: But the first time I'm afraid I'm going to have to be a little formal.

R: Very well, very well.

HMJr: But this -- I think you understand.

R: I understand perfectly, Mr. Secretary.

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HMJr: So if your Ambassador will arrange it, why I'll -- I'll be very glad to.

R: All right. I'll see him tomorrow morning.

HMJr: Thank you.

R: May I ask you to present my respects to Mrs. Morgenthau.

HMJr: Thank you. She'd like to see you very much when you're here.

R: Thank you very much.

HMJr: Goodbye.

R: Here is Mr. Purvis.

HMJr: Thank you.

Purvis: I just wanted to say, Mr. Secretary, that Professor Rist and Mr. Jacquin both arrived this morning, as you know -- one of them at least.....

HMJr: Yes.

P: And that the plan of -- that I was going to present was to ----- if it were convenient to you, to run down -- if it happened to be convenient tonight -- and tell you, say, for five minutes tomorrow what was in their minds, with a view to perhaps arranging a program of meeting officially.

HMJr: Well, what I told Professor Rist was -- hello?

P: Yes.

HMJr: The first time he saw me he'd have to do it through his Ambassador.

P: Yes.

HMJr: After that I wouldn't have to be so formal.

P: Yes, Yes.

HMJr: But the first time I do want the appointment arranged by his Ambassador.

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P: And may I ask one other thing.....

HMJr: So if -- but if you're in town tomorrow I'd be very glad to see you.

P: Good.

HMJr: And you want an appointment now?

P: If it would suit you.

HMJr: How about three o'clock?

P: Fine.

HMJr: Is that all right?

P: I'll be there. Splendid.

HMJr: Fine.

P: Thank you very much. And on the other question of -- I -- we will simply arrange that in such a way that you -- you and I have the talk first and then it's -- the Ambassador is to present them first. Is that it?

HMJr: Yes, that's it.

P: That's it.

HMJr: That's right.

P: Very good.

HMJr: I -- I have to.....

P: Have you any feeling -- question at all -- of course they will also call on the State Department too.

HMJr: Well, of course, they're ^{accredited} (a credit) to their Embassy so they'll have to call on the State Department.

P: Yes.

HMJr: You see?

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P: Well, we'll have a word together then on that at three p.m. tomorrow?

HMJr: Yes -- I mean, there are certain formalities that they will have to go through.

P: Exactly. Right. Thank you very much, Mr. Secretary. I'll see you at three p.m.

HMJr: Thank you.

P: Goodbye.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

March 4, 1940

Personal

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

Dear Henry:

I have written you about four letters, all of which I have subsequently thrown into the waste-paper basket. They had to do with my peeve at the way you publicly panned the SEC in your letter to Senator Norris. However, several things have happened recently: I had a touch of flu and my physiological fever burned off my emotional high temperature. Then the court appointed some bang-up trustees. And finally, this morning at church I was much impressed by the prayer, "Deliver us from fretfulness and self-pity." I took that to heart and therefore am laughing at myself. Perhaps you and I can have lunch together sometime soon and laugh at one another.

Sincerely yours,

Jerome
Jerome N. Frank
Chairman

March 4, 1940
10:01 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Robert
Doughton: All right, Henry. How are you?

HMJr: I'm all right. Bob.....

D: Yeah.

HMJr:you know we've got to go to church today and everything else, and I wondered whether you would mind putting this meeting this afternoon off for twenty-four hours.

D: Well, I've got a meeting, let's see -- with the Attorney General tomorrow. I think -- I believe it's at one o'clock. Let me see. It would be all right to have it tomorrow just so it doesn't conflict with some other appointment I've made. Just wait one second.

HMJr: I'll wait.

(Brief pause.)

D: I've got an appointment with the Attorney General tomorrow at three o'clock. Just so it doesn't conflict with that. Could you do it in the morning?

HMJr: Now, let me just see a minute. (Brief pause.)
Do you like early appointments? How about ten o'clock tomorrow?

D: That would suit me, as far as I can tell now, all right. It will be fine.

HMJr: How would that be?

D: That will be all right. Fine, thank you.

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HMJr: Well, we'll make it ten tomorrow and I'll get word to these other people. Is that all right?

D: All right. Ten o'clock tomorrow morning at your office.

HMJr: Thank you.

D: All right. Thank you very much.

HMJr: Goodbye.

D: Goodbye.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 51

DATE: March 4, 1940

Reference is made to the Department's telegram no. 48, dated March 2, 5 p.m.

The meeting of the Executive Committee which had been set for today was not held. However, Mr. White was in Washington today and we discussed very thoroughly with him all aspects of the Brazilian debt situation. He still feels that the Brazilian proposal is inadequate with respect to the total and is unsatisfactory in its distribution between dollar and sterling bonds. Since it is your judgment that this is the best offer that is available in the present circumstances, it is the view of the Department that it is desirable to clear the way to the bondholders. We finally worked out an agreement with Mr. White that if the Brazilian Government proceeds with the offer exactly as it is outlined in your telegrams no. 63 of the 16th of February (as amended with reference to Grade III by your no. 71 of the 24th) and/no. 78 of the 29th, the Council, without passing upon the merits of the proposal, would bring it to the attention of the bondholders

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bondholders in the following language:

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

When you convey this information to the authorities in Brazil, you may make it clear to them that the Department has exerted itself to the greatest extent possible in order to secure this possible arrangement but that it is not at all easy for the Council to refrain from making analytical comment with reference to an important offer like this.

This arrangement must be submitted by Mr. White to the Executive Committee of the Council for confirmation. This he will try to do as early as possible tomorrow morning--by one o'clock at the latest.

The statement set out above is the best we were able to work out this afternoon. It is not our wish, naturally, to make an issue of a phrase; accordingly, we would be willing to engage if it is necessary/in further discussions with reference to the text.

HULL (AAB)

EA:EB

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE March 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
February				
22	12,000	405,000	N11	N11
23	N11	N11	N11	N11
24	N11	N11	N11	N11
26	1,500	35,711	N11	N11
27	13,700	272,162	N11	N11
28	27,090	1,115,333	N11	N11
29	27,800	780,356	N11	N11
March				
1	3,300	170,390	N11	N11
2	200	8,855	N11	N11
TOTAL	85,590	2,787,807	N11	N11

Mr. Pinsent telephoned at 11:15 this forenoon to let me know that he had just received his first report from Mr. Gifford, which had been requested in accordance with an understanding between Mr. Pinsent and myself, in regard to sales of non-vested securities. Gifford obtains a report each Friday representing the proceeds of non-vested sales during the preceding week, based on sums received by the Bank of England. His first report was a total of \$5,000,000, for the week ended February 24. It is not possible to reconcile this figure with any other figures we have, but it gives us one more indication as to the exact volume of transactions.

B. M. S.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE March 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

As against Saturday's closing rate of 3.92-7/8, sterling fell to 3.91 in Amsterdam prior to the New York opening. The initial quotation here was 3.91-1/4. Although a quiet tone prevailed in the market, nevertheless, the turnover in sterling for a week-day was greatly increased. The rate advanced during the morning to a high of 3.91-5/8. Later on it eased and the closing quotation was 3.91-1/4.

The decline of 1-7/8¢ in the quotation in Amsterdam probably resulted from the circulation of a report that important measures for tightening British foreign exchange control would soon be introduced. It was reported by Dow Jones that the British Control will shortly require British exporters either to invoice goods in one or the other of the principal foreign currencies, such currencies to be delivered to the Control against the sterling equivalent or, if goods are invoiced in sterling, British exporters will have to prove that the sterling has been bought at official rates and not in the free market. It is believed that these measures will apply both to Great Britain and the British Empire.

The Amsterdam foreign exchange market evidently interpreted this report as a bearish factor for sterling, in that such measures would reduce the demand for that currency in the free market. That a bearish connotation was also placed upon the report in New York is suggested by the heavy sales by foreign banks which occurred here. More than offsetting such sales, however, were considerably expanded purchases by commercial concerns. It is possible that such concerns sought to cover their requirements owing to the fear that delay would necessitate their paying the official rate, or that further British Control measures might result in the blocking of sterling balances.

In addition, week-end events in the military and naval fields may have served to intensify the feeling abroad that a more active war is due to develop in the near future.

Sales of spot sterling by the six reporting banks totaled £836,000, from the following sources:

By commercial concerns.....	£ 280,000
By foreign banks (South America, Europe and Far East)....	£ 556,000
Total.....	£ 836,000

Purchases of spot sterling amounted to £851,000, as indicated below:

By commercial concerns.....	£ 614,000
By foreign banks (Europe, Near East and Far East).....	£ 237,000
Total.....	£ 851,000

The following reporting banks sold cotton bills totaling £23,000 to the British Control on the basis of the official rate of 4.02-1/2:

£12,000	by the Guaranty Trust Company
10,000	by the National City Bank
1,000	by the Chase National Bank
£23,000	Total

In contrast to the decline in the sterling rate, quotations for the Continental currencies were steady. The French franc and the Canadian dollar again moved in sympathy with sterling. The closing rates for these currencies were as follows:

French francs	.0221-5/8
Guilders	.5314
Swiss francs	.2242-1/2
Belgas	.1691
Canadian dollars	13-7/8% discount

We purchased \$15,000,000 in gold from the earmarked account of the Bank of France.

We also purchased \$3,500,000 in gold from the earmarked account of the Central Bank of Turkey. The Federal Reserve Bank of New York informed us that the Turkish Bank intended to use the proceeds to pay off \$3,500,000 of the seasonal loans made to it by the Federal. Liquidation of this amount leaves \$2,000,000 of such loans outstanding, secured by \$2,222,000 in gold.

The Federal Reserve Bank of New York reported the following shipments of gold from India, which were shipped by the National City Bank, Bombay:

\$392,000	consigned to the American Trust Company, San Francisco
378,000	consigned to the National City Bank of New York
\$770,000	Total

The shipment being sent to San Francisco will be sold to the U. S. Mint there, and the one consigned to New York will be sold to the U. S. Assay Office.

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

- \$ 7,618,000 from Australia, shipped by the Commonwealth Bank of Australia to the Federal Reserve Bank of San Francisco.
- 3,362,000 from Switzerland, representing two shipments by the Credit Suisse, Zurich, to the Guaranty Trust Company, New York.
- 2,987,000 from Switzerland, shipped by the Swiss Bank Corporation, Zurich, to its New York agency.
- 727,000 from England, shipped by Samuel Montagu & Co., London, to the Bankers Trust Company, New York.
- 244,000 from England, shipped by Samuel Montagu & Co., London, to the Guaranty Trust Co., New York.

134,000 from Australia, shipped by the Bank of New South Wales to the American Trust Company, San Francisco.

79,000 from England, shipped by the Westminster Bank, London, to the Bank of Manhattan, New York.

\$15,151,000 Total

The shipments above will be sold either to the U. S. Mint in San Francisco or the U. S. Assay Office at New York, according to their destination.

The Federal Reserve Bank of New York received cables from the B.I.S. and the Bank of Latvia, requesting it to apply for a license to transfer approximately 16,250 ounces of gold (about \$569,000) from B.I.S. Account #2 to the account of the Bank of Latvia at the Federal Reserve Bank. B.I.S. Account #2 is gold owned by that institution. The Treasury granted permission to the Federal to make this transfer.

In a report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on February 28, such deposits totaled \$38,744,000, a decrease of \$1,026,000 since the last report as of February 21. Of this amount, \$26,284,000 represented deposits with the Yokohama Specie Bank by its branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was \$86,725,000, an increase of \$3,255,000 since February 21.

The Bombay silver quotation was unchanged at an equivalent of 40.67¢.

In a thin market, the London fixing price for spot silver rose 1-1/16d to 21-1/4d, and the forward quotation advanced 7/8d to 21-1/8d. The U. S. equivalents were 37.47¢ and 37.04¢. Reports from London stated that small speculative buying and bear covering were accompanied by a shortage of silver offerings.

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

We made nine purchases of silver totaling 625,000 ounces under the Silver Purchase Act. Of this amount, 100,000 ounces represented a sale from inventory by one of the refining companies and the remaining 525,000 ounces consisted of new production from foreign countries, for forward delivery.

