DIARY

Book 250

April 1 - 4, 1940

FEDERAL WORKS AGENCY
PUBLIC BUILDINGS ADMINISTRATION

OFFICE OF THE SUPERVISING ARCHITECT
IN REPLYING, QUOTE THE ABOVE SUBJECT, BUILDING, AND THESE LETTERS SA-FA

WASHINGTON
April 1, 1940

Honorable Henry Morgenthau, Jr.
Cloister Hotel
Sea Island, Georgia

My dear Mr. Secretary:

I have gotten sort of fed up hearing that little tin Sir Galahad Dewey blackguard the New Deal and call everybody a crook and I thought it would be nice to have something said on the radio that would be pleasant and non-political.

I had a talk the other day with my old friend General Harbord who, as you know, is President of the Radio Corporation. He has very kindly given me some time on the National Broadcasting hook-up to have a series of discussions in reference to the art work of the Government. The first discussion will be held April 25 from 9:30 to 10:00 p. m.

I spoke to Mrs. Roosevelt about it and she writes me that the President is delighted with the idea. I am very happy that Professor John Dewey has agreed to take the lead on our first program. His text will be that the most important thing any nation can do for its civilization is to develop its art.

I have asked Mrs. Roosevelt to come in for three or four minutes and have asked Senators La Follette and McNary to carry on for a few minutes along the lines that the art program is one of the things that is bound to go on no matter what changes may develop in the political situation. Mr. Carmody will also have two or three minutes.

I think it would be awfully nice if you could be introduced as the founder of the program and make a short talk. I know that the radio is a nuisance for you but I do think this is a good opportunity to have something pleasant to say and perhaps counteract the knocking we hear these days about the New Deal. I hope the date will be convenient for you. Would you be kind enough to telegraph me as the National Broadcasting Company is pressing me to advise them of the program.

On a later date we are going to have a special program to discuss the art work of the Section. We will have one or two of the best painters in America give their opinion of it and one or two of the younger men explain what it has done for the younger artists.

I hope you are having a real rest at Sea Island.

Very sincerely yours,

Edward Bruce

Chief of the Section of Fine Arts

TREASURY DEPARTMENT

INTER OFFICE COMMU CATION CONFIDENTIAL

DATE April 1, 1940

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation,
Week ending March 30, 1940.

Conclusions

(1) The month of March has failed to show the usual seasonal business expansion, partly because of unfavorable weather, which has caused new orders in various lines to be postponed. New buying has also been discouraged by weakness in commodity prices following the drop in sterling exchange. The net result has been some further decline in adjusted weekly indices of business activity, after they had shown a levelling-out tendency during February.

(2) Nevertheless, business developments during the month have in various respects been encouraging:

(a) New orders during the past four weeks, as shown by our weekly index, have been at a rate 11 per cent higher than during the previous four weeks.

(b) Automobile sales have shown their ability to respond to seasonal influences, given favorable weather.

(c) Residential construction data reveal a promising trend.

(d) Production rates in leading industries outside the steel industry have shown resistance to further declines.

(3) Business news has turned somewhat more favorable during the past week. An unexpected dividend by the U.S. Steel Corporation, interpreted as an expression of optimism over the steel outlook, has had a bullish effect on stock prices. This, in turn, has influenced an expansion in textile buying to the largest volume since last December. Steel activity and orders in the South have turned upward. On the other hand, sensitive commodity prices have shown further weakness.

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Secretary Morgenthau - 2

Weather curtails business in March

The month of March has failed to show the usual amount of seasonal expansion in new orders and business activity. This has been partly due to unfavorable weather -- a cold, late spring -- which has held down automobile sales, building construction, and farm activity. Temperatures over the eastern two-thirds of the United States have been unusually low for three weeks in succession, ranging to 21 degrees below normal in the upper Mississippi Valley during the week ended March 26. The net effect has doubtless been to cause a postponement of much of the spring orders for such things as lumber and construction steel, automobile steel, and farm implements until the weather turns warmer.

In addition to the effect of unfavorable weather, new buying in recent weeks has been discouraged by a declining tendency in commodity prices, and by a more doubtful attitude toward the business outlook in some quarters. As a consequence, buyers have been proceeding cautiously until the outlook for prices and sales becomes more clearly defined. The net result has been a rather small upturn in new orders, as compared with the usual March increase, and some further decline in the seasonally adjusted weekly indices of business activity.

Nevertheless, recent business tendencies have in various respects been encouraging. New orders during the past four weeks, as measured by our weekly index, have at least shown a rising trend, averaging 11 per cent higher than in the four previous weeks. (See Chart 1). The index declined during the week ended March 23 because of downturns in reported orders for steel and textiles.

Automobile sales sharply higher

Retail automobile sales during the second 10 days of March recovered sharply from their earlier setback, which had been caused largely by unfavorable weather. Sales by major producers during this period showed a gain of 48.4 per cent over the comparable period of February, as compared with a gain of only 7.8 per cent for the first period of the month. General Motors sales rose to 56,823 in the second 10 days of March, as compared with 43,273 in the first 10-day period. Although the return of severe weather during the third period of the month is likely again to depress sales, the volume so far indicates that the sales total of the industry for the month as a whole will be the best since 1937.

Activity in important industries outside of the steel industry has held generally steady during March, though the decline in steel operations has had a magnified effect on current business indices because of its heavy weight. In Chart 2 it will be noted that the trend of the New York Times Index in recent months has followed very closely the declining trend of steel ingot production.

On the other hand, automobile production has turned upward earlier than in 1938 or 1939 and has held at a stable level through March. Cotton mill activity (adjusted) has averaged about the same in March as in February, and lumber production (adjusted) has held firmer during February and March than it did in that period last year.

Construction activity improving

Residential construction has shown an encouraging trend this month. Despite the adverse weather over a large section of the country, construction of F.H.A. insured homes for the four weeks ended March 23 exceeded the previous four weeks period by 59 per cent, and was 21 per cent above the comparable period of 1939. The heavy volume of applications for insurance on prospective new homes indicates that this relatively high level will continue over the next few months.

Daily averages of construction awards in 37 States for the period March 1-22, as reported by the F.W. Dodge Corporation, likewise showed an improving tendency, though the totals remain below last year. The daily average of residential awards during this period was only 3.1 per cent below the 1939 level, as compared with a decline of 9.5 per cent in February.

Stock market upturn stimulates textile buying

Declaration of a $1 dividend on its common stock by the U.S. Steel Corporation, which apparently came as a surprise to Wall Street, had a stimulating effect in various directions last week. It was interpreted as an expression of confidence by the Corporation in the current outlook for the steel industry, and had a bullish effect on the stock market.

As a direct consequence, textile sales expanded abruptly on Thursday and Friday in the most active trading since the middle of last December. Sales of print cloths and related items rose to between 20,000,000 and 25,000,000 yards, according to press reports, and prices showed a tendency to rise. The buying was not entirely unexpected, however, since it had been preceded by a week or more of active bidding at prices under the market. These sales may be reflected in our new orders index next week.

There is some indication in trade news that steel buying is responding to the stock market upturn and other optimistic influences. The Birmingham district reports that new orders now exceed shipments, and operations in that district are scheduled this week at a 3-point rise. The Chicago district (which includes Detroit) will raise its operating rate 2 points, while the rate for the important Pittsburgh district is scheduled to remain unchanged. Reflecting the volume of foreign buying, which is now said to be running slightly in excess of 15 per cent of current steel output, steel makers announced over the week-end the withdrawal of special discounts on export steel prices, which had been in effect for several months.

Sensitive prices weaker

Sensitive price indices in the United States declined last week despite the upturn in the stock market. (See Chart 3). Press reports attribute the decline in part to the unsettling influence of the drop in the "free" sterling rate. Moody's index of spot prices sagged to a new low for the year, while the Dow-Jones futures index lost part of its previous week's gain. Reuter's index of sensitive prices in Great Britain, on the other hand, turned upward.

Commodity price indices in various foreign countries, which are now available for February, show for most countries a continuation of the inflationary price tendencies that have been evident for several months. (See Chart 4). This has been particularly evident in Great Britain, Sweden, and Belgium. The price indices for Japan and Canada were slightly lower in February than in January.

Inventories begin to decline

Manufacturers' inventories began to decline in February, after rising for 5 months, according to figures compiled by the National Industrial Conference Board. Inventories at the end of February are estimated at 1 per cent below the January figure.

Secretary Morgenthau - 5

While the adequacy of the Conference Board's estimates as a measure of total inventories of finished goods may be subject to question, the trend appears significant. It indicates the sharp contrast between the present situation and that in 1937, when the rise in inventories continued for nearly a year before it was checked.

<u>Weekly business indices continue down</u>

The New York Times index for the week ended March 23 was off .9 point to 94.1, with declines in the majority of components offset only slightly by minor improvement in the indices for lumber production and carloadings. Barron's business index for the March 23 week was off 1.3 points to 102.5.

For the following week, moderate further declines in the New York Times indices for steel production and automobile production are indicated by preliminary data. The seasonal peaks for the steel and automobile indices will be reached shortly after the middle of April, which means that if production merely holds steady after that time it will bring a rise in the adjusted indices.

The rate of steel operations for the current week is estimated today by the American Iron and Steel Institute at 61.7 per cent, up 1.0 point from the previous week.

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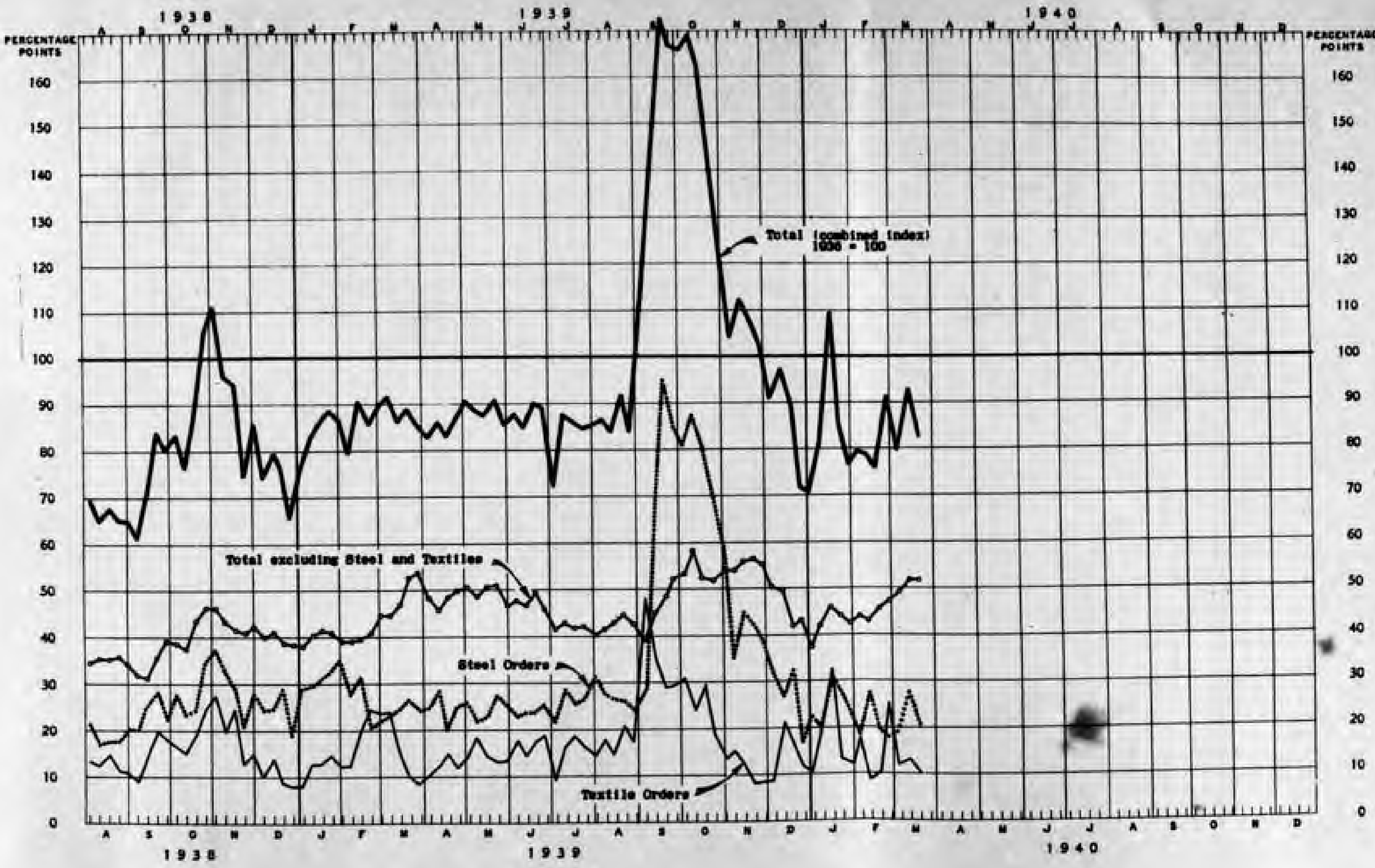
Chart 1
CONFIDENTIAL

INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components



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Division of Research and Statistics

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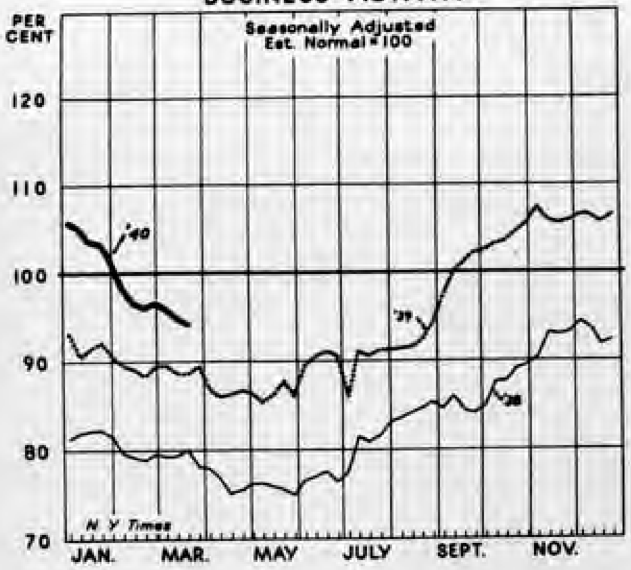
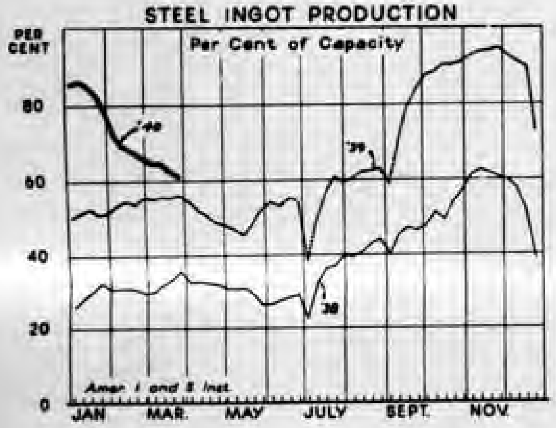
SELECTED BUSINESS INDICES