Mr. Knoke told me this afternoon of the receipt of a cablegram from the Bank of France requesting the opening of a "Z" bullion account, into which was to be transferred an initial amount of 1,668,000 ounces. Mr. Knoke thought this was presumably connected with the new arrangement between the Bank of France and the French Treasury.



CONFIDENTIAL

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. W. R. Johnson, Deputy Commissioner of Customs, telephoned me at my home at 9:30 Saturday night, March 2. He stated that the steamship Niagara had arrived in Honolulu with \$10,000,000 of British gold on board destined for Vancouver, without this gold appearing on the ship's manifest. Consequently, under American regulations the ship and the gold were subject to seizure. Mr. Johnson told me that he could take care of the Customs angle. He wanted to know, however, if there was any Treasury policy matter involved. I suggested playing the matter down as much as possible in view of our knowledge of British secrecy with regard to the gold shipments which they are now making to this country. I explained the manner in which direct shipments between England and New York are now being made, with no exact details thereof being cabled in advance and with the taking out of consular invoices postponed to the longest possible legal limit of time. When Mr. Johnson asked if he should consult anyone else in the Treasury, I told him that Assistant Secretary Gaston should be informed, but that the latter would not be familiar with the confidential details of the British procedure in shipping gold. Mr. Johnson stated that he would call Mr. Gaston.



March 4, 1940
3:18 p.m.

HMJr: Hello.

Operator: Chairman Eccles. Go ahead.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: Marriner.....

E: Yes, Henry.

HMJr:I got my letter back from the President
and across it, "H.M.Jr., O.K., F.D.R."

E: Yes.

HMJr: I don't know whether you heard or not.

E: No, I haven't heard anything.

HMJr: So.....

E: Would you do this: Would you -- would you give
me -- I meant to ask you before we left over there
and I forgot it. Would you give me a copy of --
of the memorandum inasmuch as it expressed my
views.....

HMJr: Surely.

E:with reference to aspects of it? I'd just
like to have it for the file.

HMJr: I'll have it -- the whole -- with his O.K. on it
photostated.

E: Yes.

HMJr: Did you write him one?

E: No, I didn't write him one. What I -- you know the
one that Curry.....

- 2 -

HMJr: I didn't know whether he was writing it for your signature or not.

E: Yes. Yes, it was for both of us.

HMJr: Well then, could I have a copy of that?

E: Yes. Yes, you can have one. I'll -- I didn't -- I'll have Curry send it to you because he had prepared it. It was written right at the White House, so I'll call him up and ask him to send you a copy of it.

HMJr: Will you, and I'll have this photostated and send it over.

E: Yes.

HMJr: Now, what we're going to do is go ahead at four o'clock. I'm going to tell the press that we're going to refund the note with a note.

E: Yeah. A five-year?

HMJr: I -- well, I'll say a note. Five-year -- I might as well say a five-year and give the market the whole thing. And then.....

E: You'll price it, of course.....

HMJr: I won't put a coupon it, Marriner, because I.....

E: No, but you will price it a little later when you -- just before you have to put it out?

HMJr: Well, that's what -- I'm calling you now and I wondered whether you thought we ought to have an Open Market Committee or whether just you and I should get together.

E: Well, as a matter of fact it's -- it isn't any problem at all if you're going to determine on a five-year note.

HMJr: Yeah.

- 3 -

E: And the amount is definite and it's a refunding issue -- it seems to me that it's just a question....

HMJr:of a coupon.

E:of pricing it, and I wouldn't think that it -- the committee was necessary at all. It's just a question of how much -- how much of a premium you want to give them.

HMJr: Well, I.....

E: Isn't that right?

HMJr: Yeah, I thought on Wednesday we'd decide it.

E: Yes.

HMJr: On Wednesday.

E: Well, if -- if you want -- if you want to discuss it with me or the Committee, I'll be glad to call them. George, as you know, is away.

HMJr: So I gather.

E: So -- or I'll be glad to do this: I'll be glad to either come over or to call you up then after I have a chance to check into the market and give you my ideas as to -- as to the rate.

HMJr: Well, it would be either Tuesday afternoon or Wednesday morning.

E: Yeah.

HMJr: And could I get in touch with you tomorrow?

E: Yes, sir. I'll.....

HMJr: In any event, I will call you tomorrow after lunch and tell you the way it looks after the market closes, and tell you how it looks to us. You see?

E: Well then I'll be prepared to give you my view of the thing.

- 4 -

HMJr: Yeah. As soon as the market closes tomorrow I'll give you a ring.

E: That'll be three o'clock.

HMJr: Yeah.

E: Yeah.

HMJr: It'll be between.....

E: Well then it'll be -- there'll be no need of us meeting. I'll give you my view at the same time and if it's something I want to discuss, why then we can possibly meet after, because you won't want to make the announcement until Wednesday.

HMJr: Well, the announcement for the refunding will be in Thursday morning's papers.

E: Yes.

HMJr: And we're going to -- we thought we'd give them Thursday, Friday and Saturday.

E: Yes.

HMJr: You see?

E: Yes.

HMJr: But we haven't got much time -- I mean, that's why I wanted to do it at four o'clock at my regular press conference.

E: Um-hm.

HMJr: So I'll just tell them at four o'clock it's going to be a refunding; it's going to be a note; and it's going to be a five-year note, and we'll.....

E: And you'll give them -- and you'll let them know the.....

HMJr:the coupon.

- 5 -

E:the coupon tomorrow -- or Thursday.

HMJr: Thursday morning.

E: Yeah.

HMJr: Thursday morning.

E: Say, on this correspondence that you and I have been having, you know over this Lasser letter.

HMJr: Yeah.

E: I -- I got your letter and I -- I want to -- not that I want to carry on a -- an endless correspondence over a thing of that sort because it doesn't get anywhere.

HMJr: That's what I think.

E: But -- but I -- I -- there are two or three points you make in your letter that I -- that I feel that I should let you -- let you at least get my point of view on that so if I should send you either a memorandum or another letter covering those points I -- I want you to know that it isn't because that -- that I can't call -- don't feel I can call you up or talk to you about it, but inasmuch as it has been done by correspondence -- and I suppose I'll learn one of these times to quit writing letters. I.....

HMJr: Are you in a good humor?

E: Yes -- oh, yes.

HMJr: Then I say, I doubt it.

E: Well, the -- the -- what I meant was to you. I should have put that on it.

HMJr: Well.....

E: Because what I should.....

HMJr: That's all right. Well, Marriner do whatever -- do whatever makes -- whatever makes you feel happy.

- 6 -

If you want to write me another letter. Write me another letter.

E: Well, I -- (Laughingly) I think I've -- I think I might need to complete the record.

HMJr: I don't think you realize how upset this whole business the last day or two has been to me. I mean -- and so I've always said and I'll say it again, as far as yourself and myself is concerned, I think fundamentally we are interested in the welfare of this country.

E: There isn't any question about that.

HMJr: And I think it's unfortunate that all of these things happen which make it so difficult for the two of us to work shoulder to shoulder, because there are so many people that are against both of us. And.....

E: Well, I -- I suppose that that may be true. I don't know.

HMJr: But I suppose that each of us are individualists and it's difficult for us to see eye to eye.

E: Well, whether we see eye to eye or not -- now, Dan -- Dan Bell and I get along perfectly and Dan and I disagree thoroughly in a lot of things, but -- but we both -- we get along admirably. I've met with Dan, as you possibly know, the last several weeks a good deal and we've been discussing this whole.....

HMJr: I know.

E:Bank of America situation and we've gotten along splendidly working together.

HMJr: Right.

E: And I -- I feel I can get along with people even though we may disagree -- it's an honest disagreement.

- 7 -

HMJr: Yeah.

E: And -- and I don't take any -- have any personal feelings because somebody disagrees with me.

HMJr: Yeah.

E: And -- well.....

HMJr: Well anyway, if you feel you've got to do another one, O.K. I wish you wouldn't though.

E: I -- I just -- I just -- in doing it I wanted to say something personally first, however, because I didn't want you to think that it was -- there was any strained feeling by reason of the fact that I was writing another letter, and I promise you after this instead of writing you letters I'm going to call you up if I have any.....

HMJr: O. K.

E: -- any disagreements.

HMJr: All right.

E: All right.

HMJr: Thank you. Goodbye.

March 4, 1940
3:54 p.m.

HMJr: Hello.

Operator: Congressman Jones. Go ahead.

HMJr: Hello.

Marvin Jones: Hello, Henry.

HMJr: How are you, Marvin?

J: Oh, I'm pretty good. I've had the grip pretty badly but I'm about over it now.

HMJr: Well, why didn't you go down to Texas and get over it?

J: Well, I think I'm going to have to in a few days if I don't get this throat cleared. My -- these tubes, you know, have sort of gotten sore on me.....

HMJr: I see.

J:and they bother.

What I wanted to talk with you about -- you know, we have your fellow Cabinet member who is trying to sell us on the idea of the so-called Certificate Plan.

HMJr: I.....

J: And we haven't any endorsement from you on that.

HMJr: No.

J: (Laughs).

HMJr: No.

J: Have you made any official -- taken any official position on it or made any declaration on it at all?

- 2 -

HMJr: Well,.....

J: It's a processing fee.....

HMJr: I know.

J:in -- in silk garments, that's all.

HMJr: Well, we have a very careful report and study on the whole thing which took weeks to make and it's available any time you want it.

J: Is

HMJr: No, it's in typewritten form.

J: Uh-huh. Well, what I mean, it's down in black and white.

HMJr: Oh, yes.

J: Do have any objection to sending me up and copy of that?

HMJr: I -- I've been waiting for somebody to ask me.

J: Well, I think I'll just ask you then.

HMJr: Well.....

J: Because, as a matter of fact, the thing -- of course it's a processing fee and the difficulty is that it would apply to some commodities and wouldn't apply to others and we'd be running off into a sort of a lop-sided field, it looks to me like.

HMJr: I'll tell you what I'll do so that I'll -- the fellow who prepared it, his name is Roy Blough.

J: Um-hm.

HMJr: He's in our tax section, and I'll -- what time would you like to see him tomorrow and I'll have him bring it up?

J: Well, our committee meets at ten-thirty. I'll tell what I -- if he could come up.....

- 3 -

WJr: He can come any time you say.

J: Suppose he come here about ten o'clock in the morning.

WJr: We'll be there at your office at.....

J:at ten o'clock.

WJr: And.....

J: And if he'll bring that I'll appreciate it. I'd like to have the -- this is a pretty two-sided proposition. I'm -- I'm bothered about the thing and I doubt whether -- whether it's wise to go ahead with it at this time.

WJr: Well, I don't mind saying that the Treasury is opposed to it.

J: Um-hm.

WJr: We think, just as you say, it's a sugar-coated pill, but if you took the sugar-coating off it's pretty bitter. And.....

J: Um-hm. Well, I have serious doubts about whether we could pass it in the House if we took it over there. I -- I'm not -- I'm not accustomed to want to lead somebody into the slaughter-house, you know.

WJr: No, no.

J: I have a double reason on that -- I don't mind a good fight but I want -- I don't want to do like Burnside did at Gettysburg, just go in for the purpose of fighting.....

WJr: No.

J:and getting licked, you know.

WJr: Well, you've won too often.

J: (Laughs) Let -- let me ask you now. This is -- this is strictly off the record.

- 4 -

HMJr: Yeah.

J: Has the -- has the President ever made any -- any open declaration on it or has he just -- just waited it out?

HMJr: No, the only thing that -- that he's ever done is -- I think it's in his budget message, I'm not sure, that he has talked against more taxes on income.

J: Yes, I.....

HMJr: Consumers taxes, rather.

J: Yes, I -- I gathered from that, and that's pretty definite itself.

HMJr: I mean, he has never talked about specific consumer taxes, but he has said he's -- I've got the feeling and I think he said in his budget message that he didn't want any -- that 60%, or whatever it is, on the consumer is enough.

J: Um-hm. Well, I -- I think it's there. I think something like that -- of course, sometimes a man makes exceptions under special conditions, but I don't he has shown -- I'll put it this way, he's never shown any particular enthusiasm for this.

HMJr: I think that's a very fair statement.

J: Yes. Well now, if -- as a matter of fact, I'm inclined to think the -- the processing -- the fine processing fee, if they are going to have anything at all, is -- is the most -- is more direct and -- and desirable way to have anything, or is the least desirable; I'll put it that way.

HMJr: Well, you -- you read this memorandum.

J: I'd like very much to, Henry.

HMJr: And then -- the reason I'm sending Blough is you may, after you have read it, have questions that you will want him to come back and prepare answers.

- 5 -

J: Yeah, well -- now, he wouldn't mind coming up and testifying if he we asked him then too?

HMJr: Oh, no, he's available.

J: All right. Well, that's fine. I appreciate that and -- and we probably will want him, though I'd like to see and look over it first.

HMJr: He'll be there at ten, Marvin.

J: Thank you very much and good luck.

HMJr: Thank you.

March 4, 1940
3:59 p.m.

HMJr: A friend of mine by the name of Marvin Jones, who is a peach, called me up and he's very much bothered about the processing tax and he wanted to know whether we had any opinion, and so forth and so on. So I said that Roy Blough would be at his office at his request. He's asking for him at ten o'clock tomorrow morning.....

John Sullivan: Yes.

HMJr:with this analysis that Roy Blough prepared on the processing tax. Hello?

S: Yes.

HMJr: So would you please prepare a letter for me, which I will sign tomorrow morning saying to Marvin Jones, this is in compliance with his telephone request that we give him an analysis of the Treasury's position on the processing tax.

S: Yes, sir.

HMJr: And then Roy Blough -- and that Mr. Roy Blough is bringing it up and is prepared to answer any questions and is prepared to testify if he wants him to.

S: Yes, sir.

HMJr: Hello?

S: Yes, sir.

HMJr: And he, you might be interested to know, Marvin Jones is Chairman of the Committee on Agriculture. He is one of the most important Congressmen in the House and he is opposed to the processing tax -- I mean, he's opposed to the Certificate Plan.

S: Yes, sir.

HMJr: Did I say processing tax?

S: You did, and I was wondering.

- 2 -

HMJr: I mean Certificate Plan.

S: Right.

HMJr: So -- Roy Blough did a very careful study on it,
so.....

S: I know he did.

HMJr: I mean Certificate Plan.

S: That's right.

HMJr: Okey-doke.

S: Righto.

March 4, 1940
4:24 p.m.

HMJr: Hello.

Operator: Mr. Frank.

HMJr: Hello.

Jerome
Frank: Hello.

HMJr: Jerry?

F: Yes, sir.

HMJr: Thank you for your very sweet letter.

F: (Laughs)

HMJr: It was very nice of you and I appreciate it, and I'd like very much to have you for lunch.

F: Well, sometime when you have some time.

HMJr: And any time that -- I'll give you a ring in a day or so.

F: All right, sir.

HMJr: And it's all well that ends well.

F: Yeah. Righto. All right, thank you.

HMJr: It was very nice of you.

March 4, 1940
4:46 p.m.

Lauchlin
Currie:

Hello.

HMJr:

Hello.

C:

Hello, Mr. Secretary.

HMJr:

There's a friend of yours sitting across the way from me here.

C:

There is? Well, I just wanted to call and congratulate you on your -- (Laughs).

HMJr:

No, I don't want to be congratulated.

C:

No, I think that you -- it was a good victory.

HMJr:

No, I don't consider it such. I don't feel in that frame of mind at all.

C:

Well, I thought -- I was pretty sure that was the way it would go.

HMJr:

No, I don't -- to me this thing is so much bigger than I am, Lauch, that I don't -- I mean, I have no feeling of winning or losing, but I don't think you appreciate how deeply I feel this, or how seriously.

C:

Well, yes, I gathered from your

HMJr:

I appreciate your calling me very much, and I accept it in the spirit, but I don't take it as a personal victory. I mean -- it -- it transcends me.

C:

Well, I just wanted to call you, Mr. Secretary, and say that I have no hard feelings. I think your -- you took it on grounds that I can understand.

HMJr:

Well, I -- I was just telling Harry that one of the few times that I've met with Eccles and that there -- everything was kept on an even keel. I mean, there wasn't any feeling.

- 2 -

C: That's right.

WJP: And.....

C: And I think -- I mean, it's not open and shut. I'm hoping that the other things that I was fearing won't happen. That.....

WJP: What's that?

C:these inventories won't slip off and that it won't be necessary to have done this, but -- and also lately I've been feeling, perhaps a little bit less urgent about this fund than I did before because I think.....

WJP: I -- I can't hear very well.

C: Well, I say, lately -- of course, if I feel that the President is coming back why then there's no great matter to use the fund you'll have an opportunity sometime in the future.

WJP: You mean coming back for another term.

C: That's right. Of course, if he isn't I'd like to -- for his record -- get it out of the way.

WJP: You see, Lauch, if you would say to me, "Morgenthau, I'm worried about business, and I think the President ought to spend another million dollars for the unemployed." Or something like that -- "And will you help me draft a message and get the facts?" You wouldn't have any trouble with me. I wonder if you understand that?

C: Yeah. I.....

WJP: But the thing that I object to, and I don't know whether you've got it.....

C: Yeah.

WJP:is to doing it in a round-about manner. See?

- 3 -

C: I see, yeah.

HMJr: I wonder if you really understand how deeply I feel that? My record on -- on funds for the unemployed is -- I don't have to take second place to anybody in this town.

C: Yes.

HMJr: And I've got documentary evidence on that.

C: Yes.

HMJr: But I will not be party to doing it in a round-about way. Now, that's the whole thing.

C: You mean you would consider this a round-about way?

HMJr: Definitely!

C: Well.....

HMJr: Now that -- that's the big difference.

C: Yeah. Well, I -- I wouldn't have the same feeling at all.

HMJr: Well, that -- that's why I feel so deeply about it.

C: Yeah.

HMJr: And if the time comes that there are more unemployed and we need money to take care of them and want to ask for it, and to.....

C: Well, of course, that's always -- that's always the hard way, Mr. Secretary, to ask for more money now when you're up against -- near the debt limit.

HMJr: Well.....

C: It's pretty tough.....

HMJr: Well.....

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C:to -- to take you away from the debt limit. We may not even have to ask for it. I mean.....

HMJr: Well.....

C:our friends up there may get it for us.

HMJr: My opinion is that your chances of getting it in the straightforward way and on the basis of the need of the unemployed is a damn sight better than getting it this way.

C: Well, that -- that's a matter of.....

HMJr: And I'm sure that if you all agreed that we'd have to ask Congress' approval to use it on the Stabilization Fund -- there's no difference of opinion there.....

C: No.

HMJr: -- and the minute that you asked them, they'd simply rescind that -- that sole authority that I have. I'd lose it and the -- and the President saw that.

C: You mean the whole fund?

HMJr: Oh well, they might leave me two hundred million.

C: Well, I don't -- I think that's all you need.

HMJr: Well, there again, I.....

C: I say, I don't.....

HMJr: -- I have no crystal; I don't know.

C: Well, I just think conditions have changed so with the outbreak of war that the need for the fund has really largely passed.

HMJr: But on the basis of what the needs of the unemployment are, so far that's -- and that's the only thing that concerns me, you'll never have any trouble if I'm convinced that they need more money.

- 5 -

C: Yeah.

HMJr: You'll have no trouble -- anybody -- I'm perfectly willing to go up on the Hill and battle to increase the debt limit, on that basis, but I -- I -- as you saw, I won't be party to it on the other basis.

C: No. Well.....

HMJr: And that.....

C:

HMJr: What?

C: I'm afraid that is a difference of opinion because....

HMJr: Well.....

C: Politically it's probably.....

HMJr: It runs very deep.

C: Yeah.

HMJr: But I appreciate your calling me.

C: Not at all.

HMJr: Goodbye.

C: Bye-bye.

GROUP MEETING

March 4, 1940
9:30 a.m.

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

H.M.Jr: I would like this to be a very short meeting, so unless somebody has something that needs a decision today, we will just go around. I don't want to get into a general discussion.

Thompson: I don't know whether you heard Basil Harris' brother died.

H.M.Jr: I was sorry.

Harold?

Graves: I have here a letter which has been prepared (Mar.4) for your signature, addressed to the Internal Revenue officer in San Francisco authorizing him to proceed with the removal of a man in his office, the head of the Social Security Tax Division. That comes to you for this reason: It was supposed when the Department first learned of the removal of this man that he was being removed because of pressure from Senator Downey.

H.M.Jr: I remember that and I wrote this man a letter not to remove him.

Graves: That is right. Now, further investigation develops that there are serious reasons for the man's removal and Mr. Helvering now recommends it.

H.M.Jr: What are the reasons?

- 2 -

Graves: He has apparently doing a little politicking on his own account with the faction that is hostile to the Collector.

H.M.Jr: Sufficient to remove him?

Graves: We think so. It is a matter of accepting his resignation, which is already pending.

H.M.Jr: I see. O. K.

Gaston: He is a John Lewis man and he is also believed to have been throwing business to John Lewis' pal, Sherwood, who is in the practice of law there in San Francisco.

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

Graves: No.

H.M.Jr: Harry?

White: Nothing. It is interesting to note that the net purchases of American securities, the net sales remains almost zero in the first of the year despite the recent sales. The others offset them. They are very low during the first two months.

H.M.Jr: They are reporting separately what their sales are?

White: We know they are selling, but the others are offsetting them by purchases, so that the net total for all countries on American securities is zero.

H.M.Jr: Is Switzerland a big buyer?

White: Switzerland is one. They are all small.

H.M.Jr: Would it be safe to say that the sales are being taken up by --

White: By neutrals.

- 3 -

H.M.Jr: By other foreigners?

White: Not the American securities, but an equivalent amount of sales. That is not true of American holdings of foreign securities. They are selling them all, so that there is an inflow on that account.

H.M.Jr: Anything else?

White: That is all.

H.M.Jr: George?

Haas: I have nothing but this book here (handing the book to Secretary).

H.M.Jr: Chick?

Ed?

Cochran: Sterling is weak this morning, down to 3.91. I am not sure whether it is from that bombing or the weakness of the French franc might be having a little dragging effect on sterling.

H.M.Jr: Anything else?

Cochran: No, sir.

H.M.Jr: How is the next - future President of the United States?

Sullivan: Great, thanks. Is that meeting on for --

H.M.Jr: I mean your son.

Sullivan: Yes, I understand. I knew from the description you couldn't be talking about anybody else.

White: When are you going to move to Ohio?

Sullivan: I beg your pardon?

H.M.Jr: Is your wife all right?

Sullivan: Fine, thank you, sir. Is that meeting on for 3:00 this afternoon?

- 4 -

H.M.Jr: It may be and it may not. Would you make a note, Mrs. Klotz, when I come back from the White House, if I feel the way I think I am going to feel, I think I am going to ask Doughton to postpone it until tomorrow. I can't see him then. I mean, if it works out the way I think it will, I think we will postpone it until tomorrow.

Sullivan: May I see you before you go over?

H.M.Jr: Right now, yes.

Herbert?

Gaston: The British Steamship Niagara arrived in Honolulu Saturday carrying 10 million of unmanifested gold consigned for the Bank of Canada, Sydney to Vancouver, and Doyle called me up yesterday and the ship would be allowed. We could have seized the ship and the cargo.

H.M.Jr: Say it again.

Gaston: She carried 10 million dollars of gold consigned unmanifested for the Bank of Canada, Sydney to Vancouver, and Vancouver was not shown on the manifest.

H.M.Jr: Do I get in on all sorts of things, a chance to decide whether we are going to divvy on 10 million or not. You let her go?

Gaston: Yes.

H.M.Jr: What a man.

White: You will get it next week.

Gaston: With the understanding that this didn't establish a precedent.

Larry Duggan called me up a few minutes ago. He said the Brazilian Ambassador is being pressed by his government and being pressed

- 5 -

to know whether we are really going into this Steel matter. He has told him that he has spoken to Jesse Jones and to you about the matter.

H.M.Jr: I tell you what I wish you would do, Herbert. I wish you would get hold of anybody who is interested in that in your office, other than Bell, because Bell is busy.

Gaston: Within the Treasury?

H.M.Jr: Yes, and talk about it and see what you fellows decide amongst yourselves. In order to give you a little guidance, Feis - this is in the room - saw me Saturday and with a tremendous plea to do it and with a tremendous plea that I work with him on it and of course in the letter, Feis isn't mentioned, it is Duggan that is mentioned.