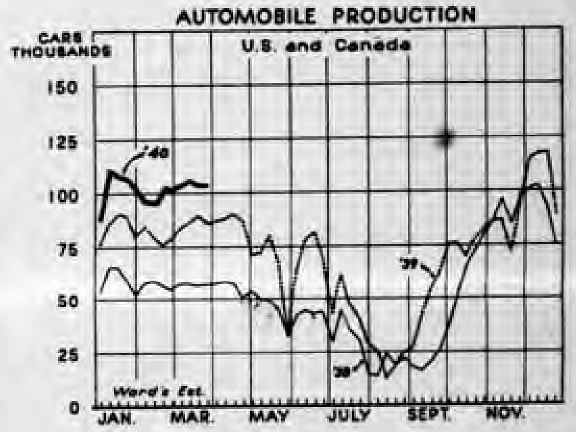
BUSINESS ACTIVITY



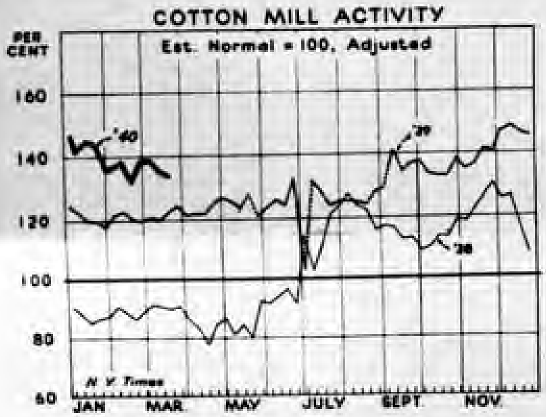
STEEL INGOT PRODUCTION



AUTOMOBILE PRODUCTION



COTTON MILL ACTIVITY



LUMBER PRODUCTION

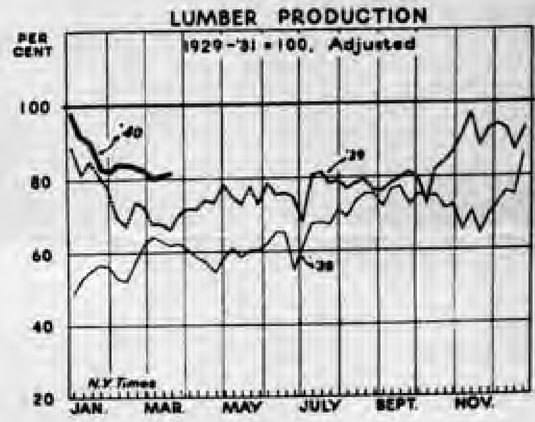


Chart 2

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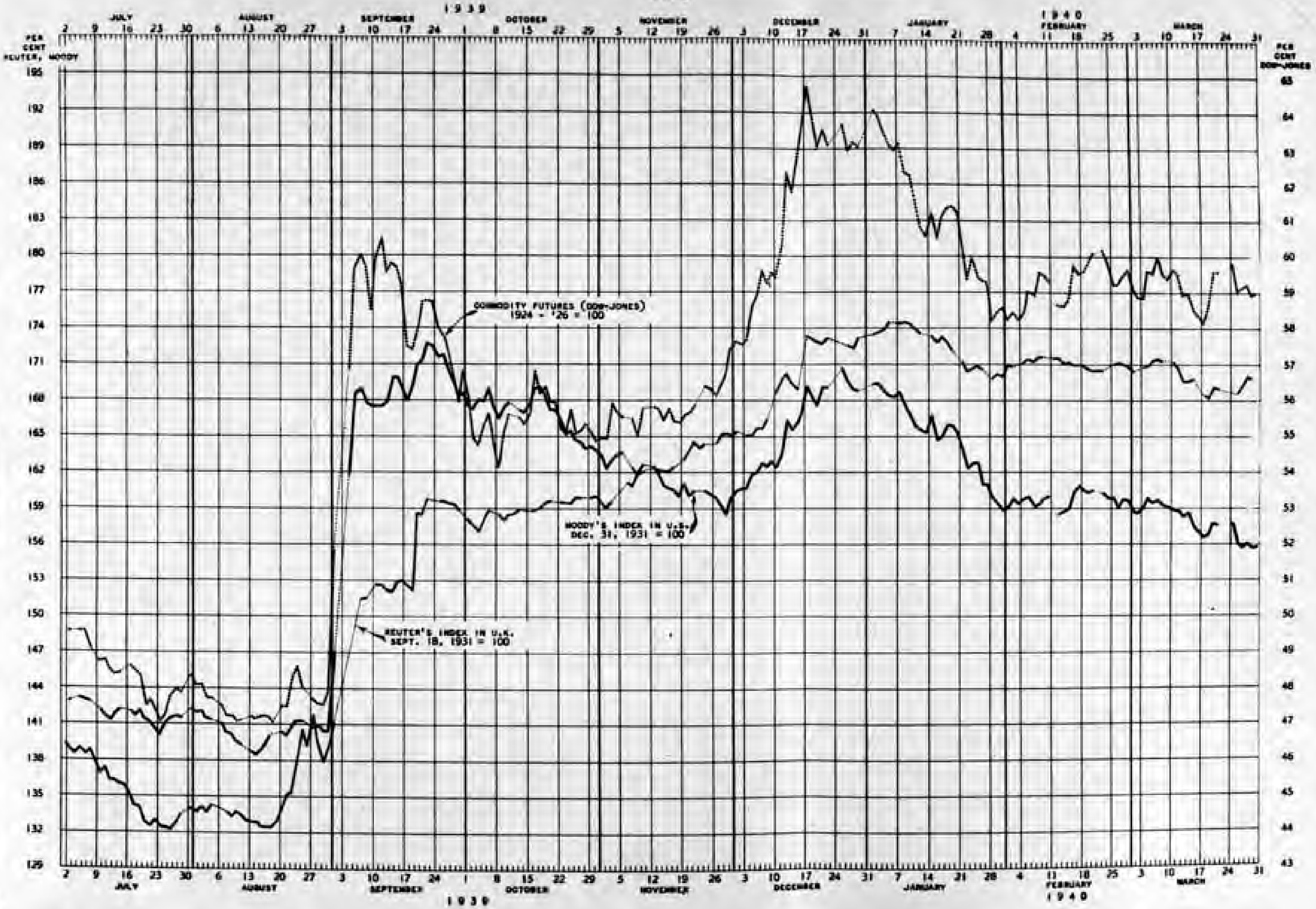
Chart 3

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



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Division of Research and Statistics

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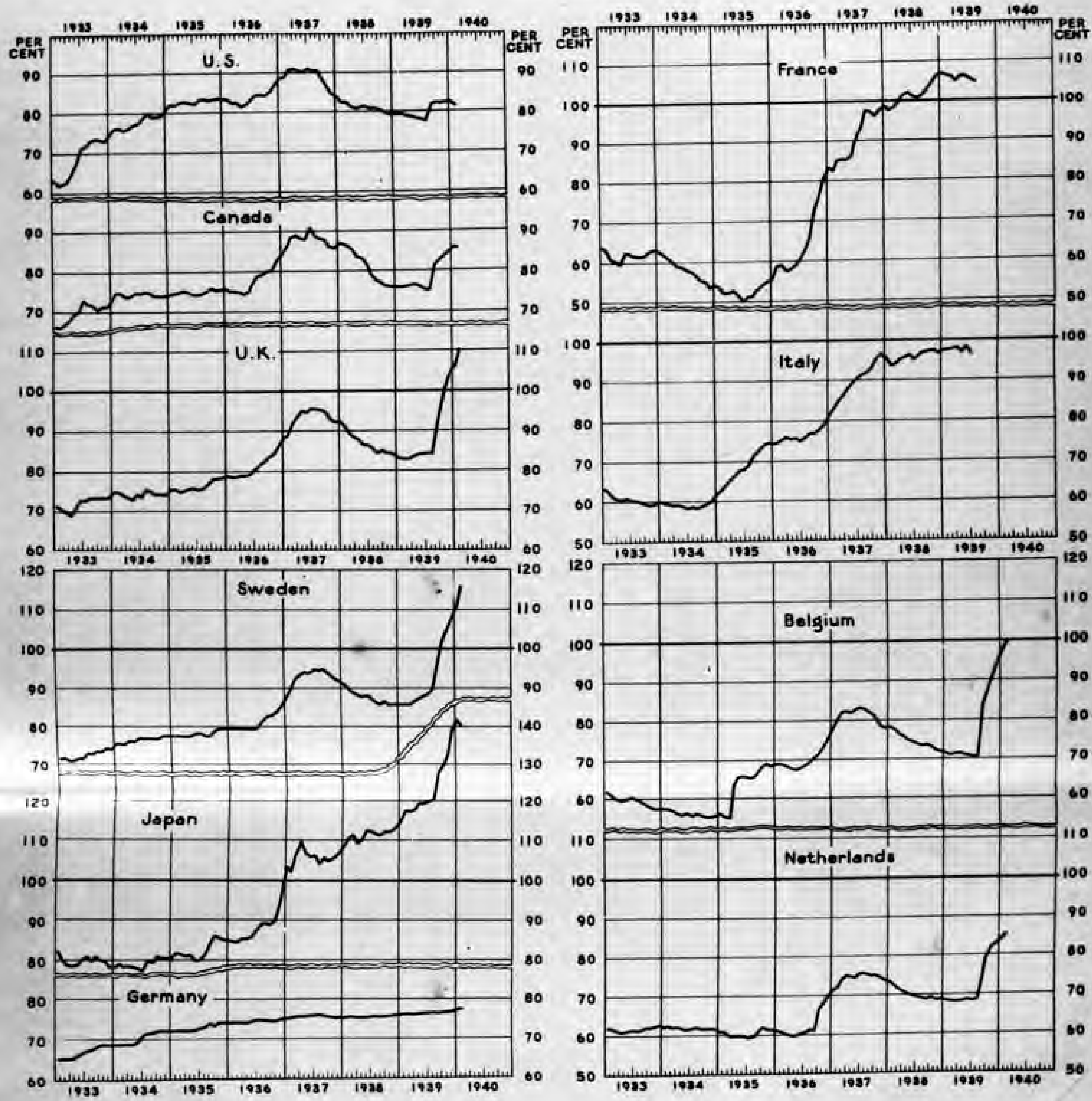
WHOLESALE PRICES IN SELECTED COUNTRIES

1928 = 100



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

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Chart 4

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The sterling rate had a steadier tone in a quiet foreign exchange market today. After opening at 3.55-1/2, the quotation moved up to 3.56-3/8 in the first hour of trading. Around noontime it returned to 3.55-3/4 and remained fairly steady throughout most of the afternoon. The final quotation was 3.55-3/4.

The reported volume of sterling transactions was considerably smaller than the average weekday turnover which prevailed last week.

Sales of spot sterling by the six reporting banks totaled £343,000, from the following sources:

By commercial concerns....................................	£ 83,000
By foreign banks (Europe, Far East and South America)....	£ 260,000
Total....	£ 343,000

Purchases of spot sterling amounted to £498,000, as indicated below:

By commercial concerns....................................	£ 275,000
By foreign banks (Europe, South America and Far East).....	£ 223,000
Total....	£ 498,000

The following reporting banks sold cotton bills totaling £5,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 3,000 by the Chase National Bank
2,000 by the National City Bank
£ 5,000 Total

The belga rose to a new current high of .1710-1/2 and closed at .1710.

The other important currencies closed as follows:

French francs	.0201-3/4
Guilders	.5309-1/2
Swiss francs	.2242-1/2
Canadian dollars	18-1/4% discount

The discount for the Cuban peso widened further to 12-1/8%. The Mexican peso was unchanged at .1672.

The Federal Reserve Bank purchased 50,000 belgas and 25,000 guilders for account of the Bank of Latvia.

We sold $2,000,000 in gold to the Bank of the Argentine Republic, to be added to its earmarked account.

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

The Federal Reserve Bank of New York received a cable from the B.I.S. requesting it to obtain a license to transfer from its Account #2 to the account of the Netherlands Bank gold valued at approximately $1,120,000. The gold in B.I.S. Account #2 is owned by that institution. The Federal also received a cable from the Netherlands Bank instructing it to receive this gold. The Treasury authorized the Federal Reserve Bank to make this transfer.

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

$ 2,284,000	from Switzerland, shipped by the Swiss National Bank, to be earmarked for its account.
1,064,000	from Mexico, shipped by the Bank of Mexico, to be earmarked for its account.
$ 3,348,000	Total

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

$ 9,034,000	from Sweden, representing two shipments by the Bank of Sweden, for its own account, to the Federal Reserve Bank of New York, the disposition of which is unknown at the present time.
3,523,000	from Switzerland, shipped by the Swiss Bank Corporation, Zurich, to the Swiss Bank Corporation, New York.
30,000	from England, shipped by the Westminster Bank, London, to the Guaranty Trust Company, New York.
$12,587,000	Total

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

In a report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on March 27, such deposits totaled $42,136,000, an increase of $952,000 since the last report as of March 20. Of this amount, $28,045,000 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 $84,668,000, an increase of $5,389,000 since March 20.

The Bombay silver quotation worked out to the equivalent of 39.66¢, a decrease of 5/16¢ from Saturday's rate.

CONFIDENTIAL

In London, the price fixed for spot silver was unchanged at 20-7/16d. The forward quotation was also 20-7/16d, representing a decline of 1/16d. The U. S. equivalents were 32.70¢ and 32.51¢.

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

We made seventeen purchases of silver totaling 2,528,000 ounces under the Silver Purchase Act. Of this amount, 113,000 ounces represented sales from inventory and the remaining 2,415,000 consisted of new production from foreign countries, for forward delivery.

H.M.Jr.

CONFIDENTIAL

TREASURY DEPARTMENT

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON

April 1, 1940

ref to an Collins' memo of 4/2.

MEMORANDUM

Mr. Purvis called me this morning and stated that he was very anxious to get in touch with the Secretary on a matter of the utmost secrecy, and at my suggestion he contacted the Secretary through the board at the Treasury.

He called me again about 3:30 this afternoon, stating that he had talked with the Secretary and that what he was going to say was of the utmost secrecy. He then informed me that the Supreme Military Council had approved of the placing in this country of an order for airplanes and that authority had been given the Anglo-French Purchasing Board to consummate such contracts as were necessary to provide for the number and types of planes which they feel will be made available to them.

He particularly inquired concerning the status of the releases which had been previously requested. He was informed that the matter of releases on all the items asked for was not before the Army Navy Munitions Board and that, from information available, it appeared as though action on them would be had at the earliest possible moment. He again stressed the wish of the Anglo-French Purchasing Board that this matter be brought to a conclusion as soon as possible, and he was informed that everything that could be done was being done to effect this result.

He also stated in the course of his conversation that in the cable which he received this morning it was stated that the efforts that have been and are being made by the Treasury to assist them are deeply appreciated, and he indicated that he personally was thoroughly cognizant of the difficulties that had been encountered in trying to effect the releases the Board desired.

In conversation with the Secretary this morning he informed me that Mr. Purvis had also advised him that they had exercised an option for 4,000 P&W engines, as well as 20 Consolidated boats.

HEFollins

OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 1, 1940

My dear Mr. Secretary:

There is attached hereto a memorandum concerning a visit made this morning by the Belgian Ambassador with reference to the procurement of 40 pursuit ships.

Saturday after transmitting the letter for the pouch, I finally reached General Watson and delivered your message, and this morning I had a talk with General Brett concerning the operation of the administrative policy. He has promised to get to me today so much of the procedure as concerns the contacts of foreigners with both the Liaison Committee and representatives of the War and Navy Departments. He informed me that all of the details pertaining to the intra-departmental handling of requests have not been finally decided, but with the machinery set up for contacts of both foreign representatives and members of the aviation industry I do not feel there should be any delay in processing any matters which may come before us.

I have an appointment, made by the State Department, to receive the Minister of Iraq for a discussion of planes which it is understood they desire to purchase.

In conversation with General Brett this morning concerning your visit to Wright Field he informed me that he is leaving here Thursday and will be at Wright Field through Saturday. In fact, Saturday being Army Day, he is making a broadcast from that place, and he said that if I could get to him by Thursday information concerning your proposed visit - should you decide to go there - he should be most happy to see you. He even suggested that if you desired he would be very happy to put you on the air.

With kindest personal regards,

Sincerely yours,

Harry Collins

Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

April 1, 1940

MEMORANDUM

This morning M. Georges Theunis, Ambassador Extraordinary in Special Mission from the Belgian Government, called upon Captain Collins, accompanied by M. Robert L. Grosjean, Attache to the Belgian Economic Mission, and Lieutenant M. dePret, also connected with the Mission.

The Ambassador stated that his Government is anxious to obtain 40 single-seater pursuit planes with a speed of 375 to 400 miles an hour, to be delivered at the latest by the beginning of 1941. Lieutenant dePret declared that they were particularly interested in the Curtiss P-40 and the Bell Airacobra. He said that the Mission obtained permission and had already contacted the Curtiss-Wright Corporation and the Vultee Aircraft, Inc., but the representatives of the Bell Aircraft Corporation had not as yet been interviewed.

This afternoon letter dated March 30th from M. Theunis requesting permission to negotiate with the Bell Aircraft Corporation was received and information promptly transmitted to the War Department. Mr. Bell, who is in Washington, has also filed a letter, and the War Department has promised action on it today in order that he may contact the Belgians.

H. J. Peters

April 1, 1940
9:38 a.m.

H.M.Jr: Am I on the loudspeaker?

Daniel W. Bell: Yes, sir.

H.M.Jr: Now, Dan, I -- really, I'm upset. They tell me that Herbert Feis called up at four o'clock on Sunday and wanted to talk to the Acting Secretary of the Treasury.......

B: Yeah.

H.M.Jr: ......and the only person that he could get was Huntington Cairns. Now that's not right. I thought Sullivan was going to be on hand.

B: Sullivan was in town.

H.M.Jr: Well, he couldn't get him.

B: (Aside: Where were you?)

H.M.Jr: I mean, in these times......

B: Wait a minute.

H.M.Jr: ......to have nobody in town......

B: Well, Sullivan was in town and he came down town and called -- (Aside: Who did you call, Feis?) he called Feis and Feis in the meantime had called Cairns.

H.M.Jr: Oh.

B: He did try to get in touch with him.

H.M.Jr: Let me talk to Sullivan.

B: O.K.

H.M.Jr: Please.

(Mr. Sullivan takes the phone.)

John Sullivan: Good morning, Mr. Secretary.

H.M.Jr: Hello, John. What happened yesterday?

S: Well, yesterday afternoon around four o'clock I drove some people down town, left them down town, got back to the house, and got word to call the Treasury.

H.M.Jr: Yes.

S: I was putting an uncle of mine on the four o'clock train. I got back to the house about half past four, called Treasury and they said that Dr. Feis had called, and I said, "Well, I'd like to talk to him." And she said, "Well, he has already talked with Mr. Cairns. I'll get Mr. Cairns for you." And then I talked with Mr. Cairns.

H.M.Jr: Well, I mean, for the operator to tell them that Cairns is Acting Secretary of the Treasury is ridiculous.

S: Well, I don't know whether the operator did or not.

H.M.Jr: Yeah, she did. Well, what was it all about?

S: It was all about the -- the exchange rate. I understood from Mr. Cairns that they were prepared to issue something this morning and Feis wanted to have that delayed, for another two weeks.

H.M.Jr: Well, who the hell is Herbert Feis to ask us to delay something for two weeks.

S: That's just what I was trying to find out. Dan has the whole story, sir.

H.M.Jr: Well, supposing......

S: Yes, sir, here he is right here.

H.M.Jr: Right.

Bell: You will recall that I talked to you last week about these official and free rates that were coming along on which we might have to issue a T.D.

H.M.Jr: Yeah.

B: Friday we sent over a memorandum to Feis.......

H.M.Jr: Well, Dan, just -- am I making a record?

B: Yes, sir.

H.M.Jr: Good.