Gaston: Yes.

H.M.Jr: And Feis says the whole thing has been developed in his office and that is one thing he would like to see me do. I am very loath to do it.

Gaston: With Feis, you mean.

H.M.Jr: With anybody. Why not let - I saw a statement and maybe you (Cotton) gave me the statement on the minutes of the Export-Import Bank that Jesse Jones is interested in it. Why not let Jesse take it and carry it? That is the way I feel. I am not trying to guide you any. If Jesse is so interested, why not let him do it?

Cochran: That just shows that that bond matter has to be settled by the 6th (handing paper to Secretary).

H.M.Jr: This debt thing has to be settled by the 6th. That is two more days. I certainly would wait and see how that thing goes. That is the Brazilian debt.

- 6 -

Gaston: We couldn't at this stage give them any kind of promises, anyway.

H.M.Jr: No, I am too busy today and tomorrow. I would like to see the 6th go by. I personally - I mean, just again, not to guid you, I can't see how I can say that an American corporation can go in and place 30 or 40 million dollars of American capital into a country that is in default on a billion dollars worth of obligations.

Gaston: It seems to me that Harry's suggestion would be an excellent test of whether the Inter-American Bank, if it is created, is good for anything or not.

H.M.Jr: And furthermore, when they announced that U. S. Steel was going to turn this thing down, then President Vargas just ordered his newspapers not to print it. I didn't know it was that kind of a thing. President Vargas just said, "Don't print it for at least 30 days." It is one of these South American democracies.

Bell: There is some indication in one of these cables that some information that came out in New York wasn't printed.

Cochran: On this bond business?

Bell: Yes. It hasn't been printed yet.

H.M.Jr: So, without --

Cotton: There is some idea the British are interested in the Steel thing. I saw it in the Sunday newspaper.

H.M.Jr: You know who is interested, Herbert, and talk with them. I am very loath to do anything.

Gaston: I supposed you noticed that Downey withdrew his objections to Paul Leake.

H.M.Jr: I saw that. O. K., gentlemen, I will see you.

JR

PLAIN

London

Dated March 4, 1940

Rec'd 12:45 p.m.

Secretary of State,
Washington.

542, March 4.

FOR TREASURY FROM BUTTERWORTH.

To facilitate the working of the Anglo-French financial arrangement the British and French treasuries have agreed to hold meetings every three months, the first one of which however is yet to take place. According to the British Treasury the cooperation between the two treasuries is proceeding smoothly which is to be expected in the initial stages of the war when resources are still ample and stresses and strains comparatively few. As reported in paragraph 8 my 2698 of December 21, 7 p.m., the existence of substantial French balances in London is the important underlying fact at the present time and I gather that the British expeditionary force franc expenditure has not risen to expected levels but that no doubt is a question of time. On the other hand France is making necessary purchases as freely as shipping will permit from the sterling Empire area. I gather that the Anglo-French financial agreement is not being regarded as a rigid constitution and that besides purchases on behalf of

of

-2- 542, March 4, from London.

of the French made in the sterling Empire area the British also buy for the French from such countries as the Argentine and Uruguay and that, for the most part, settlement is made by the French in the case of Argentine in pesos and in the case of Uruguay in sterling.

Likewise there has recently occurred an easement in the application of the foreign exchange control regulations between the two countries. Today's TIMES characterized the arrangements as going "far to weld the territories covered by the exchange controls of the two Allies into one unit from the standpoint of foreign exchange."

This is definitely an over-statement. The British Treasury confirms that there is no freedom of movement of capital as between the two countries or the two Empires, that the easement is merely applicable to current purposes. British Treasury states that it was fixed up between the two central banks to obviate the administrative difficulty of handling innumerable particular cases and adds in confidence that they were surprised that Reynaud gave it such publicity because it was largely a unilateral French action bringing French in line with British exchange control practice. The British will however more freely grant French exchange for tourist purposes and for personal remittances of one kind or another to France and they have notified

-3- #542, March 4, from London.

notified the other component parts of the sterling Empire area of their action and of their view that the franc need not be considered a "hard" currency country. Although sterling credits in respect of commercial transactions may be granted to residents in France and the French Empire for purchases anywhere in the sterling Empire area without the prior approval of the Bank of England such credits must be registered with the Bank of England on Form E.2.

JOHNSON

RR

JR

GRAY

Paris

Dated March 4, 1940

Rec'd 2:23 p.m.

Secretary of State,
Washington.

283, March 4, 6 p.m.

FOR THE TREASURY FROM MATTHEWS.

Frederic Jenny devotes his article in last evening's LE TEMPS to calming any anxiety on the part of the public that the recent contract between the state and the Bank of France might involve either a step toward inflation or undue deflation. He points out with respect to the 30 billions of gold for the stabilization fund that by paying therefor in Treasury bills rather than in bank notes the Government avoids inflation; that the convention on the other hand provides that the loss of gold (to the bank) will bring about no internal deflation "deflation that is normal and even necessary when the gold standard is functioning but which has been judged inopportune in the present circumstances." (END SECTION ONE)

MURPHY

CSB

REB

GRAY

Paris

Dated March 4, 1940

Rec'd 3:36 p. m.

Secretary of State,
Washington.

288, March 4, 6 p. m. (SECTION TWO)

He argues that had the gold been purchased by bank notes it would have involved simply an increase in the Government's credit line with the bank of issue or procuring the means of payment through borrowing on the market "and once utilized for the gold withdrawal this would have meant either a reduction in circulation by the Bank of France or hoarding by the stabilization fund. The value of internal means of payment would consequently have been reduced. That is precisely what the authorities wished to avoid for they are afraid of bringing on a deflation while the borrowing needs of the Treasury are at their present volume. Since the state has paid for its gold state has paid for its gold with Treasury bills it is not obliged to pay with money.

MURPHY

CSB

REB

GRAY

Paris

Dated March 4, 1940

Rec'd 3:20 p. m.

Secretary of State,
Washington.

288, March 4, 6 p. m. (SECTION THREE)

The nominal assets balance of the bank remains the same, the bonds simply being substituted for the gold withdrawn. Therefore bank notes and other demand liabilities guaranteed by these assets do not change either. The operation involves no monetary contraction. There is no deflation."

He continues "however the state will doubtless not be the only one to draw on the mass of gold which has just been put aside. Private economy will likewise have need of it to a certain extent. But while the market will purchase means of settlements abroad -- metal or foreign exchange -- it must pay with francs. The authors of the decree law have not lost sight of this fact. They have in effect stipulated that the stabilization fund instead of leaving its available assets in unemployed francs as the law has compelled it to do up to the present may invest in Treasury bills. Thus internal capital employed by private economy for purchases of foreign exchange will likewise be put in circulation through subscriptions to short term government paper.

MURPHY

CSB

REB

GRAY

Paris

Dated March 4, 1940

Rec'd 4:16 p. m.

Secretary of State,
Washington.

288, March 4, 6 p. m. (SECTION FOUR)

"Such is the system. It resembles up to a point for example what the Bank of England did when in 1929-1930 through operations on the free market it put capital in circulation to fill the void left by gold exports. Under the gold standard system this procedure obviously involved a reduction of the quality of the currency. But today ordinary monetary rules are no longer effective. The result is that thanks to the new method payments abroad in gold or foreign exchange whether effected by the state or by the market may henceforth be made without bringing about a reduction in the internal bank note and credit circulation."

Jenny then discusses the revaluation of the bank's gold reserves which he says brings the figure up to a point slightly less than actual value of the official franc exchange rate when shipping charges are considered and adds that this revaluation "will exercise no influence on the rate nor furthermore on the quotations of the free market in New York".

MURPHY

CSB

REB

162

GRAY

Paris

Dated March 4, 1940

Rec'd 8:22 p. m.

Secretary of State,
Washington.

288, March 4, 6 p. m. (SECTION FIVE)

With reference to the new advance of the Bank of France which gives the state a credit "margin" of more than 26,000,000,000 he says: "A margin which furthermore may be indirectly increased to an extent which cannot be estimated by the authorizations agreed to: (one) -- to the exchange stabilization fund to invest in Treasury bills not only its future franc assets but also those which it has at present -- or rather those which will remain after expending some 3 to (*) for the total cancellation of the former advance to the state; (two) -- to the rente fund to utilize its liquid capital in the same way". He hastens to add by way of reassurance, however,: "Given the fact that, according to the statements of M. Paul Reynaud, internal public expenditures have recently been completely covered by taxation and borrowing, the foregoing for the moment is merely a margin of safety".

I believe from subsequent conversations in banking

circles

REB -2-#288, From Paris, March 4, 6 p. m. (SECTION FIVE) 163

circles that as indicated in my telegram 278, March 1, 3 p. m. these gold and credit measures have found a generally favorable acceptance here as both necessary and well timed.

MURPHY

EMB

(*) Apparent omission

REB

GRAY

Paris

Dated March 4, 1940

Rec'd 4:39 p. m.

Secretary of State,
Washington.

288, March 4, 6 p. m. (SECTION SIX)

Yesterday's Journal Officiel gives revenues for the month of December 1939 as well as the entire year. Normal and permanent budgetary revenue for December totaled 5,526,000,000 francs an increase of 575,000,000 over the figure for the corresponding month in 1938. Thus for the first time since the outbreak of war total monthly receipts exceeded those for the same period in the previous calendar year (my telegrams numbers 2832, December 1, 6 p.m., 2953, December 11, 6 p. m. and 74, January 15, 3 p. m.). This increase was primarily attributable to augmented yields from the business turnover tax (418,000,000) and direct taxes including the salaries tax (276,000,000) reductions occurred in revenue from such sources as registration (136,000,000) stamp taxes (54,000,000) and tax on stock exchange operations (11,000,000). Normal and permanent revenues for the calendar year 1939 totaled 54,916,000,000 francs an increase of 7577 millions over those for 1938.

MURPHY

CSB

REB

GRAY

Paris

Dated March 4, 1940

Rec'd 8:38 p. m.

Secretary of State,
Washington.

288, March 4, 6 p. m. (SECTION SEVEN)

The Journal Officiel also publishes a decree authorizing the Minister of Agriculture to purchase 750,000 quintals of the 1939 wheat harvest. A special account entitled "expenditures for the support of the wheat market" will be opened with the Treasury and can be drawn against up to a limit of 75,000,000 francs.

Saturday's Journal Officiel published a decree opening an additional credit of 5,000,000 francs for "miscellaneous blockade expenses and of 5,950,000 for blood transfusion services. The civil budget position was improved according to that Journal Officiel to the extent of 90,000,000 francs, 20,000,000 resulting from decreased public debt services and 70,000,000 from additional estimated tax collections in Algeria. Another decree authorized the National Navigation Office to receive from the Treasury non-interest bearing advances to an amount not to exceed 2,000,000 francs for the purchase, construction
and

REB -2-#288, From Paris, March 4, 6 p. m. (SECTION SEVEN)

and repair of vessels utilized in inland navigation.

A decree appearing in the Journal Officiel of March 1 provides for the appointment of 16 officials to handle publicity therefor and encourage subscriptions to arm bonds.

(END OF MESSAGE)

MURPHY

EMB

RECEIVED
MAR 10 1944
U.S. DEPT. OF THE ARMY
WASHINGTON, D.C.

March 4, 1940
10:06 a.m.

HMJr: Hello.

Admiral
Spear; Good morning, sir.

HMJr: Good morning, Admiral. I saw the President yesterday and he read your memorandum on this powder for the English.

S: Yes.

HMJr: And he approved it. Now -- but I'm going to have -- I thought the best way would be to have General Watson, his secretary, advise the Army and Navy. Do you suppose so?

S: Yes, I think that would be a very nice way to do it to complete the record, but however.....

HMJr: Yes.

S:I will go ahead on that understanding.

HMJr: And -- now, what I would do, I've talked with Mr. Purvis a couple of days ago and he assures me that he can get Dupont and Hercules to ask for this. You see? Hello?

S: Who is that you talked to, you say?

HMJr: Purvis.

S: Oh, yes. I see.

HMJr: And I would make that effort, you see? I didn't mention this to the President because I didn't -- he didn't raise the point.

S: I see.