B: Cairns sent a memorandum to Feis on Friday morning.

H.M.Jr: Yes.

B: And he said he had shown it -- he was going to show it to Secretary Hull and that Hull might see the President around noon, and he might even discuss the matter at Cabinet.

H.M.Jr: Yeah.

B: But anyway if we didn't hear from him by -- (Aside: Was it Friday nite?) Friday evening or sometime Saturday morning, why it would be all right for us to issue the T.D.'s on Monday.

H.M.Jr: Yeah.

B: I went to Cabinet and Hull said nothing about it so I didn't raise the question and we are prepared -- were prepared to issue those T.D.'s this morning. Yesterday, of course, Feis calls up and asked for a delay of two weeks and he said he understood that the President was sending me a note not to issue any T.D.'s on the exchange rates. Now, I haven't received the note yet but I think sometime this morning we've got to go see Secretary Hull.

H.M.Jr: That's the answer.

B: Because we've got to issue something. Yeah, I think it ought to be done today.

H,M.Jr: ....on Feis' part. How.......

B: Well, he's been a little vacillating I should say. One day he's hot and the next day he's cold. We don't know just where he stands.

H.M.Jr: Well, how much notice did Mr. Hull have that we wanted to do this?

B: Well, I don't know when Mr. Hull -- whether he actually knew but certainly the State Department has known for ten days.

H.M.Jr: Well, you see it's typical of the State Department. We give them ample notice and then they wait until the last minute and they put us on the spot.

B: Cairns said to be exact the 23rd of March is when they got the notice.

H.M.Jr: And I -- Herbert Feis is -- is nobody, and unless Mr. Hull asks me in writing not to do it, I want to go ahead and do it.

B: Well I think we've got to issue this T.D. that directs the Customs -- the Collector of the Customs to apply the official rate, and then we can......

H.M.Jr: I do too, and if I say that -- that this -- Feis spoke to the Acting Secretary of the Treasury on Sunday, who was Mr. Cairns, and asked them not to, where does it leave me?

B: Well, he couldn't ask for it.

H.M.Jr: What?

B: He couldn't ask for a delay of more than a day.

H.M.Jr: Well......

B: There wasn't anything to come out until noon today.

H.M.Jr: What?

B: There wasn't anything to come out until noon today. We hope to issue it at twelve o'clock today.

H.M.Jr: Well, it's our legal duty to do it, isn't it?

B: Well, it's our legal duty to protect the revenue.

H.M.Jr: Well......

B: And the way to protect the revenue is to issue the T.D. authorizing the use of the rate -- official rate, and then authorizing the Collector not to liquidate the entry so that if we decide later to issue -- use the free rate, why then we can refund the difference.

H.M.Jr: Well, I don't -- I mean, this thing of making -- of my police powers a matter of negotiation, I've never stood for it, and the State Department always wants to do that and if we followed them and then -- where was the State Department on this silver legislation? They'll never back you up publicly.

B: That's right.

H.M.Jr: I mean, would they help me out when I had to go up on the Hill and take it? They would not.

B: No, and you'll have to take this too.

H.M.Jr: Pardon?

B: You'll have to take this too, because it's your duty.

H.M.Jr: Well, I want to go through with it.

B: Well, we're going over there this morning or wait until we get the President's note first and see what it says.

H.M.Jr: Is Huntington there?

B: Yes, he's sitting here listening.

H.M.Jr: Could I talk to him just a moment?

B: Yes.

(Huntington Cairns takes the phone.)

Cairns: Hello.

H.M.Jr: Huntington.

C: Yes, Mr. Secretary.

H.M.Jr: Have I any choice in this matter?

C: Not in the long run. This Treasury Decision that we're issuing this morning is a purely stop-gap decision, a tentative decision that does not commit anyone to anything.

H.M.Jr: Yeah.

C: It's a notice to Collectors to collect estimated duties at the official rate and to suspend liquidation. Now, if the President says, "Don't issue this," I suppose we might find some way around it. We wouldn't be......

H.M.Jr: Well, the President has never told us not to carry out our duty.

C: Not in my experience.

H.M.Jr: Pardon?

C: Not in my experience, he hasn't.

H.M.Jr: No. It means that this is some whim of Herbert Feis'.

C: I think that Feis misled Secretary Hull.

H.M.Jr: Oh.

C: And I told him yesterday afternoon. I said, "This is a purely stop-gap decision." It means that the importers won't get the goods and we don't have the warehouse space to hold up......

H.M.Jr: Just a moment. (Talked aside.)
What's that, Huntington?

C: The importer is entitled to his goods and we have to collect the duty at some rate. We are taking the rate that protects the Treasury and we are doing it in a form that protects the importer. He'll get a refund if we change our minds later.

H.M.Jr: Well, I -- it's so typical of Feis. I mean, he may have misled or something or other.

C: Well, he suggested when I told him what I really thought, he said, "Well, perhaps Mr. Bell might see the President this morning and clear it up."

H.M.Jr: Well, Why bother the President. The President 99 chances out of 100 doesn't know a thing about it.

C: And I suspect Mr. Hull doesn't have the full story.

H.M.Jr: Pardon?

C: I suspect that Mr. Hull does not have the full story.

H.M.Jr: No, I think that Bell and you better go over there. I don't suppose Basil Harris is in town.

C: No, Ed will be here in a few minutes. I -- I explained it to him last night on the telephone.

H.M.Jr: Well, I'll talk to Dan again.

C: All right, sir.

(Mr. Bell takes the phone.)

Bell: Yes?

H.M.Jr: Dan......

B: Yes, sir.

H.M.Jr: When you go over you'll take Huntington with you?

B: Yes, I will.

H.M.Jr: What?

B: Yes, sir.

H.M.Jr: And anybody else that you want.

B: All right. I don't think we'll have any difficulty after we talk to Mr. Hull.

H.M.Jr: And......

B: As Huntington says we don't feel that he has the full story.

H.M.Jr: Well, if -- if I don't hear from you I'll take it for granted that it's going out at noon.

B: All right. We'll......

H.M.Jr: If you have any trouble call me, how's that?

B: We'll let you -- we'll let you know anyway how it comes out, but we haven't anticipated we're going to have a lot of trouble with him - maybe a little talk but not a lot of trouble.

H.M.Jr: All right. Now,.......

B: We've got Sullivan, Cochran, Haas and Thompson here.

H.M.Jr: Well, the point that I want to say is that I am not satisfied with the explanations which I am getting on the free pound. See?

B: Yes.

H.M.Jr: And I asked last night Randolph Burgess to find out what the customers or the banks are doing who have to either sell or buy from England from the standpoint of the United States citizen, is it good or bad.

B: Um-hm.

H.M.Jr: I got this memorandum from Knoke and -- which is largely is it good or bad from the standpoint of the British, which I am not interested in. And Burgess said he would call me back.

B: I see.

H.M.Jr: Tonight.

B: Merle has quite a long cable here that came in late Saturday evening. He said he would like to read part of it to you.

H.M.Jr: Well, he can send it down by mail.

B: It came through the British Embassy. It's some of the information, I believe most of the information that you asked him to cable for.

H.M.Jr: All right, I'll listen when -- but I want to talk to you and Sullivan a minute. When I get through with that -- but I -- I'll listen, but I -- no one is giving me -- I'm going to get this evening the explanation from the standpoint of a man who is in the import or export business.

B: Um-hm.

H.M.Jr: I mean, is he being hurt.

B: I see.

H.M.Jr: And that's what I'm interested in. So.......

B: Is there anything you want us to do here?

H.M.Jr: Well, the thing that I had in mind that you might be thinking over is the possibility of asking Archie Lochhead to take a day or two off and go and see some of the other banks or some of the customers and find out how the importers and exporters are **faring**.

B: All right.

H.M.Jr: See?

B: Yeah.

H.M.Jr: Archie would be as good a person as I know to find out.

B: Yes, I think he can give us a good memorandum on that.

H.M.Jr: What's that?

B: I think he can give us a good memorandum on that.

H.M.Jr: I think you might call him up and tell him we've covered the National City -- oh, yes, and I told him also to call up Jay Crane, Burgess.

B: Well, Burgess.......

H.M.Jr: So by tonight I'll know what Jay Crane thinks and also the National City.

B: Yeah.

H.M.Jr: But if Archie could take a day or two off and go around, and you could tell him that any place he wants to go that you could call up and give him the authority, like the Vice President of the Chase or any place like that.

B: All right.

H.M.Jr: I mean, -- if he wanted to go and see three or four people. But what I'm interested in is if I'm an importer or exporter in New York and was doing business with England how does this free pound affect me, you see?

B: Um-hm. I get it.

H.M.Jr: Dan?

B: Yeah.

H.M.Jr: That's the best answer.

B: We'll get something on that.

H.M.Jr: Yeah. Now, on the revenue stuff does Sullivan want to talk to me about that?

B: Yes. Just a moment.

Sullivan: Yes, Mr. Secretary.

H.M.Jr: John, you're all right on this going out. I don't know why -- the operator said that they tried to get you and couldn't get you, but after all to be out of touch for a half an hour or an hour is nothing.

S: I -- well, as a matter of fact the nurse at the house told them that I had gone down to the train and would be back not later than half past four. I got back about twenty minutes past four.

H.M.Jr: Well, undoubtedly Feis must have been very unreasonable.

S: Well, it -- it didn't make sense to me at the time, and my conversation with Mr. Cairns gave me the impression that Feis felt that if we delayed this thing it might give him something to hang his hat on to get us to change our position later on.

H.M.Jr: I see.

S: It -- I was absolutely cold on it, not familiar with it, but I got a distinct impression that he was jockeying and maneuvering for a position.

H.M.Jr: Well, he's good at that.

S: The total revenue collections through Saturday noon for the -- for the month of March was 659 million.

H.M.Jr: 659.

S: That's right.

H.M.Jr: And how much did we expect to take in?

S: Well, we got 427 last year.

H.M.Jr: Yeah, but what were our estimates for this year?

S: Our estimate 560.

H.M.Jr: How much?

S: 560.

H.M.Jr: And we took in?

S: 659. 109 more than the estimate.

H.M.Jr: Very nice.

S: Yeah.

H.M.Jr: Now, you're having an analysis today?

S: Hello?

H.M.Jr: You're going to have an analysis of those receipts?

S: Yeah, I think they will be in tomorrow.

H.M.Jr: Tomorrow.

S: Do you want me to phone them to you?

H.M.Jr: Well, I'll call up again about this time tomorrow.

S: All right, sir. I'll have them ready for you.

H.M.Jr: Is Haas working on those?

S: They haven't yet gotten here, sir.

H.M.Jr: Oh.

S: They were wired -- they are in the process of being wired in today.

H.M.Jr: Oh, I see. Then I -- I -- when I call up tomorrow I can talk.

S: Yes, sir. We'll have that all ready for you.

H.M.Jr: O. K.

S: How's the weather?

H.M.Jr: Beautiful today.

S: Good. Henry Mann is coming down today.

H.M.Jr: Who?

S: Henry Mann.

H.M.Jr: Who is he?

S: Brown Harriman.

H.M.Jr: I don't know him.

S: Well, he's an International Bank fellow, a former friend and associate or supporter of Hitler and Goering and that crowd.

H.M.Jr: Oh.

S: And according to your friend Stettinius is the best of the bunch. Absolutely in on the inside.

H.M.Jr: Really.

S: He's going to have lunch with me.

H.M.Jr: Good.

S: I might pride myself on this free pound business and get his reaction if you want. Shall I?

H.M.Jr: Sure.

S: Righto. Righto.

H.M.Jr: Now can I talk to Cochran, please?

S: Yes, sir.

(Mr. Cochran takes the phone.)

Merle Cochran: Hello, Mr. Secretary.

H.M.Jr: Hello, Merle.

C: You remember on Saturday you told me that you preferred that any inquiries on the free pound be kept between us and the British Embassy.

H.M.Jr: Yeah.

C: Well, at a quarter to one Saturday morning Opie, the Financial Attache who is replacing Pinsent temporarily, phoned me that he had a message for you from the Chancellor of the Exchequer.....

H.M.Jr: Yeah.

C: ....on sterling. Asked if I was getting it soon. I told him just -- at the earliest possible hour so he brought it by at six o'clock Saturday night and when he phoned me he said that if we had any other questions he'd be glad to discuss them with us and take them up with London if necessary.

H.M.Jr: Yeah.

C: So after having that message I called the State Department and Livesey and Feis had both gone but Miss Davis, the secretary, told me that that cable, of which I quoted a draft to you,.....

H.M.Jr: And which I read.

C: ......yes, had not gone out, so I told her to hold it up.

H.M.Jr: Yeah.

C: So that's the way it stands now. I have this message, which is rather a good explanation and I think we ought to show it to the State Department eventually. And I think we could take any questions that we have to Opie rather than let him come in here.

H.M.Jr: Yeah.

C: And Glasser, in Harry's absence, told me this morning that he was compiling a list of questions.

H.M.Jr: Yeah.

C: So I don't think you want me to read this to you now, but if you do it's.......

H.M.Jr: How long is it?

C: It's a little over a page.

H.M.Jr: Yeah, I'd like to hear it.

C: All right. It's -- this is it:

"The following is the substance of a telegram......

H.M.Jr: A little louder.

C: "The following is the substance of a telegram received today expressing the views of His Majesty's Government on the reasons for and the significance of the fall in the dollar sterling rate in the free market in New York and on the criticism which that fall has invoked. The only practicable correctives that could be undertaken to prevent the fall in the rate are: one, direct intervention in support of the rate, thus providing an official demand for sterling on which the market could rely; and two, measures designed to limit the supply of sterling by immobilizing sterling held by neutrals. Action of the first kind would be to give away with our left hand reserves of foreign exchange which we are trying to conserve with our right. The second course would not only prejudice the International status of sterling as a currency, but it would also seriously penalize willing holders of sterling for the sake of preventing a withdrawal of balances now in foreign hands. There is no sign at present of any mass withdrawals and the volume of sales in the free market accounts for only a small fraction of the total transactions in sterling.

"The fall in sterling is mainly due to our present measures of export control which have the effect of reducing the demand for free sterling and of increasing the proportion of our exports which can be used to pay for imports. The effect of lowering the rate is natural and was expected. What we have done is to strengthen our exchange control and it would be a travesty to say that by so doing we are deliberately depreciating our currency. On the contrary, weakness in sterling due to the erratic market abroad is the natural corollary of an efficient control over exchange transactions and it must be expected that despite the effects upon the rate for free sterling we shall continue to strengthen and extend our control in this and other ways. Criticism which asserts that the fall in the rate is damaging to our prestige is due to the failure to appreciate that the market and the rate are dominated by the official transactions and that the free markets deal only with a small overflow which we are concerned to diminish but not to manage.

"The relative unimportance of the movements in the free sterling rate is demonstrated by the advance of the quotations from the low point of 344 to 360 while this telegram was being drafted. The thinner the market the larger the fluctuations are likely to be."

That is dated March 30th.

H.M.Jr: Well, I still am of a suspicious nature and I still want to make the inquiries in New York that I suggested making.

C: Right.

H.M.Jr: And I'd like Mr. Bell, when he goes over to Mr. Hull, to give him a copy of this telegram this morning.

C: Yes, sir.

H.M.Jr: And also I'd like Mr. Bell to send over a copy of that message to the President.

C: That is a copy of that message to......

H.M.Jr: I want a copy of the message you just read me, one copy to the President and one to Mr. Hull.

C: Right.

H.M.Jr: This morning.

C: Yes, sir.

H.M.Jr: But I'm still suspicious.

C: All right.

H.M.Jr: And until my suspicions are proved incorrect why I want to keep looking into it.

C: All right, and I shan't make any appointment with Opie for any further discussion?

H.M.Jr: Well, I tell you what, if Glasser is working on some questions, let him put them in the pouch and send them down to me.

C: Down to you, all right.

H.M.Jr: He ought to be able to get out something by tonight and let him send them down.

C: All right.

H.M.Jr: I'd like to look at them because I'm interested in this myself. It may be -- it may be that they're sincere but it's my job to -- to see whether they are or whether they are not.

C: Surely. Well then we'll give this to the President and the Secretary this morning; send you the questions that Glasser draws up, and then hold up anything until we -- until you hear from the business concerns.

H.M.Jr: Well, I'll know by tonight what Randolph Burgess tells me or whatever Archie Lochhead could find out in a day or so, we'd know what the effect is on the New York importer and exporter.

C: Yes, sir.

H.M.Jr: How serious it is.

C: Yes, sir.

H.M.Jr: Burgess told me that he had heard considerable complaints from the textile people.

C: I see.

H.M.Jr: On this -- along this line.

C: Yes.

H.M.Jr: But you have to go into it further. And -- anything else?

C: No, sir. Sterling is a little stronger this morning at Amsterdam, but there's nothing else here.

H.M.Jr: O. K.

C: All right, sir. Here's Dan. Do you want to speak.....

H.M.Jr: If you please.

Bell: Do you say you wanted Sullivan and me?

H.M.Jr: No, just Bell -- whether there's anything else on your mind.

B: No, except this - you are going to call tomorrow morning?

H.M.Jr: Yes.

B: I'm due at Jones' committee at ten o'clock, I think.

H.M.Jr: Yes.

B: So we'd have to leave here about a quarter of ten.

H.M.Jr: Well, I'll call about a quarter past nine then.

B: That'll be fine.

H.M.Jr: I'll call about nine fifteen.

B: All right. We'll let you know what comes out of this conference, with Secretary Hull.

H.M.Jr: Well, let me -- if you're successful -- hello?

B: Yes.