HMJr: But I would take it up with Mr. Purvis and see whether he can't get Dupont and Hercules to ask the Army and Navy, respectively.....

S: Yes, I see.

- 2 -

HMJr:whether they won't release this, you see?

S: I see.

HMJr: Now, if we can get that I think it will be all to the good.

S: But it will be perfectly proper for me to get in touch with those people this morning -- that is, these Anglo-French people here in Washington and tell them that it has been approved provided that the request comes from the -- from Dupont and Hercules.

HMJr: I -- I'd put it a little bit differently. I -- I wouldn't say -- I would say it would be helpful.

S: Yes, I see. I get you.

HMJr: See?

S: I understand.

HMJr: Hello?

S: I understand, sir.

HMJr: But I don't think I'd do anything until this afternoon because I want to give General Watson a chance to do the phoning this morning.

S: Aye, aye, sir.

HMJr: See?

S: Aye, aye, sir.

HMJr: So I'd wait until this afternoon.

S: Aye, aye, sir. I understand the situation exactly.

HMJr: Now -- I mean, that would give him a chance to call up the Secretary of the Navy and Secretary of War.

S: I see, sir.

- 3 -

HMJr: Now, the other thing that the President would like to have. If you could get a little survey for me to give him -- he wanted me to ask, in his behalf, what the Navy is doing -- he mentioned Indianhead -- on the manufacture of powder. And whether the Navy's own plants are working full capacity

S: They are, sir, but it's a grade of powder and a type that the foreign governments are not interested in. I asked the question of Admiral Furlong the other day, and -- but -- that is, he gave me the information that they are working to full capacity and on the type that the British and the French are not interested in.

HMJr: Well, I think if -- if you could give me a memorandum on that for the President, and also answer -- he wanted to know about the Army.

S: I see.

HMJr: You see?

S: I see. Well, I'll get -- I'll get that information for you, sir.

HMJr: If I have it.....

S: And I'll prepare a memorandum for you.

HMJr: What the Army and Navy are doing on their own production and whether they are working full capacity and whether -- why that isn't available -- I mean, why that -- well, what -- no, he didn't have in mind giving him that, but that if we built up our own capacity could we release any more, you see?

S: I see what you want. Yes, I understand. I'll get -- I'll have that information obtained for you -- I hope to get it today for you, sir.

HMJr: Well, he wasn't interested in giving them powder from Government plants.

S: No, I understand that.

- 4 -

HMJr: But.....

S: There is -- there is a law that prevents it, at least as far as the Navy is concerned. He couldn't do that.

HMJr: But could they be increased while we are -- give them a -- the Dupont and Hercules are -- four months' release, you see?

S: Well, I will get -- I will have that information for you, sir. As I said, my understanding is that we are not making a type of powder in our own plants that is comparable to the powder that we get by contract.

HMJr: You mean it isn't as good or it isn't the same kind?

S: It isn't the same kind, sir.

HMJr: I see.

S: It isn't the same kind. We can't make ^{the} powder that we buy from Dupont and Hercules.

HMJr: I see. Well, I think a little memo on that would.....

S: I'll -- I'll get the full information for you, sir.

HMJr: Thank you.

S: Goodbye, sir.

HMJr: Goodbye.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

171

INTER-OFFICE COMMUNICATION

DATE March 4, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Reference is made to our conversation with Leroy-Beaulieu on Saturday last, when the question of our having a consular representative at Narvik arose. Narvik is a small village toward the north end of Norway which serves as a center for fishing vessels and the port for loading iron ore. This port is open throughout the year. All of the Scandinavian iron ore which goes to England comes out at this port. During the winter season all of the iron ore for Germany is also shipped from Narvik, the vessels hugging the coast and staying within territorial waters so that they cannot be intercepted by the British patrol. During the remainder of the year (the closed season is from the middle of December to the end of April) much of the iron ore going to Germany comes out of the Swedish port of Lulea, on the Gulf of Bothnia, which is a town of some 15,000 inhabitants. The Scandinavian iron ore deposits lie in the peninsula about half way between Lulea and Narvik, which towns are connected by railway. It is my understanding that about two-thirds of the exports from this field go out by Narvik and one-third by Lulea.

If a choice is to be made of placing a consular office in either of these two ports, Narvik presumably would be preferred. At the same time, this is such an insignificant port, except for iron shipments, that the appointment of an American consular officer might attract considerable attention. During the World War, we established offices at Archangel, Russia, Trondheim, Norway and Aarhus, Denmark, but my impression is that all of these were established after the United States itself entered the conflict. We then had a legitimate interest in watching our own shipping in neighboring waters. For us to open an office now, while neutral, at a port where the only function could be that of keeping an eye on foreign shipping would conceivably subject our officer to suspicion of espionage. Unless American shipping or other American property interests are directly concerned, I venture to oppose the idea. I am, nevertheless, attaching a draft of a letter to the Secretary of State, in the event that you desire to proceed with the plan.



TREASURY DEPARTMENT

172

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 4, 1940

TO Secretary Morgenthau
FROM Mr. Haas *BA*
Subject: The Business Situation,
Week ending March 2, 1940.

Conclusions

(1) While it cannot yet be said that definite signs of a coming business upturn have appeared, increasing evidence of a flattening out of the business decline provides encouragement in this direction.

(2) During the past week sentiment in the steel industry has become distinctly more optimistic, due to:

- (a) some improvement in the new-order volume,
- (b) signs of increased activity in the automobile industry,
- (c) expanding export sales,
- (d) evidence of stability in steel and scrap prices.

(3) A classification of United States exports in January by commodity groups indicates the potential importance of exports as a support to business activity.

- - - - -

Business decline slackening

Evidences pointing toward a levelling-out of the business decline are becoming more numerous, though it cannot yet be said that they point unmistakably to an impending upturn in business, since the more optimistic indications at this time are doubtless partly seasonal, and new orders remain relatively low. Nevertheless, these signs of improvement are distinctly encouraging, for it has been observed that in periods of continuing business declines the usual evidences of seasonal improvement are often lacking. Furthermore, increasing activity (as in the automobile industry) may foreshadow an expansion in new orders, which is essential for a renewed business upturn.

Secretary Morgenthau - 2

Barrons business index for the week ended February 24 (seasonally adjusted) showed the first upturn in many weeks, rising .7 point to 82.8. The upturn in automobile production was the most important factor in the rise, but the trends of several other components were also somewhat more favorable.

The New York Times index shows a slackening in the rate of decline. (See Chart 1) For the February 24 week it was off only .5 point at 96.1, with upturns in the indices of automobile production and "all other" carloadings nearly offsetting declines in other components.

More encouraging trends are appearing in several important industries, as indicated in Chart 1. The decline in steel activity shows further slackening, the output rate last week being reduced only 1.2 points to 65.9 per cent of capacity. The spring upturn in automobile production has begun about two weeks earlier than usual. Lumber production is holding up better than in either of the past two years. Cotton mill activity, however, declined against the seasonal trend during the week ended February 24, perhaps in part because of the Washington's Birthday holiday.

Steel sentiment more optimistic

While steel orders were not maintained during the week ended February 24 at the increased rate of the previous week — the Washington's Birthday holiday may have been a factor — a distinct improvement in sentiment is noted in the steel industry. The situation is well summarized in the following quotation from the usually conservative Iron Age:

"A noticeable change for the better in the volume of new steel orders has occurred within the past few days. While the improvement is neither broad enough nor large enough to be conclusive evidence of a general reversal of the downward trend of the past two or three months, it is, at any rate, the first sign that the decline in new buying and in production may have been halted.

"Taken in conjunction with other factors, such as the upward trend in automobile manufacturing, an increasingly good export trade, the approach of spring, the stability of the steel price structure, and the fact that The Iron Age steel scrap composite price is unchanged for the first time since mid-January, the betterment in order volume, slight though it is, may be of more significance than can at present be established.....

Secretary Morgenthau - 3

"Current export sales and prospects for further expansion are attracting more attention within the industry than the domestic situation. With some companies February export totals will exceed those of any month since September, when the outbreak of war caused a rush of foreign buyers to this market. Notwithstanding the difficulty of doing business with some countries owing to exchange restrictions and other artificial barriers, the total volume from all world sources is encouraging. The growing volume of war orders being placed in Canada, together with the normal non-war requirements, has filled up Dominion mills for some months, causing a larger overflow of steel orders into the United States. Orders for shell rounds have come to some mills on this side of the border."

A slight increase in steel activity expected this week in the Chicago district is attributed to a definite improvement in incoming orders over the past two weeks, which is said to be quite general. Construction steels and automobile steels, in particular, are reported in better demand. The steel operating rate for the industry, however, is expected to decline further this week, due partly to a sharp drop in the Birmingham district for the first time in several weeks.

Among the domestic steel-using industries, the automobile industry appears to show greatest promise as a prospective source of new steel orders. Automobile production during the first quarter is now estimated by Ward's at 1,300,000 units, the highest for that period since 1929. This represents an increase of 12 per cent over the previous quarter, against a usual seasonal decline of about 4 $\frac{1}{2}$ per cent. While several automobile companies have recently increased their purchasing of steel, the heavy buying anticipated in the trade for spring needs has not yet appeared.

Railroad equipment demand has revived moderately, after several months of slackness following the heavy orders in September and October. A pool purchase plan, in which eight roads are interested, has been developed for buying a considerable number of freight cars of standard design in 500-car lots.

Secretary Morgenthau - 4

New orders index lower

Our weekly index of new orders declined to 71.5 during the week ended February 24, the lowest figure since the first week of January. (See Chart 2) A moderate improvement in textile orders was more than offset by a decline in new orders for steel and for products other than steel and textiles. The fact that this week contained a holiday may, however, have affected the volume of orders.

An important influence holding back new orders at present appears to be a widespread belief that Hitler will "start something" on or before the middle of March, as he did in 3 of the past 4 years. Buyers accordingly are moving cautiously as the critical period approaches, not knowing what effect any such development may have on security and commodity prices.

Prices remain steady

The steadiness of sensitive commodity prices in recent weeks, in the face of declining business activity and current tension over European developments, provides evidence of firmness in the price structure, which seems likely to result in active price improvement on any increase in industrial demand. Sensitive price indices (see Chart 3) have sagged somewhat during the past week, though remaining at the general levels maintained since the end of January. Among the individual commodities, wheat prices have declined on evidence of crop improvement. Private estimates show a noticeable improvement from the 55 per cent officially reported for December 1.

A declining trend in the BLS all-commodity index since the middle of January was halted by an upturn during the week ended February 24. (See Chart 4) Both finished products and raw materials shared in the price improvement. The decline during January and early February, as will be noted in the lower section of the chart, was especially pronounced in prices of industrial materials, reflecting a weakening in industrial demand. Evidence of recent improvement in demand appeared last week in a second successive upturn in the industrial materials index.

The unusually heavy buying of copper during February, which carried the sales total for that short month to the highest level since last September and to the sixth largest on record, has been followed by heavy buying in the lead market last week. Large sales last Thursday, which amounted to several times the daily production, were followed by continued heavy sales during the rest of the week.

Secretary Morgenthau - 5

The tin supply situation

The International Tin Committee (controlled by British interests) last Monday drastically reduced the export quotas of participating tin-producing countries from 120 per cent of standard quotas to 80 per cent, effective April 1. Trade reports from London indicate that the cut was designed to raise tin prices and thus provide Great Britain and the Netherlands with additional dollar exchange. The United States normally consumes about 45 per cent of the world's tin production.

Tin prices have been declining in recent months, following their sharp rise last September. The price of spot tin at New York during January averaged 46.68 cents a pound, which was lower than the pre-war price of 48.77 last August, and considerably below the September average of 58.68. Tin prices rose about 2 cents a pound at New York last week following the cut in quotas, but later lost half a cent.

The United States, being wholly dependent on foreign sources for tin, will be directly affected by the reduced production quotas. A comparison of permitted exports per quarter from countries adhering to the restriction scheme, under the 80 per cent and 120 per cent quotas, is shown in the table below. Countries not participating in this scheme produced in 1938 about 7,000 tons of tin quarterly. The United States consumption of tin in 1939 averaged about 18,000 tons per quarter.

	Tons per quarter	
	120 per cent quota	80 per cent quota
British Malaya	23,200	15,467
Bolivia	13,808	9,205
Netherlands East Indies	11,717	7,811
Siam	5,588	3,726
Belgian Congo	4,211	2,807
Nigeria	3,267	2,178
French Indo-China	900	600
Total	62,691	41,794

Secretary Morgenthau - 6

Exports provide increased business support

A classification of exports by commodity groups during January (see Chart 5) provides some idea of the importance of export sales as a potential support to business activity in coming months. Total exports (including reexports) in January 1940 were the highest since March 1930. (See upper section of chart.)

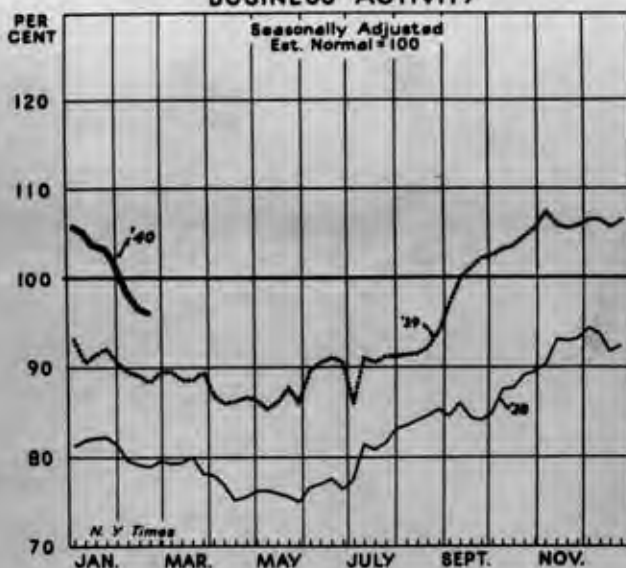
The nonagricultural exports are most important as a factor in industrial activity, although export demand for farm products affects business indirectly by affecting farmers' purchasing power. Exports of nonagricultural United States merchandise in January (see lower section of chart) were maintained not far below the high December level, totalling \$261,800,000 as compared with an average of \$219,900,000 during the three months previous to December.

Part of the increase in December and January doubtless reflects orders placed in September, and shipments released after the repeal of the arms embargo, as evidenced by the important part of the increase represented by aircraft. But iron and steel products (excluding scrap), refined copper, machinery, and automobiles -- which provide significant support for the volume of industrial production -- made up a considerable part of the total dollar value of exports in January. Together with aircraft, these group totals accounted for 84 per cent of the net increase in January over the September-November average.

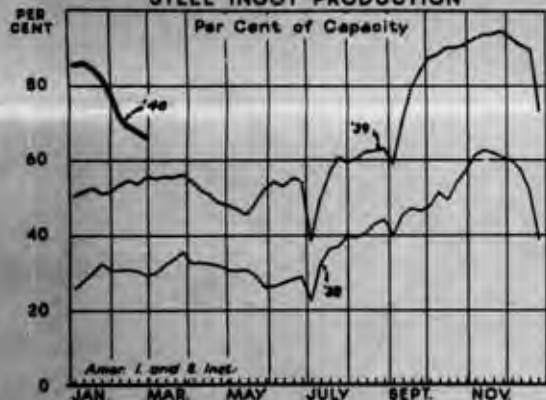
Agricultural products, representing a smaller proportion of total exports, showed a smaller dollar increase in January. The contraseasonal increase in cotton shipments was the most striking among individual commodities, and the dollar value for this commodity was the highest for January in 13 years. In the first three weeks in February, cotton exports have been much higher than in the corresponding weeks of last year. It is also of interest that in spite of foreign restrictions on receipts of United States tobacco, the quantity was higher in January 1940 than in January 1939, but the inclusion of lower-priced grades made a lower dollar value.