H.M.Jr: And the thing is going out, don't bother to call me back.

B: All right.

H.M.Jr: But if you are in any difficulty call me. How's that?

B: I will.

H.M.Jr: And don't you agree with me that we ought to challenge, make sure that what the English are doing is not to our disadvantage?

B: Well, I think we ought to find out what's behind it. I think we might find out that what they're doing is to our disadvantage, but whether we should take any action would be another question.

H.M.Jr: Well, it's a question of how much to our disadvantage.

B: That's right. After all we -- we do have a war over there and some of these things can't be controlled.

H.M.Jr: Well.....

B: But I think we ought to look into it. I agree with you.

H.M.Jr: I think so.

B: All right.

H.M.Jr: Anything else?

B: That's all.

H.M.Jr: Thank you.

B: Goodbye.

Aircraft Production Under the Army Air Expansion Program

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Chief of The Air Corps

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STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

In my memorandum dated March 29 I gave the draft of a message which the Department of State contemplated cabling to the American Embassy in London in regard to free sterling.

When the Secretary telephoned me on Saturday morning, March 30, he had not yet read my memorandum which had just arrived. The Secretary indicated, however, his interest in keeping the discussion of the sterling dollar rate within the Treasury's control, preferably through conversations with the British Financial Attache in Washington. He said he would read my memorandum and instruct me further on Monday morning.

At 12:50 Saturday noon Mr. Opie, who is substituting for Mr. Pinsent as Financial Attache in the British Embassy, telephoned me that the Embassy had just received a cablegram from the Chancellor of the Exchequer conveying to Secretary Morgenthau an explanation of the decline in free sterling. In response to Mr. Opie's inquiry, I stated that the matter had naturally attracted our attention, and that I should be glad to receive the message as soon as possible. It was agreed, therefore, that Mr. Opie would prepare a memorandum based on the cablegram and would deliver it to me at my residence at 6:15 on Saturday evening. Mr. Opie told me that if after reading the cablegram we had any further questions in the premises, he would be glad to discuss them with us and to cable London for further instructions if necessary. When Mr. Opie delivered the message to me at 6:15 he renewed this offer.

At 9:45 this morning I read to the Secretary over the telephone the memorandum as received from Mr. Opie. In accordance with the Secretary's instructions I gave copies of the memorandum to Under Secretary Bell, one of such copies to be sent to the President and the other to be delivered to the Secretary of State by Mr. Bell, upon whom the latter was to call at about 11 o'clock this morning. I also gave a copy to Mr. Cairns and one copy to Mr. Glasser.

Earlier this morning Mr. Glasser had informed me of Dr. White's desire to draw up a list of questions in regard to sterling for cabling to our Embassy in London. After talking with the Secretary, I gave Mr. Glasser a copy of the British message and told him to prepare for sending to Secretary Morgenthau this afternoon such questions as he has in mind. I read to him the cablegram drafted in the State Department.

I have now telephoned Mr. Livesey, with whom I had several discussions last week in regard to sterling, and who had provided me with the copy of the cablegram drafted by the Department of State. I explained to Mr. Livesey the receipt of the telephone message from Mr. Opie shortly before 1 o'clock on Saturday morning. I added that upon failing to get communication with Mr. Livesey at 1 o'clock, I asked Miss Davis of his office to ascertain whether the cablegram had actually left the State Department. When Miss Davis informed me that the message had not been signed, I asked her to hold it up until Monday, promising that I would telephone Mr. Livesey to explain my action on Monday morning.

When I spoke with Mr. Livesey this morning, I explained in detail what had happened on Saturday. I told him that Under Secretary Bell had gone to see Secretary Hull this morning and planned to deliver to him a copy of the memorandum from the British. I suggested that Mr. Livesey see this memorandum. If the State Department then had any further points which they desired cleared up with respect to the British exchange rate, he should pass them on to me, today if possible, and I would have them put together with such questions as we may draw up here. This idea seemed entirely acceptable to Mr. Livesey.

H. W. S.

(Draft of cablegram quoted in Mr. Cochran's memorandum of March 29 which was prepared at the Department of State but not sent)

To: American Embassy, London

Your 763, March 28.

For the information of this Department your comment on the following is requested:

(1) The Department has received conflicting information from competent sources that (a) 85% of our imports from England have been settled in free sterling and (b) 80% have been settled at the official rate.

(2) In view of the continued discount on free sterling since the beginning of exchange control it is difficult to understand why a large part of our imports should be paid for in dollars or sterling acquired at the official rate.

(3) It has been suggested to the Department that prior to the order of March 9 (your 594 of that date) British banks were voluntarily discouraging the invoicing of exports from England in sterling and encouraging their invoicing in dollars.

If (3) is correct, do you expect the continuance of the practice?

DOW JONES TICKER
April 1, 1940

Secretary Hull says effect of sterling fluctuations being studied.

Washn. - Secretary of State Hull in reply to a question told his press conference today that the State Department is studying the recent declines in pound sterling quotations with a view to determining whether they will affect the trading position of the United States under the reciprocal trade agreement with the United Kingdom.

Pointing out that since the outbreak of war exports to the United Kingdom have increased far more rapidly than imports, Mr. Hull declared that no material injury has occurred so far as a result of exchange fluctuations.

The Secretary of State added that when there are so many abnormal factors in the commercial and financial situation as a result of warfare the rules that might apply definitely and uniformly from time to time are neutralized - that is what has occurred so far, Mr. Hull said.

Secretary Hull also declared that he assumed that the question of exchange fluctuation had been taken up in some form or other during conversations between officials of the State Department and representatives of the British and French Ministries of Economic Warfare who are in this country discussing problems arising from allied blockade measures.

Time: 12:47 p.m.

REB

PLAIN

London

Dated April 1, 1940

Rec'd 3:23 p. m.

Secretary of State,

Washington.

815, April 1, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

The British financial year which closed yesterday was one during which the budget was twice revised after its original announcement in April 1939. It was also the third year of the five year rearmament program inaugurated in April 1937 when the principle of meeting a part of the armament expenditure from borrowed funds was established, the outbreak of war occurred two years and five months after the launching of the five year rearmament program and the financial year just ended included seven months during which Great Britain was at war.

The year showed an ordinary deficit of £276 million after the payment of £7 million to sinking funds. In addition £492 million was spent from funds borrowed under the Defence Loans acts making a total deficit of £767.7 million, which was less by £170.4 million than the £938.1 million estimated in the war budget owing to revenue income of £54 million in excess of estimates and expenditure less

than

REB -2-#315, From London, April 1, 7 p. m.

than the estimates by £116 million.

The total expenditure, including £492 million borrowed under the Defence Loans acts was £1,817 million and the total revenue £1,049 million. The buoyancy of the revenue was due chiefly to customs which were £22-1/2 million above estimates, excise which was £5 million above, automobile taxes £16 million above and miscellaneous receipts. Direct taxation returns were very close to those estimated in the war budget.

On the expenditure side supply services accounted for £115 million less than the war budget estimates (including expenditure of funds borrowed under the Defence Loans acts) while the debt charges plus the payments into sinking funds equalled the £230 million estimated in the war budget. There is however a blackout in the expenditure figures, no details being given under the lump sum for the supply services and here there are many conjectures, such as the relative amounts spent for the different fighting services and for social services and civil air raid defence or how far these Ministries of Supply and Food have made purchases for which sums will eventually be received back in the future or how far under varying arrangements the traders concerned are financing stocks.

As will be recalled total expenditure was estimated

in

REB -3-#815, From London, April 1, 7 p. m.

in the original budget for the year at £1,323 million of which £380 million was to be borrowed. By the time the Finance Bill was passed this estimate had been raised to £1,453 million of which £511 million was to be borrowed and on September 27 the war budget announced a probable expenditure of £1,933 million or more of which £938 million or more was to be met by borrowings under the Defence Loans acts.

This seven months of Indian summer of British war finance, referred to in my No. 2068 of October 17, 6 p. m., was in part caused by the fact that the Treasury bill holdings of the banks and the money market were unusually low at the outbreak of war because of the exchange equalization account's heavy operations but it is drawing to an end and a chilly autumn and a cold winter lie ahead. The total floating debt now stands at £1,489 million compared with £1,167 million at the outbreak of war, the tender issue of Treasury bills having increased from £500 million to £737 million. The balance of expenditure over revenue has been met by this £322 million increase in the floating debt and by the £120 million raised from the sale of the new national savings certificates and baby defence bonds, while the £300 million first war loan has so far yielded in cash £99 million, the balance being payable

before

REB -4-#615, from London, April 1, 7 p. m.

before April 15, 1940. The City is perplexed by the later failures because 10 percent only was payable on subscription with A 1 percent premium for earlier total payments. Since this 1 percent is too low an inducement to large subscribers many are wondering whether the difference between the £38 million required payment on subscription and the £89 million paid represents small investors who have availed themselves of the premium and how far it represents the taking up of the loan by Government departments which may or may not have paid in full for their allotments.

For the first 5 months of the fiscal year, which was a period of peace but of accelerating rearmament, total expenditure averaged L23.6 million per week. Thereafter the figures tended to rise rapidly reaching nearly L50 million per week by the end of March. The present level may well be expected to increase from now on at an unpredictable rate, especially if military operations become more intensified.

Even at the present rate of expenditure next year's budget would run to £2,300 million. When this figure is set against the revenues for the past year of just under £1,050 million the magnitude of the problem of allotting expenditure between taxation and borrowing is manifest.

However

REB -5-#815, from London, April 1, 7 p. m.

However whether raised by taxation or borrowing the problem confronting the Chancellor of the Exchequer lies outside the budget as such. It is a problem of the control of consumption if considerable inflation is to be avoided. It seems clear that even at the present rate of Government expenditure no margin is left for increased private consumption and that the maintenance of the present rate consumption is already leading to a reduction in stocks of commodities and foreign reserves. As the needs of the Government increase there will be at the same time an increase in the purchasing power of that portion of the public which accounts for two-thirds of total consumption, this expansion arising from wage increases and longer working hours as well as the absorption of the unemployed and many not previously employed. As the Chancellor of the Exchequer has himself demonstrated, the reduction of consumption of the rich to nil would not provide sufficient taxation for meeting the costs of war so that some means must be found for curtailing the consumption of the wage earner at a time when he is coming into more money and must have a natural inclination to spend it.

The fact that the savings campaign has yielded £120 million in 18 weeks is regarded on the one hand as more

satisfactory

REB -6-#815, From London, April 1, 7 p. m.

satisfactory than expected (in so far as the figure represents real new savings and the proportion is not known, but on the other hand even this apparently satisfactory result by no means indicates that voluntary savings can be expected to prove an adequate check to consumption in the new fiscal year. This has been convincingly demonstrated by Keynes and is admitted by many, including even those who do not favor his scheme.

This is the basic problem that faces the Chancellor of the Exchequer in framing his budget for April 23. Although it has been largely academic during this period of Indian summer it will mature during the present fiscal year. It is a manageable problem whether dealt with in a comprehensive way along the general lines suggested by Keynes or through a controlled (repeat controlled) inflation but in either contingency there must be management and management with a clear idea of the imperatives. In either case the difficulties political and otherwise will be great.

Whether Simon will grasp the nettle on April 23 and if he does how he will deal with it is hard to say. One of the characteristics of the present Government which has remained constant during the past few years despite Cabinet changes is that in most matters it never acts until it is forced to and often by then the situation has been made

more

REB -7-#815, From London, April 1, 7 p. m.

more difficult through delay. It is only fair to add that the British officials concerned seem confident of their ability to cope with the problem.

KENNEDY

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 1, 1940, 5 p.m.

NO.: 417

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

This morning I called on Couve Murville. He mentioned the behavior of the franc and sterling on the free market, and expressed the belief that for the time being the two currencies had probably gone as low as they would. Reference, telegram of March 21, No. 375, from the Embassy: Couve reiterated that in their recent measures the British had "acted far too brusquely". He said that for France to see the franc dragged down with the pound was "very annoying" since there was no cause for weakness of the franc itself, and particularly since nothing could be done about it by the French authorities. I got the impression that the "annoyance" of the French has been expressed to the British. I asked Couve what in his view could be done or should be done by the British under the circumstances. He simply shrugged his shoulders and said there was nothing that he could see, that furthermore he didn't think the British had any intention of doing anything at present. He did not think the British should take any step to block foreign balances, and did not believe they would do so, as it would mean the end of the City with all its ramifications as banking center of the world. He understood that one day of the past week the volume had reached about 700,000 pounds on the free market in New York.

I asked whether they had as yet had results from the circular instructing all departments and bureaus of the French Government to invoice in dollars American exports to France - reference, telegram of March 21, No. 375 from the Embassy. He answered that they would have to get results from it because otherwise no important authorizations would be granted. I said that for example I had heard of a deal which was pending for the export from the United States by the Sinclair Oil Company of some two million dollars of petroleum products, and that importers were insisting that sterling be accepted in payment therefor. He told me that he wished we would tell the representatives of the American exporters in this and any other case that came to our attention to have the French Government department or the importer with which they are dealing to make inquiries at the Movement General des Fonds, that we would be doing them a favor. He supposed that importers in France still were of the opinion that it would be easier for them to get permits to import from the United States if invoices were in francs or in sterling, particularly since imports were naturally being restricted. Note: Another case that I have heard of is that of an important purchase of trucks in the United States, where originally the importing agency asked that 40 percent of the payment be accepted in francs

but

but the contract calling for entire payment in dollars has been closed within the past few days.

Payments for war purchases by France in the United States he said are going on at about the same rate as before, that is, a monthly equivalent of roughly 2,500,000,000. He said that exports to the United States for the month of February were a little better than they were for the year 1939. He told me there was an increase, both actually and proportionately, in French purchases in the British Empire and sterling countries, which purchases now amount to about one-third of all French purchases abroad - as compared with 1937 and 1938 when they amounted to roughly ? 90 percent.

Couve said he was pleased with the mounting figure of subscriptions to armament bonds, which just now is at the rate of 10,000,000,000 francs a month as against a figure for December of between eight and nine billion.

He said that price levels in France have during the past few weeks not gone up,-mainly because the indices for foodstuffs and agricultural products are not seasonally weighted and France has suffered a particularly severe winter. Reference, telegram of March 20, No. 366 from the Embassy: Couve confirmed the accuracy of the ECONOMIST estimate that in France the cost of living has gone up

about

about 7 percent since the outbreak of the war. On the other hand he thinks that British prices are continuing to go up, wage rates in particular, which he regretted. At the present time he said that there was no serious pressure for increases in wage rate in France, but he admitted that this was in the main due to overtime hours in the armament and related industries - reference, telegram of March 13, No. 335 from the Embassy reporting the remarks of Ardant.

The census for ration cards is to be taken tomorrow, he said, but he thinks it will be July before the cards themselves are issued. He considers it regrettable that there should be delay in even these preliminary measures.

END SECTIONS ONE TO SEVEN, INCLUSIVE.

MURPHY.

EA:LWW

JT

GRAY

PARIS

Dated April 1, 1940

Rec'd 4:31 p.m.

Secretary of State,

Washington.

417, April 1, 5 p.m. (SECTION EIGHT)

A decree appearing in yesterday's Journal Officiel provides for the establishment of an inter-ministerial economic committee the purpose of which is to "centralize and coordinate" all questions relating to the conduct of economic war. Chautemps, Vice President of the Council of Ministers, will act as chairman of the committee and Finance Minister Lamoureux will be its vice chairman. The other members are the Ministers of the Interior, Agriculture, Commerce and Industry, Public Works, Supplies and Merchant Marine and the Under Secretary of State for National Economy.

MURPHY

EMB

JT

GRAY
PARIS
Dated April 1, 1940
Rec'd 5:55 p.m.

Secretary of State,
Washington.

417, April 1, 5 p.m. (SECTION NINE)
Reynaud's "war cabinet" of nine and this inter-ministerial economic committee are to have a joint secretariat "which will collaborate in the preparation and execution of their decisions and effect all necessary studies and inquiries". Paul Baudoin, who in a separate decree is appointed Under Secretary of State for the Presidency of the Council and Secretary of the War Cabinet, will act as head of the joint secretariat He will also attend the meetings of the inter-ministerial economic committee and the "war cabinet".

MURPHY

EMB

REB

GRAY

Paris

Dated April 1, 1940

Rec'd 6:10 p. m.

Secretary of State,

Washington.

417, April 1, 5 p. m. (SECTION TEN)

Monsieur Baudoin, General Manager of the Bank of Indo-China, will be recalled as a member of the committee set up on March 5, 1937 under the Blum and Auriol government to manage the exchange equalization fund (Mr. Cochran's telegram No. 312, March 5, 4 p. m.) who later resigned with Rist because of disagreement with the Government's policies (Mr. Cochran's telegram No. 844, June 23, 4 p. m. and enclosure No. 3 to despatch No. 751, June 22, 1937). His appointment has been enthusiastically received in business and financial circles.

The decree also provides that the Secretary General of the Committee on Allied programs and purchases, Roger Auboin of the B. I. S. (my telegram No. 2818, November 24, 6 p. m.) is to be directly attached to the Mouvement General des Fonds of the Ministry of Finance.

MURPHY

EMB

REB

GRAY

Paris

Dated April 1, 1940

Rec'd 5:35 p. m.

Secretary of State,

Washington.

417, April 1, 5 p. m. (SECTION ELEVEN)

Another decree appearing in yesterday's **Journal officiel** "confirms" the designation by the British and French Governments of Jean Monnet as chairman of the Franco-British coordination committee (my telegram No. 2839, November 27, 7 p. m.).