SELECTED BUSINESS INDICES

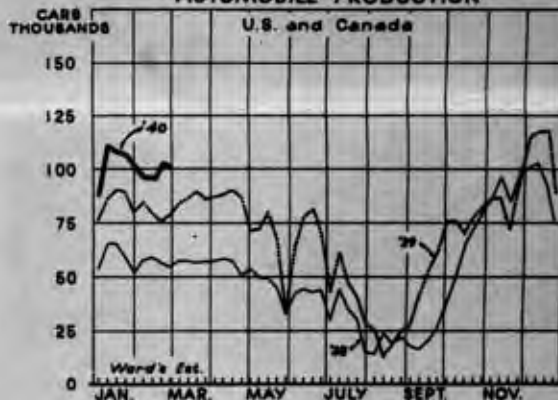
BUSINESS ACTIVITY



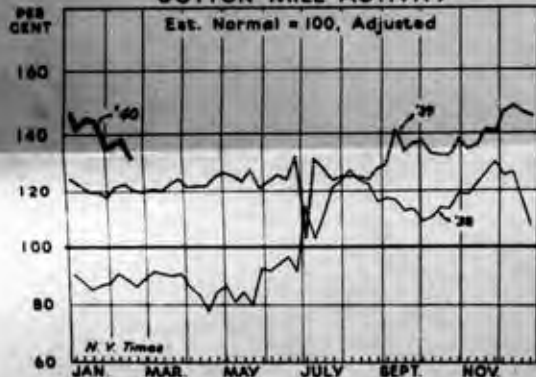
STEEL INgot PRODUCTION



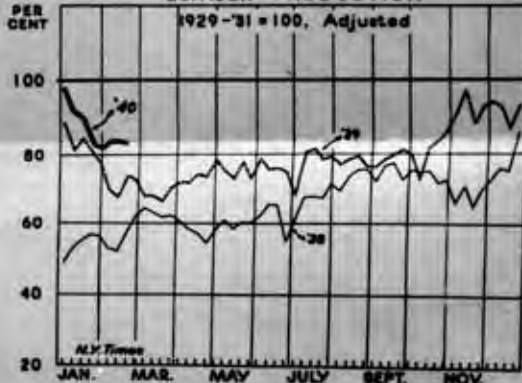
AUTOMOBILE PRODUCTION



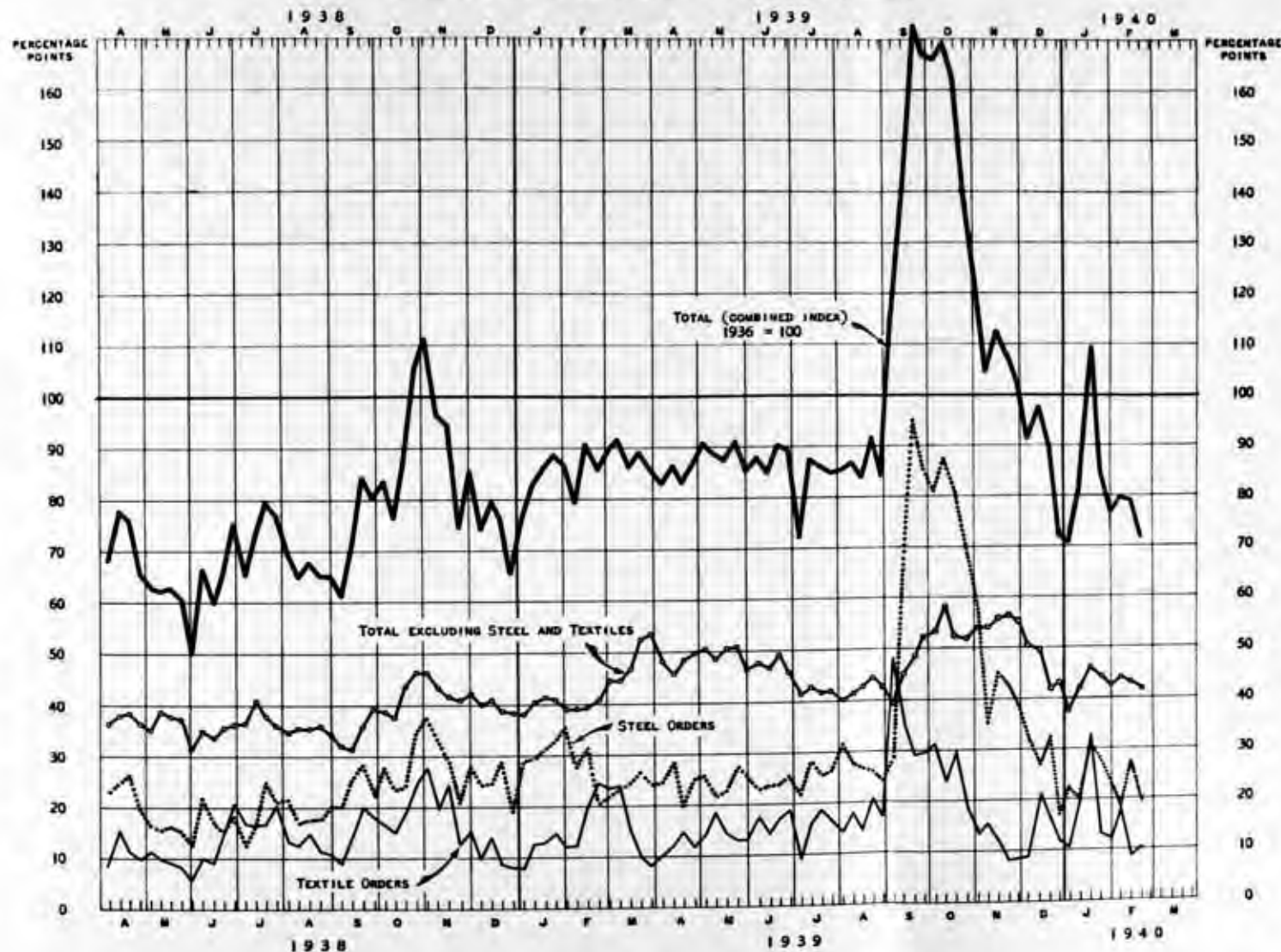
COTTON MILL ACTIVITY



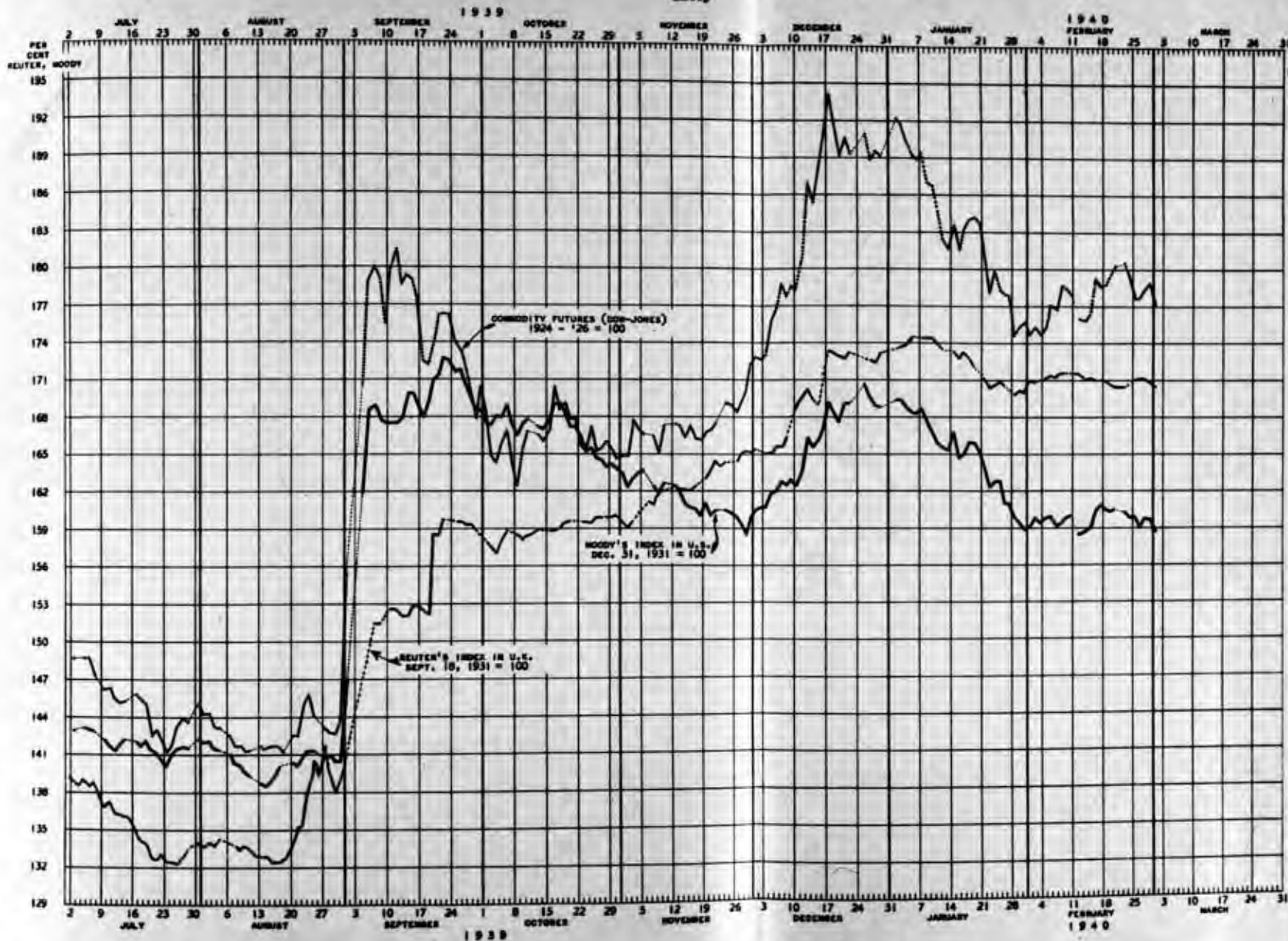
LUMBER PRODUCTION



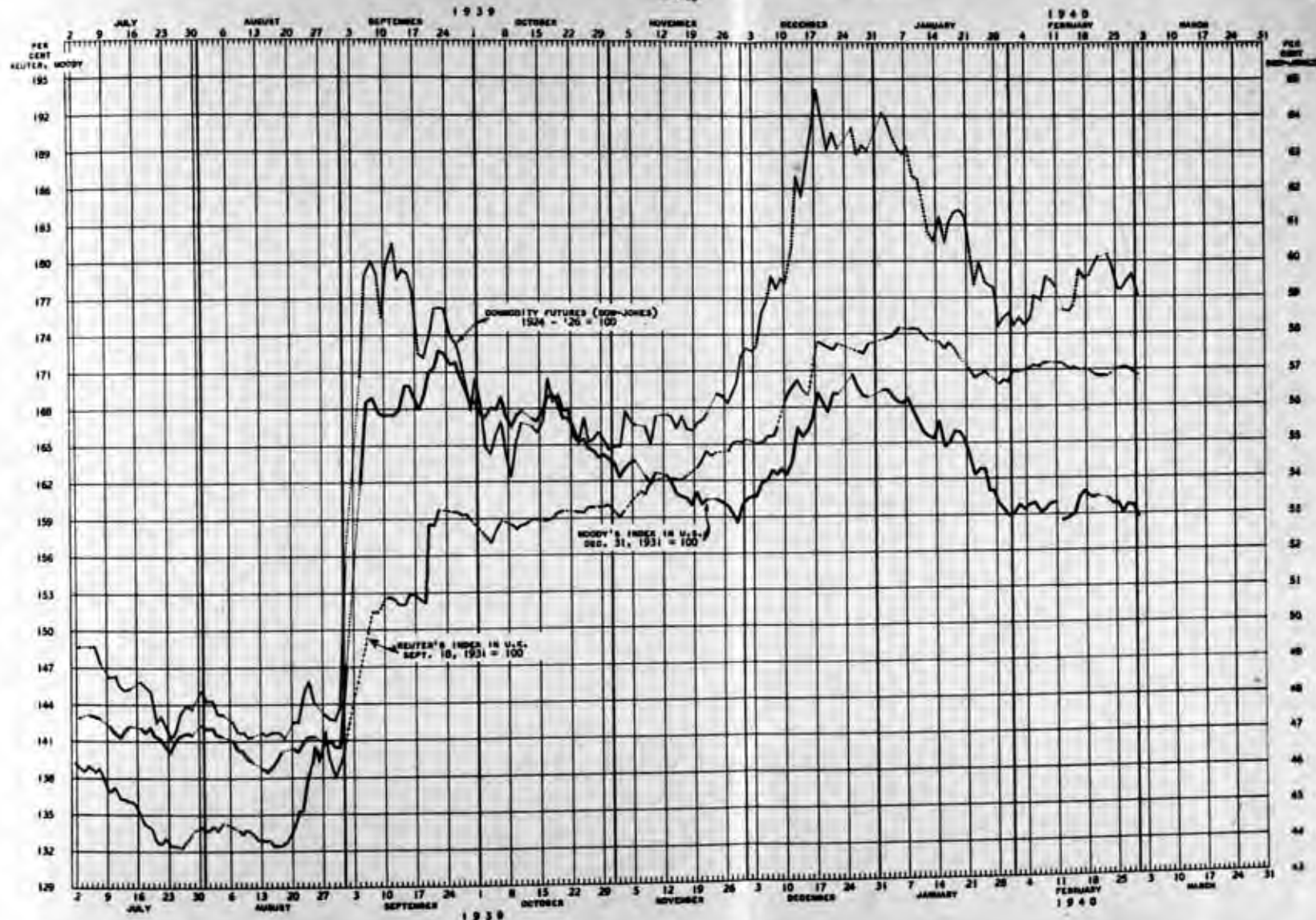
INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



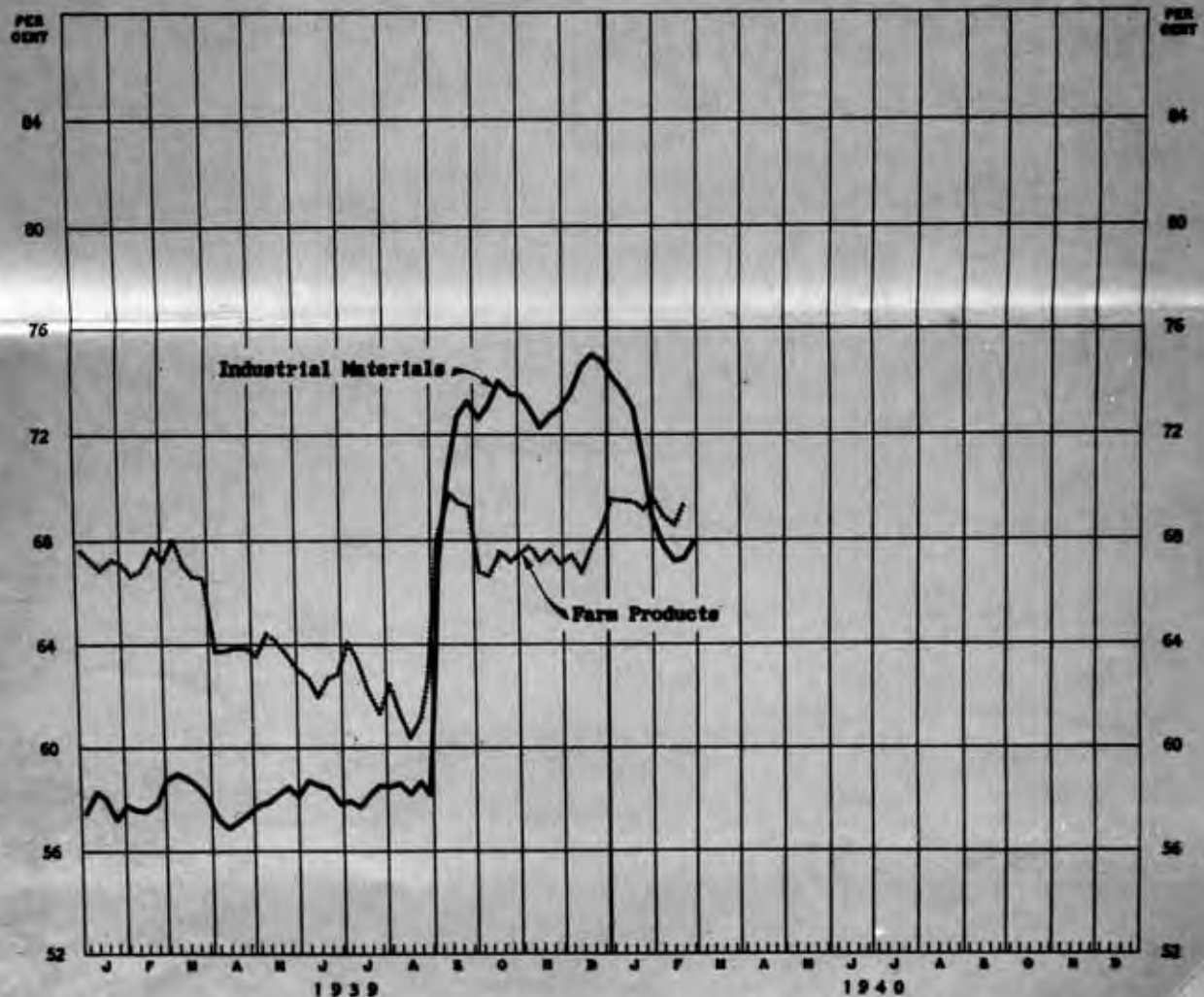
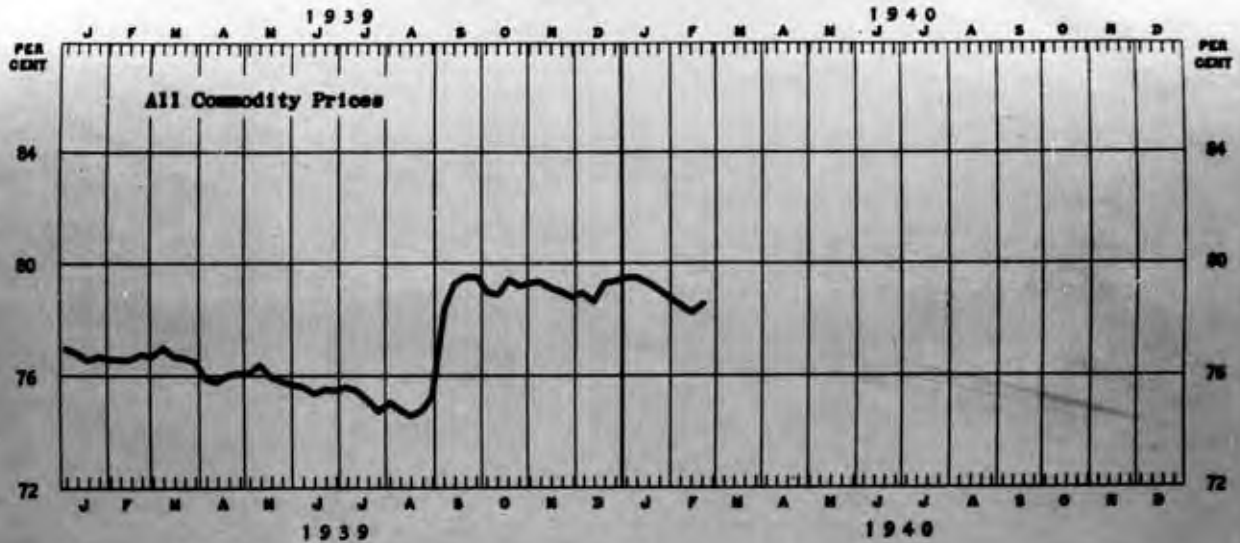
COMMODITY PRICE INDEXES IN U.S. AND U.K. Daily



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



WHOLESALE PRICE INDICES
1926 = 100



SOURCE: BUREAU OF LABOR STATISTICS

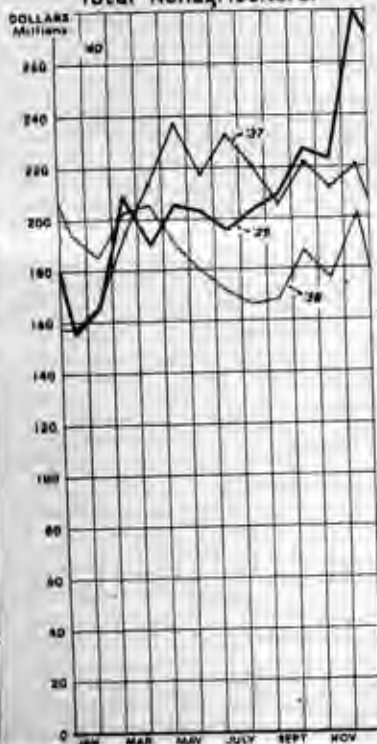
U.S. TOTAL TRADE AND EXPORTS, BY COMMODITIES