The month end liquidation on the securities market passed off easily and the tone of the market was firm. The carry over rates were 1-1/2% as against 3/4% on March 15 and 4-1/2% as against 4% at the end of February on the outside market. Rentes were up from 20 centimes to francs 1.55. Official exchange rates continue unchanged.

(END OF MESSAGE)

MURPHY

EMB

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

On Saturday morning Mr. Knoke telephoned me in regard to the matter of gold for Afghanistan, which we had discussed earlier in the week. In order that I might have a better understanding of the situation, Mr. Knoke read to me the pertinent documents which he had. From these it appeared that on January 17, 1940, the National City Bank received from the Banke Millie Afghan, the following cablegram:

"We intend buying and depositing gold bars 55,000 ounces for account of Afghanistan Government with you. Cable your opinion and important export and Treasury regulations."

To this the City Bank replied:

"Your January 17. Necessary you approach State Department Washington through your Government's diplomatic representative."

(The National City explained further, although Knoke did not have the exact words, that it could not earmark gold for Afghanistan account, but that this would have to be done with the Federal Reserve Bank of New York.)

On March 26 the National City received the following reply:

"Regarding gold. Afghanistan Government have obtained permission from the United States Government. Please approach Federal Reserve Board. Cable result and price per ounce troy and also if it can be deposited and exported."

Knoke read to me the following draft which he desired to suggest to the National City Bank as a reply:

"Your cable of March 26 re Afghanistan Government gold. We have approached Federal Reserve Bank of New York which after consultation with Washington informs us that no request for gold has as yet been received from the Afghanistan Government. Federal Reserve Bank of New York suggests that question of earmark of gold in this country for the account of the Afghanistan Government be taken up with it by you directly or by your Government's diplomatic representative in Washington through the State Department."

Since Mr. Knoke and I could not agree upon a text, it was arranged that I should send him a draft of a message which I suggested, and he should mail me the above quoted draft, with such revisions as he might see fit to make in the light of our conversation.

At 1 o'clock I mailed to Mr. Knoke the following draft:

"Your March 26 regarding gold. Federal Reserve Bank of New York is informed by Treasury Department that no specific request for gold has been received by it. In accordance with advice given by the Treasury Department through the Afghanistan Legation at Paris, application should be made by you directly to the Federal Reserve Bank at New York."

This morning I received from Knoke his draft, reading as follows:

"Your cable of the 26th re Afghanistan Government gold STOP We have approached Federal Reserve Bank of New York which after consultation with Washington understands that Afghanistan Legation in Paris in reply to its inquiry was informed by the American Embassy in Paris in February that application for necessary license to acquire gold should be addressed to Federal Reserve Bank of New York as fiscal agent of the United States in such matters STOP Federal Reserve Bank of New York also understands from Washington that no such application has since been received from the Afghanistan Government STOP The Treasury's current sale price for gold is \$35 per fine troy ounce plus 1/4 per cent. STOP Federal Reserve Bank of New York suggests that question of earmark of gold in this country for account of the Afghanistan Government be taken up with it by you directly or by your Government's diplomatic representative in Washington through the State Department STOP."

When I telephoned Mr. Knoke at 11 o'clock this morning he told me that he felt my draft of the cablegram acceptable, providing I agreed to minor changes which made the message read as follows:

"Your March 26 regarding Afghanistan Government gold. Federal Reserve Bank of New York is informed by Treasury Department that no specific request for gold has been received by it. In accordance with advice given by the Treasury Department through the Afghanistan Legation at Paris in February, application should be made by you directly to the Federal Reserve Bank at New York as fiscal agent."

In agreeing to Mr. Knoke's amendments to my suggested draft, I told him that I had taken pains to get further background this morning. I told him that I had spoken again with Mr. Wallace Murray of the State Department. The latter confirmed that the Turkish Embassy in Washington represented the interests here of Afghanistan in the absence of any diplomatic official of the latter country. In answer to my question as to whether the Turkish Ambassador would be competent to certify to the signature of an official of the Bank of Afghanistan or to perform any acts in connection with the purchase of gold desired by Afghanistan, Mr. Murray told me that as far as he was aware the duties of the Turkish Embassy performed in behalf of Afghanistan were limited to protection matters. He offered to make inquiry of the Turkish Embassy in regard to its competence in the matter under reference if we desired. I thanked Mr. Murray, but asked him to refrain from such inquiry for the present, it being my hope that we could arrange the matter directly between the Bank of Afghanistan and the Federal Reserve Bank of New York.

It has been my position throughout the conversations had with Mr. Knoke, that the matter be resolved between the two banks, with the required approval of the Federal Reserve Board, rather than attempt to draw in the Turkish Embassy on this matter of finance, with which it would undoubtedly be unfamiliar. I thought this would only confuse the case and would not provide the Federal Reserve with any information or protection which could not be obtained through direct contact and business with the Bank of Afghanistan.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Leroy-Beaulieu, French Financial Attache, telephoned from New York at 12 noon on Saturday, March 30. He mentioned the two stories which appeared that morning in the New York Journal of Commerce and inquired whether it was true that our Customs authorities had been instructed to begin assessing duties on British goods at the official rate for sterling. I told him that, as he was probably aware, the Federal Reserve Bank of New York had last week begun to certify to rates, one official and the other unofficial, for sterling, but I added, after confirming by telephone with Mr. Cairns, that the Treasury had issued no instructions to Collectors of Customs in regard to the rate which should be used. I added that this question was under consideration.

Mr. Leroy-Beaulieu assumed that we would take action on the French franc similar to whatever we might decide on the pound sterling, he pointing out that there are both an official and an unofficial rate for the franc.

At Mr. Leroy-Beaulieu's request, I agreed to receive him on Monday, April 1.

H. M. C.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

I lunched yesterday at the French Embassy upon the invitation of the Ambassador. The guest of honor was Professor Rist. The other guests included Messrs. Feis, Pasvolsky, Alsop, Leroy-Beaulieu and two officers of the Embassy staff. As I was leaving the Embassy, the Ambassador asked if I would do what I could to arrange for the Secretary to see Professor Rist before the latter's contemplated departure from the United States.

Leroy-Beaulieu called on me at 5 o'clock yesterday evening by appointment. He told me that the Ambassador had earlier asked him to make the same request of me that the Ambassador had found opportunity to make personally when I was at the Embassy. That is, to get a private interview with Secretary Morgenthau for Professor Rist, and possibly also for Ashton-Gwatkin, before these two gentlemen left the United States. Leroy-Beaulieu said that Professor Rist had departed for Ottawa by plane yesterday afternoon and would be back in Washington Friday night. He plans to depart for Europe by plane on Wednesday, April 10.

Leroy-Beaulieu had been shown by Mr. Opie of the British Embassy a copy of the memorandum which the latter had delivered to me on Saturday in regard to free sterling. Leroy-Beaulieu has asked that I let him know whenever the Treasury may take action with respect to imposing duties on British goods, in the light of the certification of two rates for sterling by the Federal Reserve Bank of New York. Leroy-Beaulieu's interest naturally arises from the belief that we will subsequently take action with respect to the franc similar to that to be carried out in regard to sterling.

During Leroy-Beaulieu's visit I took a little time to explain the Treasury's attitude toward Messrs. Rist and Ashton-Gwatkin. I emphasized the success which Secretary Morgenthau had achieved in not complicating his own task through getting involved in the conversations held in Washington with the two visitors. Leroy-Beaulieu was thoroughly appreciative of this, and told me of the message which had been received by Purvis yesterday expressing the warmest thanks of the Allies for the Secretary's great help on the airplane program.

H. M. C.

April 2, 1940.
9:49 a.m.

The Secretary called in from Sea Island, Georgia, and requested that we turn the recording machine on so that he could dictate the following onto a record:

Mr. Purvis called me yesterday at two o'clock to tell me that the English-French Governments wanted to thank me for all that I had done to help them in getting the releases of the latest model planes. He also told me that he had been notified that the Supreme War Council had decided to go ahead with the purchase of the planes.

He said that the question of publicity would come up in regard to this move and could they see the -- whatever statement we proposed to make. I said that if he didn't mind my saying so I thought it would be rather silly to give out any publicity because everybody in this country took it for granted that the Allies had decided sometime ago to go ahead with these purchases.

He said that in view of recent developments in fighting during the last three or four weeks they have gained certain experiences which would make them want to change somewhat the kind of planes they expected to buy. He said that the Allies would notify him within a few days what these changes were. He also informed me that the final authority as to the purchase of the planes was left entirely to him and that he didn't have to consult either the English or French Treasuries as heretofore. He said that the French were going to go ahead at once and exercise their option with Pratt & Whitney to buy 4,050 planes.

He said that they were exercising their option with Consolidated Boat to make another 20 planes. He also said they were going to give Curtiss Wright $750,000 to go ahead with the expansion program.

I got the President at six o'clock and told him approximately what Purvis had told me. I told him I felt right along that the Allies were stalling on their purchases and I would not be convinced that they were really going to go ahead and fight until they placed this order for planes and the President agreed with me that it was good news that they were going to go ahead.

I also spoke briefly to the President about our wanting to announce that 4.04 was the official rate for sterling but that the State Department was objecting and I hoped that he would give us a clearance. He said that,quite frankly, he was scared to death to raise any question at this time that might be injurious to the passage of the Trade Treaty Bill. I said that the State Department had told us that he and Mr. Hull had some deal on with England in regard to selling them agricultural commodities and that was the reason why they (State Dept.) wanted us to hold it up. The President said he never heard of it. He said he would read the notes that we sent over and I asked him would he please see Hull and Bell and he said he would.

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

April 2, 1940

My dear Mr. Secretary:

There is attached hereto a memorandum concerning my conversations with Mr. Purvis yesterday which were along the lines discussed by him with you. (filed 4-1-40)

There is also attached hereto memorandum concerning the visit of the Minister from Iran (not Iraq as reported in my letter to you of yesterday) which is self-explanatory.

This morning I had a meeting with Colonel MacMorland of the Clearance Committee, Army Navy Munitions Board, and Major Lyons of the Army Air Corps concerning the policy to be followed with reference to release of restricted items. This meeting lasted until after 1 o'clock.

I have just finished a meeting with Admiral Towers and have gone over with him the information left with me by the Army representatives.* Time will not permit the preparation of a memorandum for inclusion in the pouch tonight on this, but I will forward one tomorrow giving complete information. Briefly, it appears to me that the War Department procedure is a bit cumbersome. However, it will be necessary for the Aeronautical Board to change existing procedure with the approval of the Secretary of War and the Secretary of Navy which it is anticipated will be done this week. These changes may have the effect of speeding up the procedure outlined by the War Department which, after all, is an intra-departmental one and one for administrative determination only by the Secretary of War.

I am very sorry that it is impossible to give you the complete story tonight, but today has been a most hectic one and I am rushing this note to you in time to catch the pouch.

With kindest personal regards,

Sincerely yours,

Harry E. Collins

Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury

* Admiral Towers agreed.

OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 2, 1940

MEMORANDUM

Mohammed Schayesteh, Minister of Iran, called upon Captain Collins this morning concerning a desire on the part of his government to procure some mines and airplanes.

He stated that a military mission charged with the procurement of munitions is at present in Europe and that he had been requested by cable to get such information as he could concerning the possibility of acquiring certain mines.

He stated further that there is in this country an aviation mission and that he had been asked to call upon me to learn what could be done concerning deliveries and prices of airplanes. He was very vague as to numbers and types except that they felt that they only wanted to buy a few of each kind for test purposes in Iran.

The procedure necessary to be followed by all foreign governments in the procurement of any planes and munitions was explained in detail. He stated that he would have prepared as soon as possible a formal request to be submitted to the Liaison Committee covering their requirements of the items in which he was interested.

H. Collins

April 2, 1940.
5:21 p.m.

Operator: Go ahead.

Bell: Hello.

H.M.Jr: Hello, Dan.

Bell: I am sorry to have to bother you, but a matter has come up which I thought you should know about.

H.M.Jr: Right.

Bell: Harry Durning, Collector in New York, has allowed his name to go on the ballot for a delegate to the Convention.

H.M.Jr: Yes.

Bell: And his opponent has raised the question as to whether he hasn't violated the Hatch Act.

H.M.Jr: Yes.

Bell: We think that he possibly has and he should submit his resignation. I'd like to have you talk to Ed about it.

H.M.Jr: O. K.

Bell: We've been sitting here talking about it for a half hour.

(Aside to Foley) You got the phone?

H.M.Jr: All right, where's my other politician?

Bell: Uh - well, Sullivan and Basil Harris and Huntington Cairns and Foley and myself are all here. Want any more politicians?

H.M.Jr: Just a bunch of Tammany Hall fellows.

Bell: Yes. (Laughter) All right, Ed's getting on the phone.

H.M.Jr: Got the loudspeaker?

Bell: Yes.

H.M.Jr: Well --

Ed Foley: Hello, Mr. Secretary.

H.M.Jr: Am I on the air?

F: You're on the air now.

H.M.Jr: My golly!

F: (Laughs)

Bell: There's sure a roundhouse gang here.

F: I don't think there's any question at all about the application of the Hatch Act to the Collectors in the field -- all of them.

H.M.Jr: Yes.

F: And I don't think we're going to get any argument from Harry Durning.

H.M.Jr: Yes.

F: The thing that we are confronted with is the easiest and least embarrassing manner of treating this situation. Harry wants to do the right thing and Harry knew, I think, or had a pretty good idea that the Hatch Act was applicable, but he had determined in his own mind that he was going to go ahead, anyway, and become a delegate. Now, the primary for selection of delegates, according to this telegram we have received from his opponent, is being held up there today and the thing has just come to us officially through this telegram.

H.M.Jr: A primary in New York today?

F: For the selection of delegates, that's what the telegram says.

H.M.Jr: There's been nothing in the papers.

F: Well - uh - whether it's - whether the actual - whether the - well, I haven't checked to see whether or not the telegram is correct. The telegram said April 2, but whether it's correct or not as to the primary date today or the 15th of April or the first of May doesn't make any difference, because under the rules of the Civil Service Commission, which the Committee reports - ah - in connection with the Hatch Act, said - were intended to cover all positions not exempted from the operation of the Hatch Act, specifically says: "Particular types of prohibited activities - 13. Conventions. Candidacy for or service as delegate, alternate or proxy, in any political convention or service as an officer or employee thereof is prohibited." So, it's a candidacy for or service as a delegate.

H.M.Jr: Yes.

F: And whether his name is merely on the ballot or whether he has actually been selected as a delegate and then serves as such, doesn't make any difference so far as these regulations are concerned.

Now, I've spoken to Bob Jackson and Bob agrees with me that the Act applies and I think Harry wrote informally to Bob and while he told him that the matter was one for the head of the Department to handle, the people in his Department that were construing the Act for the United States Attorneys and the Marshals and the other field officers under the jurisdiction of the Department of Justice who are appointed by the President and confirmed by the Senate, are of the opinion that the Collectors of Customs, as well as the Collectors of Internal Revenue are not exempt from the operation of the Hatch Act.

Now, I think......

H.M.Jr: Just a minute, Ed. Just a minute. (Pause)

Go ahead. You say that he wrote Bob Jackson and asked him?

Foley: Yes, informally.

H.M.Jr: What did Bob tell him?

Foley: Bob told him just what I said, that --

H.M.Jr: He went ahead anyway?

Foley: He'd made up his mind to go ahead anyway, Mr. Secretary, and Harry tells me that even if the ruling as to the application of the Hatch Act was in his favor, namely, that it didn't apply to the Collector of Customs in New York, he would have submitted his resignation to the President before he went to Chicago, because he wouldn't want to embarrass him if he was a candidate - if the President was a candidate - by being active in his behalf and at the same time holding down a responsible position in his Administration.

H.M.Jr: Yes.

Foley: Now, I think the best way for us to handle this is to call Harry and suggest to Harry that he submit, in the mail tonight, his resignation to be effective at the pleasure of the President, and we will have that here and if anybody says that you are derelict in your duty because you don't remove him, as the Hatch Act provides, as soon as the violation has been brought to your attention, we'll be able to say that we have the resignation and I think in fairness to Harry, he should be given an opportunity to resign and not be removed so that he could go --

H.M.Jr: Now, let me ask you a question.

Foley: Yes, sir.

H.M.Jr: There's no question in my mind that he has no right to do it.

Foley: Yes.

H.M.Jr: Now, do I understand that he considers it more important to be a delegate than it is to be Collector of Customs?

F: Yes, sir.

H.M.Jr: He does?

F: Yes.

H.M.Jr: What's the big idea?

F: Well, he's a -- he's a -- he's a pretty broad-gaged fellow, Mr. Secretary, and he's an independent fellow and he feels that he would not want to continue as Collector of Customs if he is prohibited by law from participation in politics. He has been in politics all his life and he's not going to be underhanded about it and if it is violating the law for him to do what is natural for him to do, what he always has done, why he's going to resign.

H.M.Jr: Well now, let me tell you fellows a little story and this is a precedent to go on. When I became Secretary of the Treasury I found that there were 17 people in the Treasury who were members of the National Committee, including men and women.

F: Yes.

H.M.Jr: And I asked them to either resign from the National Committee or resign from the Treasury. Sixteen resigned from the National Committee, one of them didn't. That fellow resigned from the Treasury and that fellow's name is Lawrence of Pennsylvania, who was Collector of Internal Revenue of Pittsburgh and is now under indictment.

F: Yes. Dave Lawrence.

H.M.Jr: What?

F: Lawrence, who was Secretary of State under Governor Earle.

H.M.Jr: Well, I'll tell you this, I feel very strongly on this and I think you ought to tell this to Harry Durning, with no misunderstanding, that if he mails this tonight, I'm going to accept it tomorrow.

Foley: Right. You - I think that the resignation is to the President; you'll recommend that it be accepted.

H.M.Jr: Oh, I know, but I mean I want it to go over under my signature, recommending that it be accepted tomorrow.

Foley: Right.

H.M.Jr: I mean, I don't want Harry to think that we're going to hold it and wait until he goes.

Foley: Right.

H.M.Jr: You see what I mean?

Foley: Yes.

H.M.Jr: I mean this thing should be accepted tomorrow by the President, with a recommendation from me that it be accepted.

Foley: At once.

H.M.Jr: What?

Foley: With a recommendation from you that it be accepted at once.

H.M.Jr: That's right.

Foley: Yes. And then Dan would sign that as Acting Secretary.

H.M.Jr: Well, if he has any question about it, which he might perfectly well, I'm perfectly willing - would be delighted to sign it. I mean, if Dan has any question about it, see.

Bell: I have no question but I thought you said you'd like to sign it but I don't know how we'd get it down there tomorrow and back, except by plane.

H.M.Jr: What?

Bell: I have no question about it.

H.M.Jr: Well, you mean you'd rather have me sign it.

Bell: No, I don't care. No, I'll sign it.

H.M.Jr: Well, either way. I mean, Harry White's leaving at 6:10.

Foley: We won't have it, Mr. Secretary, in time to give it to Harry.

H.M.Jr: What?

Foley: We won't have it in time to give to Harry White to take down to you. We don't have his resignation.

H.M.Jr: We can do it two ways. We can have Dan sign it and you can give me a form of a telegram which I'll send from here, in which I'll say, "Confirming --" and so forth and so on, "I urge this be accepted." You see?

Foley: Yes. Now, Harry said this when he was talking to Basil Harris and then later to me, he would not like it to appear that he was being kicked out but that he was leaving voluntarily, and I think the contribution that he's made to the service warrants that consideration.

H.M.Jr: I agree with you.

Foley: I think he's doing the right thing and I think he's done a fine job up there.

H.M.Jr: Yes, but this thing I think is much deeper than it looks.

Foley: Well, I agree with you there, Mr. Secretary, and I don't think this is the first one. I think there'll be others.

H.M.Jr: Well, that's all right and that's all the more reason why we should act promptly. And you might even, if you want to, get something from the Attorney General, inasmuch as this will be the first one.

Foley: Well, I don't think that that --

H.M.Jr: ....is necessary.

Foley: ....is necessary, sir. I talked to Bob and we see eye to eye on this and he feels that he doesn't want to be put in the position of passing on each one of these cases.

H.M.Jr: Another thing, we have a Committee set up for this purpose, of which Guy Helvering is Chairman. He ought to be called in tomorrow on this.

Foley: Yes, sir.

H.M.Jr: See?

Foley: Yes.

H.M.Jr: And after all, if he passes on this, all the members of the Committee vote and sign a letter also recommending this to me or to the Acting Secretary of the Treasury, with Guy Helvering as Chairman.

Foley: Right.

H.M.Jr: In the eyes of the public, that has considerable weight.

Foley: Yes. That Committee is composed of Gaston and Helvering and Norman Thompson and myself.

H.M.Jr: That is right. But Guy ought to be consulted on this.

Foley: Yes.

H.M.Jr: I'm sorry that Basil Harris' boys don't behave.

Foley: (Laughs) He's blushing.

Well, I think we can handle it for you, Mr. Secretary, without too much embarrassment.

H.M.Jr: Doesn't the gang agree with me that they should be - not to wait until the day before Chicago?

Foley: Absolutely, that's why we called you, sir. We think that we ought to call him right now and tell him to put the resignation in the mail tonight, so that some Republican won't be able to get up on the floor tomorrow and say that your duty is to remove Durning and thereby cause a situation to arise which might preclude you from permitting him to resign.

H.M.Jr: Well, that's all the more reason why when this thing comes in, I think that somebody ought to walk over to Steve Early, explain it to him - a couple of you go over there, possibly, Bell and Guy and Foley, the three of you go over there and call on Steve Early, explain it to him early in the morning, see, so that they can get it out before Congress meets at noon.

Foley: O. K.

H.M.Jr: See what I mean?

Foley: Yes, sir.

H.M.Jr: And I'd like to write - while he doesn't resign to me - I'd like to write a very nice letter, because he has done a swell job.

Foley: That's right. He's been a real asset to the Treasury in New York.

H.M.Jr: ....a very fine letter written, and I - knowing how the President works, I think you ought to have a letter drafted that he can sign, on White House stationery, see?

Foley: Tomorrow?

H.M.Jr: Yes.

F: O. K.

H.M.Jr: I think that Bell, Foley and Helvering ought to go over to see Steve Early before Congress opens tomorrow.

F: O. K.

H.M.Jr: Before noon, and get it out.

F: All right.

H.M.Jr: So we won't be attacked. It's a very ticklish thing.

Bell: All right, we'll take care of it.

H.M.Jr: What?

B: Yes, we'll do it that way.

H.M.Jr: Don't you think so?

B: Yes, I do.

H.M.Jr: Steve's the man - Steve Early's the man to see.

B: All right. We'll get in touch with Durning right away and then tomorrow morning we'll see Steve Early.

H.M.Jr: When you get through, I'm going to ask the operator to switch me over to Steve, so I'll just tell him the thing is coming. I think that will help a little bit.

B: All right.

H.M.Jr: What?

B: All right.

H.M.Jr: I still say I think Basil ought to make his boys behave.

B: (Laughs) He just got back. He's doing -- he's right on the job here. He's knocking off the leader today.

H.M.Jr: What's that?

Foley: I say he just got back and he's going right into action.

H.M.Jr: O. K.

Foley: All right, sir.

H.M.Jr: Thank you.

Foley: Good night.

H.M.Jr: (To Operator) See whether Mr. Early is still at the White House, please.

Operator: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Sterling exhibited a firmer tendency in the foreign exchange market today. In Amsterdam, the rate rose from 3.56 to 3.57-7/8 prior to our opening. The initial quotation in New York was 3.57-1/8. During the morning sterling advanced steadily, reaching a high of 3.59 by noon-time. The firmness in the rate was not maintained, and during the afternoon it eased to close at 3.57-3/4.

Sales of spot sterling by the six reporting banks totaled £664,000, from the following sources:

By commercial concerns..	£ 195,000
By foreign banks (Far East, Europe, So. Amer. & Near East)..	£ 469,000
Total.......	£ 664,000

Purchases of spot sterling amounted to £542,000, as indicated below:

By commercial concerns..	£ 325,000
By foreign banks (Europe and Far East)......................	£ 217,000
Total.......	£ 542,000

The following reporting banks sold cotton bills totaling £21,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 16,000	by the National City Bank
4,000	by the Guaranty Trust Company
1,000	by the Irving Trust Company
£ 21,000	Total

In a very thin market, the discount for the Canadian dollar narrowed to 17-3/8%, then moved off to 17-7/8% at the close.

The other important currencies closed as follows:

French francs	.0202-5/8
Guilders	.5309
Swiss francs	.2243
Belgas	.1709

CONFIDENTIAL

After having moved downward for more than a month, the Cuban peso strengthened today to 11-15/16% discount. The Mexican peso remained unchanged at .1672.

We sold $85,000 in gold to the National Bank of Belgium, to be added to its earmarked account.

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

$ 1,808,000	from South Africa, shipped by the South African Reserve Bank, to be earmarked for account of the Netherlands Bank.
37,000	from Nicaragua, shipped by the National Bank of Nicaragua, to be earmarked for its account.
$ 1,845,000	Total

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

$ 1,028,000	from the Netherlands, shipped by the Twentsche Bank, Amsterdam, to the Guaranty Trust Company, New York.
678,000	from India, shipped by the National Bank of India to the Chase National Bank, San Francisco.
340,000	from England, shipped by Mocatta and Goldsmid, London, to the Chase National Bank, New York.
262,000	from India, shipped by a French bank to the French-American Banking Corporation, New York.
$ 2,308,000	Total

Of the above shipments, the one being sent to San Francisco will be sold to the U. S. Mint there, and the others will be sold to the U. S. Assay Office at New York.

On the report of March 27 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of $15,424,000, a decrease of $2,127,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION MARCH 20	SHORT POSITION MARCH 27	DECREASE IN SHORT POSITION
England	$7,579,000	$3,992,000	$3,587,000
Europe	6,415,000	7,729,000	1,314,000 (Increase)
Canada	755,000 (Long)	645,000 (Long)	110,000 (Decrease in Long Position)
Latin America	665,000	484,000	181,000
Japan	2,936,000	3,078,000	142,000 (Increase)
Other Asia	693,000	770,000	77,000 (Increase)
All Others	18,000	16,000	2,000
Total	$17,551,000	$15,424,000	$2,127,000

CONFIDENTIAL

It is interesting to note that the sterling short position was about halved in the week under review. During this time, the pound dropped nearly 27¢ to a seven-year low of 3.44-3/4. In the same period, the short position in other European currencies experienced an increase, of which about $1,000,000 was in Dutch guilder commitments of the New York banks.

Silver in Bombay was priced at the equivalent of 39.46¢, a decline of 3/16¢.

In London, the price fixed for spot silver fell 3/16d to 20-1/4d. The forward quotation declined 1/4d to 20-3/16d. The U. S. equivalents were 32.61¢ and 32.33¢.

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

We made seven purchases of silver totaling 450,000 ounces under the Silver Purchase Act. Of this amount, 165,000 ounces represented a sale from inventory, and the remaining 285,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 500,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

CONFIDENTIAL

Note:

Mr. Bell made two full length records on Tuesday evening, April 2d. He started the first record at 5:21. He didn't notify anyone that he was going to make these records. Consequently, when the second record was full no one was here to change it so the needle just kept digging into the last part of Record No. 2 - hence the rest of Durning's conversation with Mr. Bell is missing. (See Bell's memo of April 5/40 in re. Harry Durning matter). I left the office at 5:05 that night; Miss Edlin had gone and so had Mrs. Spangler. Miss Epps was here (in Bell's office) but she said she didn't know either that he was going to make a record or she would have watched the machine.

Mr. Bell was informed of what had happened due to his failure to notify anyone of his intention to make a lengthy record.

McH

April 2, 1940
5:35 p.m.

Bell: We've been discussing here the matter that you talked this afternoon with Ed Foley and Basil Harris.

Durning: Yes.

Bell: Ed's gone into the - went into the legal question rather carefully and he's come to the conclusion that the Hatch Act applies to your case.

Durning: That's all right.

Bell: And we have also discussed the matter with the Secretary at some length and in order to - not to cause any embarrassment to anybody, including yourself, we think it would be better if you submitted your resignation effective as today and sent it down here tonight.

Durning: Huh?

Bell: And send it down tonight?

Durning: Well, I'll do that tomorrow. I mean, there's no question about that, I'm perfectly willing to do that.

Bell: Well now, we're afraid of this, that tomorrow when this Congress opens, you may get a Republican on the floor making a speech about your case --

Durning: Well --

Bell: ....and it might prove --

Durning: ....if there's no question in my

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

April 2, 1940

MEMORANDUM

Meeting was held this morning at which were present Colonel MacMorland of the Army Navy Munitions Board, Major Lyons of the Army Air Corps, Captain Collins and Mr. Bones.

Colonel MacMorland presented a letter, copy of which is attached hereto marked "A". This letter is the basis for the first step looking toward the release of airplanes designed to the specifications of the War Department.

He also presented circular letters signed by the Assistant Secretary of War dated March 30 and April 1, 1940, attached hereto marked "B" and "C". Copies of these have been sent to all manufacturers of airplanes, engines and accessories.

He further presented memorandum showing the steps to be taken in connection with export releases, copy of which is attached hereto marked "D".

The detailed intra-departmental instructions for the War Department are in the course of completion now. In the meantime, the information and authority contained in attachments is sufficient to start negotiations looking toward the ultimate release of any restricted items made to the design of War Department specifications.

At the request of Colonel MacMorland a telegram was sent to each of the companies indicated on page 1 of enclosure "A" advising them that, in accordance with the authority contained in enclosure "B", they are authorized to begin conversations with the Anglo-French Purchasing Board to determine what models might be desired and in what quantities. Colonel MacMorland advised me that this initial step had been taken by both the Bell Aircraft Company and the Curtiss Aeroplane Company, representatives of both of which companies now being engaged in negotiations with the Air Corps of the Army to determine the basis on which a change-order would be issued, this action being necessary prior to the completion of release negotiations in which they are interested. The release is the last step of the procedure before actual negotiations for a contract may be undertaken.

A letter has been sent to each of the manufacturers indicated on page 2 of enclosure "A" advising them that they are authorized to begin conversations with the Anglo-French Purchasing Board to determine whether or not there is any interest on the part of that Board in any of their products. A letter has been forwarded to Mr. Purvis, copy of which is attached hereto marked "E".

This afternoon a meeting was held with Admiral Towers of the Navy and the enclosures attached hereto discussed in detail with him. He stated that, inasmuch as the Secretary of the Navy had previously released all restricted models of the Navy and that as he had shown Colonel Jacquin the complete plans and specifications for all restricted airplanes, as well as those still in an experimental status, and had also given him such performance data as was available, he obviously agreed with the procedure outlined by the War Department.

He stated further, however, that yesterday in the absence of General Arnold he had presided at a meeting of the Aeronautical Board and that the regulations of that Board under which all releases have been in the past made have been discussed and changed to meet the conditions laid down in the new policy under which both the War and Navy Departments are operating. It is expected that these regulations will be approved by both the Secretary of War and the Secretary of the Navy during the present week. In the meantime, and in anticipation of such approval, he stated the Navy is ready to go ahead with the release of any model designed according to their specifications.

The procedure as is indicated by attachments definitely recognizes the Liaison Committee as the one point of contact as between the Anglo-French Purchasing Board and the military services of the Government as was anticipated in the President's Order creating the Committee.

Colonel MacMorland pointed out that they had been working day and night in an effort to get this procedure operating so that the release of such planes as the English and French may be interested in may be expedited in every way possible.

"A"

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WAR DEPARTMENT
THE ADJUTANT GENERAL'S OFFICE
WASHINGTON

ACW/ehb

April 1, 1940.

SUBJECT: Request of Anglo-French Purchasing Board for Information on Airplanes and Release of Engines and Accessories.

TO: The Quartermaster General,
War Department Representative,
Liaison Committee designated by the President,
Memo., December 6, 1939.

1. Reference is made to request from the Anglo-French Purchasing Board of March 14, 1940, forwarded to General Gregory, Army member of the President's Liaison Committee, with request that the action of the War Department be furnished covering the release of certain designs of airplanes and engines.

2. Pursuant to the provisions of a revised policy on foreign sale of aircraft, promulgated on March 25, 1940, by the Secretary of War after conference with the President, it is desired that the Anglo-French Purchasing Board be informed that the War Department has no objection to immediate initiation of conversations with the manufacturers of the following types of airplanes for the purpose of obtaining enough information to enable the Board to reach decisions as to the suitability of these designs for its proposed orders:

Bell, P-39
Curtiss, P-46 and P-40
Douglas, A-20-A
Grumman, P-50
Lockheed, P-38
Martin, B-26 and A-22
North American, B-25
Republic, P-44, P-47 and P-43
Stearman, A-21

3. The Board should be further informed that the general conditions to govern the conversations between the Board and the manufacturers will be communicated to the manufacturers concerned by the War Department. During these conversations, manufacturers will be expected to safeguard military secrets, the status of which is well known to them.

4. The models named above are types under contract for the Army. In addition there are several manufacturers who have airplanes or designs which were made up for the War Department and submitted in recent competitions or for tests at Wright Field. Their models may also be discussed by the Board. These manufacturers are listed below:

Aeronautical Corp. of America, Lunken Airport, Cincinnati, Ohio
Arrow Aircraft & Motors Corp., Lincoln, Nebraska
Beech Aircraft Corp., Wichita, Kans.
Bellanca Aircraft Corp., New Castle, Delaware
Barley-Grow Aircraft Corp., 13210 French Rd., Detroit, Mich.
Brewster Aeronautical Corp., Brewster Bldg., Long Island City, N.Y.
Edward G. Budd Manufacturing Co., 25th & Hunting Park Ave., Philadelphia, Pennsylvania
Burnelli Aircraft, Ltd., Keyport, N.J.
Cessna Aircraft Co., Wichita, Kansas
Culver Aircraft Corp., Bexley P.O. Box 177, Port Columbus, Columbus, Ohio.
Cunningham-Hall Aircraft Corp., 13 Canal St., Rochester, N.Y.
Curtiss-Wright Corporation, St. Louis Airplane Div., Robertson, Mo.
Engineering & Research Corp., Riverdale, Maryland
Fairchild Aircraft Div., Fairchild Engine & Airplane Corp., Hagerstown, Maryland
Fleetwings, Inc., Bristol, Pennsylvania
Fletcher Aviation Co., 625 W. San Fernando Rd., Burbank, California
Harlow Engineering Corp. of California, 2112 Oakdale Ave., Pasadena, California
Interstate Aircraft & Engineering Corp., 2600 West Imperial Highway, El Segundo, California
Lenert Aircraft Corp., P.O. Box 74, Pontiac, Michigan
Luscombe Airplane Corp., West Trenton, N.J.
Long Island Aircraft Corp., 435 W. Hoffman Ave., Lindenhurst, N.Y.
McElroy Aircraft Corp., 350 Madison Ave., New York, N.Y.
Mercury Aircraft, Inc., Hammondsport, N.Y.
Piper Aircraft Corp., Lock Haven, Pennsylvania
Porterfield Aircraft Corp., 18th & Wabash, Kansas City, Missouri
Rearwin Aircraft & Engines, Inc., Fairfax Airport, Kansas City, Kans.
Ryan Aeronautical Co., Lindbergh Field, San Diego, California
St. Louis Aircraft Corp., 8000 N. Broadway, St. Louis, Missouri
Southern Aircraft Corp., Box 1872, Houston, Texas
Spartan Aircraft Co., Tulsa, Oklahoma
Stinson Aircraft Div., Aviation Mfg. Corp., Wayne, Michigan
Timm Aircraft Co., Los Angeles Metropolitan Airport, 8055 Woodley Ave., Van Nuys, California
The Vega Airplane Co., 1627 Victory Place, Burbank, California
Vought-Sikorsky Aircraft Div., United Aircraft Corp., Stratford, Conn.
Vultee Aircraft Div., Aviation Mfg. Corp., 828 Cerritos Ave., Downey, California
Waco Aircraft Co., Troy, Ohio.