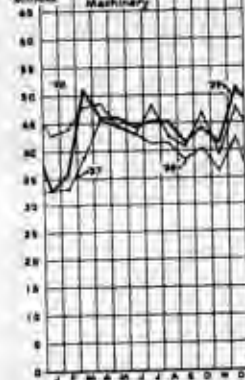
EXPORTS OF U.S. MERCHANDISE

Selected Nonagricultural Commodities

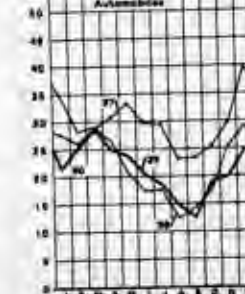
Total Nonagricultural



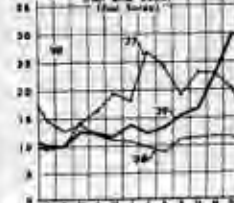
Machinery



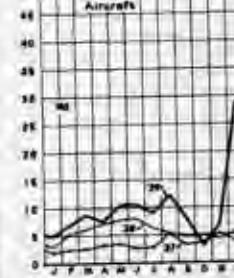
Automobiles



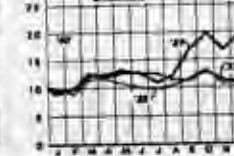
Iron and Steel (hot-rolled)



Aircraft



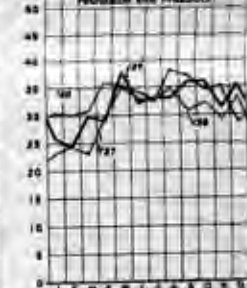
Chemicals



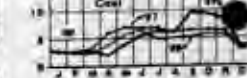
Iron and Steel (cold-rolled)



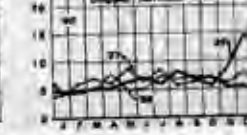
Foodstuffs and Products



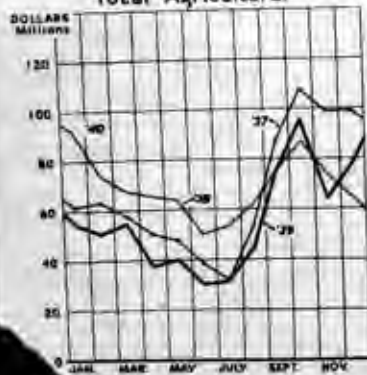
Coal



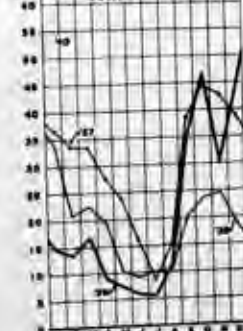
Copper Refines



Total Agricultural

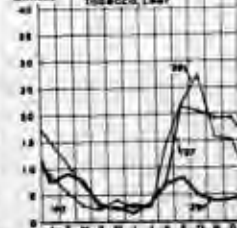


Cotton



Selected Agricultural Commodities

Tobacco, Leaf



Wheat and Flour



Corn



Fruits, Dried and Canned

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE March 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent, Financial Counselor of the British Embassy, asked me this morning, while giving me his daily report on security sales, in regard to the contemplated credit by the Export-Import Bank to China. He said that he had heard that the credit would be for \$20,000,000 and would be liquidated through the sale in this country of Chinese commodities. His people had received the report that wolfram (tungsten ore) as well as tin would be shipped in this connection. I told Mr. Pinsent that, insofar as I was aware, the matter was still being negotiated by the Export-Import Bank. I recommended that he get directly in touch with Mr. Warren Pierson. I reminded him that I am not a member of the Board.

Pinsent volunteered that he had met Messrs. Ashton-Gwatkin and Rist at the railway station last night. When I mentioned to Pinsent the reported difficulty between the British and Italian Governments as a result of the stopping of German coal shipments by sea to Italy, Pinsent said that Ashton-Gwatkin seemed quite pleased with the British action, and thought the American press was playing this up too dramatically. Personally, I am not at all convinced that this is anything but a serious matter.



March 5, 1940
11:30 a.m.

HMJr: Hello.

Operator: The Postmaster General.

HMJr: Hello.

James A.
Farley:

May I take a few moments of your time, sir, to congratulate you on your appointment of Charlie West.

HMJr: (Laughs) Oh.....

F: I don't know whether you're slipping in the closing days or not; I can't understand.

HMJr: I'm slipping.

F: By God, you're getting soft. I can't.....

HMJr: I'm slipping. I'm slipping.

F: I was amused when I saw it.

HMJr: You know the newspaper men as soon as I got back they asked me a question -- what about Charlie West's appointment. You know what my answer was?

F: No.

HMJr: I said, it speaks for itself.

F: That's my favorite answer on everything.

HMJr: And I wish you'd hear the laugh that went up.

F: Yeah, that's my favorite answer. It's all right.

HMJr: Yeah.

F: There was a -- God, I -- what's the real story?

HMJr: I was just asked as a -- how shall I put it -- on a personal appeal basis on the -- by the President.

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F: I knew -- I thought that.

HMJr: What?

F: I thought that. It was amusing.

HMJr: He said, "Henry, for God's sake take him off my hands." And I said, "Is this is a must?" He said, "Not a must." but he said, "I'd appreciate it very much."

F: There was nothing you could do.

HMJr: And he said, "For God's sake take him off my hands." So I said, "O. K."

F: That's marvelous. O. K.

HMJr: I mean, when he puts it on that basis.....

F: There's nothing else to do.

HMJr: What?

F: Nothing else to do.

HMJr: No.

F: O. K. Take it easy.

HMJr: I am.

F: I hope you got your money back

HMJr: That was fun, wasn't it?

F: Very, yes. It was all right. O. K. I never bring much money to those parties. I haven't much money anyway but I always -- very low.

Did your Father like it?

HMJr: Oh, he loved it.

F: That's fine.

HMJr: Righto.

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F: Well, he looked well too.

HMJr: Thank you, Jim.

F: He looked well, Henry.

HMJr: Goodbye.

March 5, 1940
11:38 a.m.

HMJr: Hello.

Operator: Mr. Rouse is away from his desk; it will take them a couple of minutes to get him.

HMJr: All right. Tell them -- do they know I'm calling?

O: Yes, they do, and his secretary is getting him to the phone.

HMJr: Okey-doke.

11:39 a.m.

HMJr: Hello.

Operator: Mr. Rouse. Go ahead.

HMJr: Hello, Rouse.

Rouse: Good morning, Mr. Secretary.

HMJr: How are you?

R: First-rate, and you?

HMJr: Oh, alive.

R: (Laughs)

HMJr: Or "breathing" is a better word. I'm not alive; I'm breathing.

R: Well, I judge you've been having your troubles.

HMJr: Right! Ah -- any gossip in the street?

R: Well, there isn't gossip. A good deal of curiosity of course about the 3 and 3/8ths.

HMJr: Yeah.

R: People trying to figure out what's in the background. Whether you know more than somebody else knows in the sense of European affairs, and they recall that

- 2 -

last June you did a note for a note and then the war came along.

HMJr: My God!

R: That's one concept. I don't think anybody is paying very much attention to it.

HMJr: A note for a note and then the war comes along, huh?

R: Sure. That was -- that's the gossip type of thing.

HMJr: Sounds like boy meets girl and then the baby comes along.

R: (Hearty laughter) But that was the early gossip and as the market has gotten under way they dropped the 1 and 1/2's down 5/8ths to begin with and now they've recovered a quarter of that to 101 8/32nds.

HMJr: Yeah.

R: They have actually sold there.

HMJr: But the only person that could have had the inside information is I hear the Federal Reserve System sold out their 3 and 3/8ths. How do you explain that one?

R: (Laughs) Well, those rights were just too high.

HMJr: I see. My people say now these so-called June rights are selling at 101 four.

R: Well, they -- they are quoted now 101 six eight. And I know of some that were sold -- or reported to me -- were sold to a mid-western bank at 101 and 8/32nds.

HMJr: You don't mean it.

R: And.....

HMJr: What coupon do they think is going to be on it?

R: Well, that sounds more like 7/8ths.

HMJr: Oh.

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R: But actually the number of the people are figuring that they will sell in the range between -- any five-year note would sell in a range between 50 and 55.

HMJr: Yeah.

R: But a three-quarter note at 52, I think, figures 101 and 1/8th.

HMJr: I see.

R: 101 and 4/32nds.

HMJr: Ah.....

R: I'm planning to start conversations here with the -- several of the people here about one-thirty and then winding up around three o'clock.

HMJr: Do that.

R: At which time I'll report to Dan, if that will suit you.

HMJr: Yes, I wish you would. He's sitting here with me now.

R: The -- the note -- the long notes have recovered practically all their early losses, and.....

HMJr: The long what?

R: The long note -- the '44 notes.

HMJr: Oh.

R: The long bonds are up 13/32nds.

HMJr: I see.

R: And the intermediate bonds are up proportionately.

HMJr: Well, I'd say it was taking it very well.

R: The background of it is that there has been a good deal of selling -- not whole portfolios but small percentages of portfolios for the last three months in anticipation of a Blitzkrieg, or a big push.

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And they are beginning to get a little tired waiting for it, and some have been hoping to get intermediate and longer bonds as a result of the exchange, which was expected.

HMJr: Well, a good technical explanation to give these people is the difficulty of pricing a three and 3/8ths bond and a 1 and 1/2 note, you see?

R: I see.

HMJr: That's a good technical explanation.

R: (Laughs.)

HMJr: You can believe it or not, but at least it's -- it would be difficult and there's only one other time in '35 that we ever refunded a bond and a note at the same time.

R: Um-hm. Well, I don't think it -- the gossip isn't of enough consequence to -- to warrant talking about it.

HMJr: O. K.

R: They just take it as is.

HMJr: Fine.

R: And they'll accept it.

HMJr: Fine.

R: Fine.

HMJr: I'll be talking to you again.

R: Thank you, sir.

HMJr: Goodbye.

R: Goodbye.

March 5, 1940.

MEMORANDUM FOR:

Secretary Morgenthau

SUBJECT: Conference with Congressman Marvin Jones,
Chairman of the House Committee on Agriculture.

In accordance with your instructions, Mr. Ecker-Racz and I went to Mr. Jones' office at 10:00 A. M. today to discuss the certificate plan for agriculture.

Mr. Jones did not know whether the Committee would take the plan seriously enough to justify having a Treasury appearance before the Committee. He will let you know later if such an appearance is desired.

Mr. Jones knew of your position on the certificate plan and asked the reasons you object to it. I summarized the substance of the memorandum which you sent to the President. He expressed as his general view a preference for agricultural aids in the form of appropriations from the general fund to be financed through general taxation in the same manner as are other governmental functions. He indicated that if some form of processing tax were found necessary, he would prefer the regular processing tax rather than the certificate plan.

Mr. Jones said he felt in a rather uncertain position since the President expressed no view on the certificate plan while the plan is being sponsored by one cabinet officer and opposed by another. He was concerned about being left out on a limb. He indicated the belief that the Department of Agriculture might well have decided to stand on its past program as being sound and reasonably adequate.

The conversation ended at about 10:30 when Mr. Jones had to attend an executive session of his Committee.

Roy Blough

March 5, 1940
11:50 a.m.

Admiral
Spear:

Good morning, sir.

HMJr:

Admiral, the Secretary speaking.

S:

Yes, I'm up on the Hill at the Capitol.

HMJr:

I just called up to tell you I appreciated the cooperation that you gave me while Collins was away.

S:

That's awfully nice of you, Mr. Secretary.

HMJr:

And I enjoyed working with you.

S:

Well, it's awfully nice of you and I appreciate that very much. I'm only too glad, any other time comes up, to do anything I can.

HMJr:

Well, I'll be seeing you again.

S:

Aye, aye, sir. Thank you very much indeed..

HMJr:

Goodbye, Admiral.

S:

Goodbye, sir.