5. With reference to the turbo superchargers, Boeing B-17 and Consolidated B-24 airplanes, no decision as to their release from restricted status, has as yet been reached. You will be advised later as to decisions concerning these items.

By order of the Secretary of War:

/s/

Wm. W. Dick
Adjutant General

"B"

WAR DEPARTMENT
Office of the Assistant Secretary
Washington, D. C.

MAY 3 0 1940

Gentlemen:

Pending the issue of the revised procedure governing the release of aircraft, aircraft engines, and items of aircraft equipment and accessories for export by the War and Navy Departments, you are authorized to conduct preliminary negotiations with the Chief of the Air Corps leading to an agreement to accept change orders on existing War Department contracts, in accordance with the GOVERNMENT POLICY ON AIRCRAFT FOREIGN SALES, as follows:

> When it is to the advantage of the national defense the War Department will negotiate for deferred deliveries on contract planes. If manufacturers take advantage of foreign orders, then prior to release for sale abroad, manufacturers shall agree to accept change orders on existing War Department contracts. The Government must be fully protected and any authorized delays must not interfere with the delivery of equipment for units immediately necessary for our defense needs.
>
> The release policy for foreign sale of our most modern designs will be liberalized to accomplish the foregoing, to further stimulate productive capacity and to insure improved types of planes for our forces. Each such case must be decided on its merits. Prior to the release of any of our designs for sale abroad, the manufacturer must negotiate with the War Department for such changes in those models which are under contract for the United States Army in order to insure that improved types of airplanes are delivered to the War Department.
>
> No military secret will be divulged or released to any foreign purchaser of military airplanes.
>
> Neither designs owned by the War Department nor manufacturer-owned designs over which the War Department has control, will be released for manufacture or detailed assembly abroad.
>
> Foreign governments must agree to furnish us full and complete information on the design, equipment, and combat performance of American-made planes.

It is desired that prior to entering into any negotiations for foreign sales, necessary arrangements be made with the Chairman of the President's Liaison Committee.

Very truly yours,

Louis Johnson

LOUIS JOHNSON
The Assistant Secretary of War.

W-3327, A. C.

"C"

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WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY
Washington, D. C.

APR 1 1940

Gentlemen:

Pending the issue of a revised procedure by the War and Navy Departments governing the release of aircraft, aircraft engines, and items of aircraft equipment and accessories for export, you are authorized to conduct preliminary negotiations with the Chief of the Air Corps leading to application for export of aircraft and its components, designed to War Department specifications, in accordance with the GOVERNMENT POLICY ON AIRCRAFT FOREIGN SALES, as follows:

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

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

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

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

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

It is desired that prior to entering into any negotiations for foreign sales, necessary arrangements be made with the Chairman of the President's Liaison Committee.

Very truly yours,

Louis Johnson
LOUIS JOHNSON,
The Assistant Secretary of War.

W-3333,AC

STEPS IN EXPORT RELEASE - 4-2-40.

1. AGO transmits War Department authority to Chairman of the President's Liaison Board authorizing conversations between foreign purchasers and individual manufacturers on all types requested in letter of March 14, 1940.

2. Captain Collins acquaints Mr. Purvis of his authority.

3. Captain Collins notifies manufacturers listed in letter from the AGO that they can converse with foreign representatives.

4. Manufacturers concerned formally request release through Aeronautical Board of specific items which the foreign purchasers desire.

5. Preliminary negotiations formally entered into between Air Corps representatives and manufacturers. The manufacturer at the same time confers with foreign purchaser.

6. Formal agreement entered into between Air Corps representatives and manufacturers on a basis for release of specific articles for export.

7. Formal agreement setting forth conditions on which release is made submitted to the Assistant Secretary of War for approval and G-2 for his information.

8. Upon approval of formal agreement State Department advised manufacturer is eligible for license under new policy.

9. Air Corps representatives enter into formal change orders, changes in contract, and other administrative procedure necessary to put the formal agreement into effect.

'E'

April 2, 1940

Mr. Arthur B. Purvis, Chairman
Anglo-French Purchasing Board
15 Broad Street
New York City

My dear Mr. Purvis:

In a confidential letter received from the War Department this morning reference is made to the request from the Anglo-French Purchasing Board of March 14th concerning the release of certain designs of airplanes and engines.

Pursuant to the provisions of the revised policy on foreign sale of aircraft, the War Department has no objection to immediate initiation of conversations with the manufacturers of the following types of airplanes for the purpose of obtaining enough information to enable your Board to reach decisions as to the suitability of these designs for your proposed orders:

Bell, P-39
Curtiss, P-46 and P-40
Douglas, A-20-A
Grumman, P-50
Lockheed, P-38
Martin, B-26 and A-22
North American, B-25
Republic, P-44, P-47 and P-43
Stearman, A-21

The general conditions governing conversations between your Board and the manufacturers have been communicated to the manufacturers by the War Department.

The models named above are types under contract to the Army. In addition to these, however, there are several manufacturers who have airplanes or designs which were submitted in recent competitions. With the thought that their models may be of interest to the Board, they have likewise been authorized to enter into conversations with you should you so desire.

These manufacturers are the following:

Aeronautical Corp'n of America, Lunken Airport, Cincinnati, Ohio
Arrow Aircraft & Motors Corp'n, Lincoln, Nebraska
Beech Aircraft Corp'n, Wichita, Kansas
Bellanca Aircraft Corp'n, New Castle, Delaware
Barley-Grow Aircraft Corp'n, 13210 French Road, Detroit, Michigan
Brewster Aeronautical Corp'n, Brewster Bldg., Long Island City, New York
Edward G. Budd Manufacturing Co., 25th & Hunting Park Ave., Philadelphia, Pa.
Burnelli Aircraft, Ltd., Keyport, New Jersey
Cessna Aircraft Co., Wichita, Kansas
Culver Aircraft Corp'n, Bexley P.O. Box 177, Port Columbus, Columbus, Ohio
Cunningham-Hall Aircraft Corp'n, 13 Canal Street, Rochester, New York
Curtiss-Wright Corp'n, St. Louis Airplane Division, Robertson, Missouri
Engineering & Research Corp'n, Riverdale, Maryland
Fairchild Aircraft Div., Fairchild Engine & Airplane Corp'n, Hagerstown, Md.
Fleetwings, Inc., Bristol, Pennsylvania
Fletcher Aviation Co., 625 W. San Fernando Road, Burbank, California
Harlow Engineering Corp'n of California, 2112 Oakdale Avenue, Pasadena, California
Interstate Aircraft & Engineering Corp'n, 2600 West Imperial Highway, El Segundo, California
Lenert Aircraft Corp'n, P.O. Box 74, Pontiac, Michigan
Luscombe Airplane Corp'n, West Trenton, New Jersey
Long Island Aircraft Corp'n, 435 W. Hoffman Avenue, Lindenhurst, New York
McElroy Aircraft Corp'n, 580 Madison Avenue, New York City
Mercury Aircraft, Inc., Hammondsport, New York
Piper Aircraft Corp'n, Lock Haven, Pennsylvania
Porterfield Aircraft Corp'n, 18th & Wabash, Kansas City, Missouri
Rearwin Aircraft & Engines, Inc., Fairfax Airport, Kansas City, Kansas
Ryan Aeronautical Co., Lindbergh Field, San Diego, California
St. Louis Aircraft Corp'n, 8000 N. Broadway, St. Louis, Missouri
Southern Aircraft Corp'n, Box 1872, Houston, Texas
Spartan Aircraft Co., Tulsa, Oklahoma
Stinson Aircraft Div., Aviation Manufacturing Corp'n, Wayne, Michigan
Timm Aircraft Co., Los Angeles Metropolitan Airport, 8055 Woodley Avenue, Van Nuys, California
The Vega Airplane Company, 1627 Victory Place, Burbank, California
Vought-Sikorsky Aircraft Div., United Aircraft Corp'n, Stratford, Connecticut
Vultee Aircraft Dev., Aviation Mfg. Corp'n, 828 Cerritos Ave., Downey, California
Waco Aircraft Company, Troy, Ohio

A decision as to the release of the turbo superchargers, Boeing B-17 and Consolidated B-24 airplanes will be communicated to you later.

Through personal contacts with the representatives of manufacturers of airplanes, engines and accessories the procedure promulgated for the release of restricted items has been discussed, and it is felt that they are thoroughly cognizant of the necessary steps to be taken. No reason can be seen for any delay in the releases you seek in the consummation of contracts looking toward the purchase of released models.

With kindest personal regards,

Sincerely yours,

HMC:gm

April 2, 1940

MEMORANDUM FOR THE SECRETARY:

Pacific Coast Shipping Situation

Only trade to display any animation last week as related to the Pacific Coast freight and charter market was the Orient, with the fixing a motorship for scrap from Portland to Japan at $17.50 f.i.o. This was considerably higher than any previous level, and the boost was attributed to distress cargo. Owners, however, were asking between $15 and $17 f.i.o. for bottoms depending on position, ports, etc. A time charter for trading in the Far East at $6.50, previously reported, was confirmed. In general, space to the Orient was tight. Lumber to China was quoted at $32.50 on a charter basis; grain was quiet; general cargo only fair.

The intercoastal lines were still swamped with cargo offerings and the shortage of space continued to get worse. The lines, in order to get more revenue, were cancelling Section 15 agreements to get away from less profitable rate divisions and absorptions. Shipper and civic groups and politicians continued to press the Maritime Commission for action, with not much success. Eastbound lumber was most distressed.

The trades to Europe were inactive, despite shortage of ships. Ships were not having difficulty in filling, but there was no rush for space, such as was noted in the first weeks of the war. Lumber rates to Scandinavian ports and the Antwerp/Rotterdam range were quoted at $50 and $55, respectively. Indications were that lumber to the Continent may go higher.

There was an acute shortage of lumber space to Australia, but the general cargo market remained weak. Lumber was offering at around $32.50 and logs at $35 or better.

About thirty per cent of the larger Pacific coastwise ships have left the trade but business has declined about thirty-three and one-third percent. In other words, Pacific Coast water borne traffic has declined to a greater extent than the withdrawal of ships.

Basil Harris.

April 2
~~March 29~~, 1940.

Statistics made public by the Port of New York Authority show that for February 1940, 47½% of the exports and imports of the United States moved through the Port of New York.

The slowing down in the movement of exports to the belligerents is pronounced. The French have the situation so well in hand that they have canceled the space they had engaged on a neutral vessel in April. There are unconfirmed reports that the French will place new orders for large quantities of trucks but there is no evidence in support of this as yet.

With the exception of steel - on which the British Government pegged rate is low - the British lines will be able to accommodate all priority cargo in April.

Non-Conference operators who have vessels on net form charter are experiencing difficulty in obtaining cargoes for these ships, even at Conference rates.

Charter rates, both time and net form, hold strong but little business is being done account scarcity of suitable ships.

The railroads at the Port of New York are lightering for export aboutt 800 cars per day; cars awaiting unloading for lighterage are averaging about 3000 cars per day. In storage in railroad facilities there are 4739 cars, with accommodations available for another 9800.

The quantity of grain in railroad cars, boats and elevators at New York is less than two million bushels. There are large q uantities in store at Buffalo and this is being moved down by rail as steamship space is engaged. There are ten million bushels of grain in the elevators at Albany and that port is expected to become

april 2
~~March 29~~, 1940.

active soon with the clearing up of the ice in the Hudson River.

On resumption of business after the Easter holidays the Antwerp grain market displayed a little more life, with the rate advancing from 70 to 75¢ per 100 lbs. The rate on grain from the River Plate to Antwerp is $29. per ton compared with the last fixture at $28.50.

There was a very small increase in the number of cars loaded by the railroads in the week ending March 23d. Indicating the limited effect the war has had on the volume of business handled in this country generally is the fact that the carloadings in recent weeks are running around 97% of the average number of cars loaded in corresponding weeks of the preceding ten years.

Basil Harris.

JR

GRAY

Paris

Dated April 2, 1940

Rec'd 3:28 p.m.

Secretary of State,

Washington.

421, April 2, 8 p.m.

FOR THE TREASURY FROM MATTHEWS.

A notice has just been issued by the National Association of French holders of negotiable securities in regard to the Brazilian decree of March 8, 1940 providing for the resumption of services on the Brazilian foreign debt. The association recommends that bondholders accept the proposals made in regard to services on the strength of dollar loans and the sterling loans which do not contain a gold franc option; it advises them not (repeat not) to present coupons on the paper franc loans or on the sterling loans bearing a franc option. Finally it advises bondholders to postpone presenting coupons on the franc loans containing a gold franc option pending the outcome of the Franco-Brazilian negotiations referred to in a letter of the Brazilian Foreign Minister dated March 8, 1940.

Deposits

-2- #421, April 2, 8 p.m., from Paris.

Deposits in the National (Postal) savings banks during the period March 1-15 1940 totaled 349,000,000 francs and withdrawals 237,000,000. Deposits exceeded withdrawals by 830,000,000 from January 1-March 15, 1940.

The securities market was subject to profit taking today but rente issues were strong on the improvement of the franc at New York. Advances ranged from one franc to francs 2.25.

MURPHY

CSB

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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

	No. of Shares Sold	$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	$ Proceeds of Bonds Sold
March				
25	10,800	451,396	Nil	Nil
26	19,600	819,437	Nil	Nil
27	42,800	1,561,591	Nil	Nil
28	19,863	699,281	Nil	Nil
29	21,500	776,881	Nil	Nil
30	14,800	430,777	Nil	Nil
TOTAL FOR WEEK	129,363	4,739,363	Nil	Nil
Sales from February 22 to March 23, incl.	293,808	11,590,937	Nil	Nil
TOTAL FEBRUARY 22 TO MARCH 30, INCL.	423,171	16,330,300	Nil	Nil

Mr. Opie, who is substituting for Mr. Pinsent as Financial Counselor of the British Embassy, telephoned me that a cable had been received from England to the effect that sales of non-vested securities for the week ended March 23 totaled $4,200,000.

H. M. C.

MA

PLAIN

London

Dated April 2, 1940

Rec'd 12:58 p.m.

Secretary of State

Washington

826, April 2.

FOR TREASURY FROM BUTTERWORTH.

Lord Stamp, the Adviser to the British Government on Economic Coordination, gave an interview to foreign and British journalists last evening and no doubt some stories have appeared in this morning's American press reflecting his views but perhaps not mentioning his name. He announced that a census of shipbuilding and engineering labor and productive resources was being taken and he apparently gave the impression that he had reached the conclusion that to pay for this war "the British public must expect more rationing and taxation and will have to accept either the Keynes Plan for compulsory savings or some other equally drastic remedy". In particular he indicated that the 5 pounds to 12 pounds a week income group of the population would have to bear the main brunt of the future economic burden. Incidentally he also held up to kindly ridicule the fact that he had received a parcel of foodstuffs from a friend

in

MA -2- tel # 826, April 2, 1940 from London

in Philadelphia and commented on the abundance of the food supply and the necessity for further consumption restriction through rationing.

This interview has been taken as throwing light on the character of the forthcoming budget but the Treasury was more surprised than pleased to hear of Lord Stamp's action.

JOHNSON

MCL

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

On the date this memorandum was handed to me by Commander Thompson, I telephoned the pertinent parts thereof to Mr. Yost in the State Department, without indicating our source of origin. Yost stated that he had not yet received from Whipple & Choate the copy of their contract with Amtorg which had been promised. Whipple & Choate had inquired, however, whether they might deal in brass, tin and copper with Amtorg. The State Department had explained their policy on tin, but imposed no objection, I understand, to the export of brass and copper.

Mr. Yost was not familiar with the business of either E. J. Schwabach & Company or the New York Industrial Diamond Company. He had, however, talked on the telephone only the preceding day with the Pope Trading Corporation and was delighted to know that the latter had evidently seen fit to stop shipping tin to Amtorg.

H. M. C.

TREASURY DEPARTMENT

WASHINGTON

March 29, 1940.

MEMORANDUM FOR MR. COCHRAN:

The following expenditures by "A" during the week ending 3/16/40 have been noted:

Whipple & Choate		$30,553.60
		24,495.70
		24,560.81
		20,837.33
	Total	$100,447.44
E. J. Schwabach & Co.		$97,439.71
		41,705.51
	Total	$139,145.22
N. Y. Industrial Diamond Co.		$20,000.00

Information has been received to the effect that the Pope Trading Corporation of 75 West St., New York City, has ceased doing business with "A" and apparently were freightened from shipping any more tin owing to an investigation of their activities.

T.

B. M. Thompson.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Yesterday afternoon Mr. Knoke spoke to me of the message received from the Commonwealth Bank of Australia, which is now reported in the attached copy of an incoming cablegram. Mr. Knoke stated that his bank would indicate to the Commonwealth Bank of Australia its readiness to arrange a special account for the receipt of the proceeds of the security sales in question. In answer to my inquiry, Knoke stated that the Federal Reserve Bank did not intend to take over the sale of the securities.

H.M.C.

FORM 108 · 5M · 7-38
FEDERAL RESERVE BANK
OF NEW YORK

INFORMATION COPY FOR Mr. Knoke

107

INCOMING CABLEGRAM—SERIAL NO. 2295

RECEIVED ON April 2, 1940

Sydney, April 2, 1940

Federal Reserve Bank of New York

New York

Mr. Cochran

No. 42 CONFIDENTIAL

In the event of Commonwealth Government requiring holders of a selected list at present comprising about 20 stocks market value say $5,000,000 to sell would you be prepared to conduct an account in the name of this bank or Commonwealth Government for receipt of proceeds cabling us daily amount of each deposit and the full name of the beneficiary which would be furnished by the depositor. If so on what terms. Briefly the plan would be to realise securities over period of six months half to be completed within three months. Proceeds would be withdrawn for Commonwealth Government purposes as required.

This is purely Government operation and our desire is to have it handled through Reserve Bank channels but if for any reason it would not be suitable to you please do not hesitate to so inform us.

Governor
Commonwealth Bank of Australia.

TO THE SECRETARY
OFFICE OF THE

1940 APR 2 AM 9 45

TREASURY DEPARTMENT
RECEIVED

MY Post 119 TEST CORRECT

CABLE DIVISION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4 o'clock this afternoon Mr. Knoke telephoned me that the Federal Reserve Bank of New York had received a cablegram from the National Bank of Belgium asking that three confirmed credits be opened in favor of the following concerns for the amounts indicated:

$62,000	to Colt's Patent Fire Arms Co.
$153,000	to Brewster Aeronautical Co.
$12,000	to Curtiss-Wright

The Federal Reserve Bank is cabling back that it is not practicable for it to handle such transactions.

The Federal feels that this is business which should go to commercial banks, which are better qualified to handle it than is the Federal. The Federal Reserve Bank has interpreted the Treasury's attitude as indicating a desire that business of belligerents be taken care of through special account with the Federal Reserve Bank of New York, but that does not include purchases such as neutral countries, including Belgium, Switzerland, Sweden, and even Finland, have been making on this market.

H.M.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Irigoyen, Financial Counselor of Argentina, called on me this morning. Since visiting me last he has been in Ottawa and also in New York.

Mr. Irigoyen stated that he had found some bankers in New York who were willing to consider a public issue on this market of 5-Year Treasury notes of Argentina, to the amount of $15,000,000, at a rate of about 5.3%. Irigoyen thought the bankers would charge this rather high rate because of their uneasiness over war conditions and particularly because of their fear that Argentina may not have sufficient dollars to finance her purchases and service her foreign debt in dollars if present trade trends continue through a long war. Mr. Irigoyen admitted that there was some justification for this fear. Mr. Irigoyen stated that the Swiss bankers are willing to renew for another two years, on improved terms, their credits to Argentina which mature shortly, although, as reported to me previously, the Dutch bankers will not renew their share.

In discussing the exchange problems of Argentina, Irigoyen said that these were somewhat similar to the problems of Canada. These two countries find their most important market outlet in the United Kingdom. On the other hand, they do their most important importing from the United States. Selling to the United Kingdom under the war-time arrangements, which have involved Argentina being drawn for practical purposes into the sterling area, Argentina and Canada do not receive enough dollar exchange to pay for their normal purchases on the United States market. Canada has one advantage over Argentina in that she can procure dollars from American tourists and also has an important gold production which can be marketed in the United States. Referring to the clearing agreement between Argentina and England, Irigoyen feels that his country will not be able to permit a big gold balance to grow up in England for transfer only after the war. He feels that Argentina will be obliged to negotiate for a part of this to be liquidated, perhaps through yielding to Argentina certain shares in British owned concerns in that country, or giving some United States dollar exchange.

In speaking of the pound sterling, Irigoyen does not expect the official rate to be lowered. He thinks the tendency will be to expand the number of export commodities which must be paid for in a fashion similar to that established this past week for certain specified articles. Thus, he thinks free sterling will become more and more a currency to be traded in between outsiders, and for which a declining amount of use can be found on the British markets. With this tendency, he believes the use of free sterling will diminish. For instance, he stated that it has been the practice of Argentina to sell wheat to Brazil for free sterling. Such sterling has been in turn converted on the New York market into United States dollars. If, as is now indicated, the free sterling rate is going to be permitted to go unsupported and the uses thereof limited, Argentina will change the practice and invoice their wheat to Brazil in some other currency, most likely United States dollars.

Irigoyen does not think that in present war conditions Great Britain can use free sterling to finance competitive exports on the United States market to any serious extent. He thinks that the greatest danger from the present British policy is involved in making arrangements such as that with Argentina which guarantees to take from the foreign country an important amount of merchandise but does not give in exchange currencies which can be utilized freely on third markets, particularly the hard money markets such as the United States, the Netherlands and Switzerland. In this connection, Irigoyen believes that Switzerland is going to be obliged to give credits to Great Britain and France if she is to obtain further raw materials from those countries.

Mr. Irigoyen emphasized that only doubtful benefits can be derived from depreciating currencies now, insofar as foreign trade is concerned. It is not the exchange rate but the bottom price that controls. For instance, Japan is in a position to undercut Great Britain on textile sales to Argentina, within the lines which Japan manufactures, no matter how low sterling goes. Japan is simply in a position to manufacture more cheaply and is able to quote a cheap price. In this connection Irigoyen explained that Argentina is obliged to impose quotas upon Japan textile imports and also upon cotton textile imports from Brazil, so as to leave some of the market to other countries from which necessary goods or desired foreign exchange can be obtained.

In conclusion, Irigoyen expressed his belief that the British Exchange Control will have to be made more general, along the lines of the Canadian Control. It has been the experience of all countries adopting exchange control that the initial steps must be supplemented by more and more controls, until the whole field is covered and all loopholes blocked.

Irigoyen will be in Washington until Monday, and will then proceed to Buenos Aires. He has asked me to receive his assistant in New York, an Argentine named Douglas Norman, if the latter may ask for an appointment.

At Irigoyen's request, I telephoned Mr. Jesse Jones and arranged for the latter to receive the Argentine financial expert at 12 o'clock, April 4.

H.M.Jr.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Yesterday afternoon Mr. Amos Taylor of the Finance Division of the Bureau of Foreign and Domestic Commerce telephoned me in regard to a subject which he had mentioned a few days ago, namely, the entry of gold from Canada.

Mr. Taylor stated that the last shipment of gold from Halifax to New York, amounting to some $160,000,000, has been entered as Canadian gold, but that Mr. Barton of his Department had raised the question, which had then gone to the Director, as to whether this gold should not be entered as French gold, since the Department of Commerce is required to classify such imports by their country of origin, and information was available to indicate that the gold had come from France, without entering Canadian Customs statistics.

I told Mr. Taylor that I could not take over the Commerce responsibility for the entries which they make. When he inquired, however, as to whether there was not some matter of policy involved in the premises, I explained the Treasury viewpoint. I stated that last autumn we had asked the Federal Reserve Bank at New York, with the approval of the Board of Governors of the Federal Reserve System, to refrain from publishing gold shipment figures, and to leave all gold data publishing to the Department of Commerce. I explained that we had been motivated by a desire to protect foreign shippers of gold during wartime. I reminded Taylor that at least one big shipment of French gold via Halifax had been entered into our Commerce statistics last autumn as coming from Canada. I pointed out further that I was aware of numerous shipments of Australian gold entering Canada and later coming to the United States which I was sure his Department had not attempted to identify as Australian gold. Mr. Taylor stated that he was perfectly willing to follow the system of calling it Canadian gold in the present instance, but wanted to be supported by me in his conversations with his Director. He added that there might be some embarrassment if Congress should question Commerce records. I cited the hearing in which Treasury officials participated a few days ago when the Senate Banking Committee was studying the Townsend Bill. At that time we had explained to the Committee that import figures for gold coming from Canada did not represent Canadian production alone, but included gold coming from other countries. There had been no unfavorable reaction to our explanation of Commerce's import figures. I thought that we should be particularly careful in regard to French gold, telling Mr. Taylor in strict confidence that this had actually come to Halifax in Naval vessels.

I reiterated to Mr. Taylor that I was simply letting him know how I personally felt about the situation. I was convinced that my sentiments were those of the Secretary, but that if Commerce desired any formal request of us in the premises it would be necessary for me to consult Secretary Morgenthau upon his return. Mr. Taylor seemed satisfied that Commerce would go ahead and enter such shipments as gold coming from Canada, without further question. He stated that after the war is over, we might find it desirable to clarify some of the records to show actual gold movements. I reminded him that in our own purchases of gold abroad and shipment thereof to the United States there had resulted certain discrepancies in published statistics, since some gold came on United States Naval vessels and was not handled in the usual manner.

When talking with Mr. Knoke at 3:15 yesterday afternoon, I mentioned my talk with Amos Taylor. Knoke then volunteered that Taylor had already spoken with Mr. Sproul on the same subject, and Mr. Knoke had before him Mr. Sproul's memorandum of the conversation. Mr. Sproul took the position that the Administration had taken away from the Federal Reserve Bank of New York its practice of giving out gold data. In the spirit which Sproul understood caused the Administration to take the stand it did, he favored protecting foreign shippers of gold. He was convinced that the Bank of France would not want its gold shipment via Halifax identified. Hereafter the entries which the Federal Reserve Bank of New York makes of French gold shipped from Halifax will show the consignor as the "Bank of France, Halifax". Knoke mentioned that Taylor had suggested the idea of a meeting in Washington of representatives of the Treasury and Commerce Departments and the Federal Reserve Board to determine an exact course to be followed in handling questions of gold statistics such as those involved in the present case. I told Knoke that Taylor had not mentioned to me any such proposed meeting, and that I felt from my conversation with Taylor that no conference would be required.

H.M.C.

FEDERAL SECURITY AGENCY
WASHINGTON

OFFICE OF
THE ADMINISTRATOR

April 3, 1940.

Dear Henrietta:

Here is another communication from the malaria commission in China which shows the progress they are making.

Cordially,

Mary

Mary E. Switzer,
Assistant to the Administrator.

Mrs. Henrietta S. Klotz,
Assistant to the Secretary,
Treasury Department,
Washington, D. C.

Enclosure

COPY

Chialing House,
Chungking, China,
March 10, 1940.

My dear Dr. Parran:

I've just closed a series of conferences with the National Health Administration and the Premier in regard to malaria control in China's back door, the Yunnan-Burma Highway, and radioed you for permission to leave Dr. Bush till end of April and to depart myself about March 18.

The survey is completed and the staff of Chinese physicians trained except for the practical aspects of organization of the larvicide crew. A series of mishaps has prevented the arrival of our larvicides in that the South West Transportation Co. brought them to Chefang - and carried them thru to Lord knows where! Have begged and borrowed everything similar to train the gang and have just learned that ours will be in Chefang on my return day after tomorrow. Will then acquaint them with the use of Paris green in quantity, special types of oil and spray cans, and pyrethrum emulsion. Otherwise they are trained.

Dr. Sweet has arrived and he and Dr. Balfour have agreed to set up the research station in Chefang and give scientific direction to the young men during the rains. So I feel that in practice they will get along pretty well. Dr. Sweet and Dr. Balfour (here now) will return to Chefang with me. Dr. Yen (Nat'l Health Administration) has designated Dr. Yao in charge of control unit with Drs. Chen, Chow and Ma to assist (the principal ones we trained) with headquarters in Chefang. The premier (Dr. H. H. Kung) is ordering the road people to locate labor camps where designated by the Control Unit and to carry out mosquito control as directed by them. That is the essential administrative order necessary for successful work. In addition, control work will be initiated at the cities of high malaria incidence on the lower road, cities used as headquarters for administrative organizations and as sleeping places for truck drivers. In addition the National Health Administration is setting up their own research station under Dr. Y. T. Yao either at Chefang with Dr. Sweet, or at Manghsih 38 miles northeast.

I suggested Dr. Bush remain for two reasons: (1) someone should remain to assure proper routine training of larvicide gangs and (2) Bush would get valuable experience in such an organization and in observing the effect of the larvicides.

I feel that our mission here has been of some help to the Chinese in that it's doubtful if they could have gotten under way this year without the aid given - and the road has become of much greater need in the last three months. Without malaria control for the labor force it seems as tho it would be impossible to keep it open during the rains. Incidentally, we have probably promoted malaria control for the whole province.

During our work the British in Burma have become interested and, thru Dr. Seagrave (a Baptist Missionary doctor at Namkham over the border) have determined to practice somewhat the same type of control on the Burma side. The Chinese will do the same work along the new railroad altho the Burma part is not yet commenced.

On or near the 18th I will go to Rangoon with Dr. Bush to arrange the details of putting the financial business in his hands and will then try and find a route home. No one here knows anything of sailings except that no schedules are being kept. When I know will cable my actual departure.

We have been well received here and our studies have, I believe, been appreciated. Have given a preliminary report and recommendations and am preparing a final with Dr. Bush and will bring a copy with me.

Sincerely,

(Signed) LOUIS L. WILLIAMS, Jr.

Senior Surgeon.

MEMORANDUM FOR THE RECORD:

Conference between Secretary Morgenthau and Mr. White,
April 3, 1940, at Sea Island, Georgia.

The Secretary stated that he had read the drafts of Mr. White's articles on gold and felt they would not be suitable for his use because they were too long and too technical. Furthermore, he felt that the case Mr. White made for the domestic use of gold was so weak as to frighten people with respect to its future use for domestic purposes.

Mr. White pointed out that in the first place a strong case could not be made for domestic uses for gold - that in fact there was considerable doubt whether it was at all necessary for domestic use; and in the second place that one of the chief points of the articles was to indicate that the value of gold did not rest on the domestic uses of gold as a monetary metal but rather on its use as an international medium of exchange. The Secretary thought it might be better to leave out the question of domestic use entirely and concentrate on the international use.

In response to a question by Mr. White as to what the Secretary really felt about the future of gold, the Secretary responded that he was confident the policy we were pursuing was the best of the alternatives available and that there was nothing we should do to alter our gold policy at this time or in the near future. He cited the instance of his conference with Oumansky, of the Russian Government, in which Oumansky said, in response to the Secretary's previous inquiries as to the effect of too great an amount of gold being thrown on the market, that his Government felt that the amount of gold Russia produced and the use made of it within its borders was naturally a domestic affair, but that it was wholly agreeable to cooperating with the United States in limiting the exports of gold so that the amount of gold placed on the world market would be kept within reasonable limits. The Secretary had spoken to Oumansky about the unfortunate consequences of the large supply of platinum placed on the market and indicated that the consequences of a similar unrestrained flow of gold on the market might have even more disastrous results.

The Secretary also stated to Mr. White that he felt it did not matter whether the government was a democracy, or a totalitarian government, or whether its economy was socialism or free enterprise, it would still use gold for international purposes.

The Secretary then asked Mr. White what it was that he (White) really thought about the future of gold and Mr. White replied that in his opinion there was no cause for concern with respect to the future use of gold as an international medium of exchange.

It was agreed that possibly the most effective and reassuring statement the Secretary might make with respect to gold would be in the form of a speech and the Secretary asked Mr. White to prepare a draft of a speech on gold that might be suitable to give over the radio. The place and time at which the speech might be delivered was left for later consideration.

HDW

Preliminary Draft

INSTRUCTIONS

To enable the Committee to carefully examine the numerous reports received from a variety of sources on the topics which the Committee proposes to consider, it is essential that the written materials be submitted to the Committee in such form as will make it readily available for appropriate comparison and evaluation. The Committee therefore requests that all written material submitted to it be prepared in accordance with the following instructions:

1. The Department, agency or individual preparing material for submission to the Committee should send to the Committee, in writing as soon as convenient, a list of the topics on which it proposes to submit memoranda. The topics should be designated not only by the title but also by the section and topic numbers as shown in the accompanying mimeographed outline of inquiries.

2. Wherever possible the written material should be submitted on mimeographed sheets and twenty-five copies sent to the Committee for its use.

3. Each topic discussed must be submitted in a separate report.

   (a) The outside page of the report should contain (1) the title of the subject matter, (2) the number of the report as specified in the appended inquiry sheets and (3) the name of the individual, bureau, Department or agency preparing it.

   (b) Each report should be prefaced by a one or two page summary statement outlining the highlights and conclusion of the memorandum.

4. If reports on numerous topics are to be submitted, it is desirable that reports be sent to the Committee as prepared, rather than be retained until all the reports are ready to be sent.

5. Send all reports to the Senate Committee on Banking and Currency, Washington, D. C.

Preliminary Draft

MONETARY POLICY

A. Federal Reserve System

1. What were the original purposes in establishing the Federal Reserve System? Have these purposes been achieved? Have the objectives of the Federal Reserve System been modified since its inception?

2. What is the purpose of each of the monetary and banking powers possessed by the Federal Reserve System? How effective for each purpose are these powers?

3. In what directions and to how great a degree have each of the powers been used during the last fifteen years?

4. What have been the Federal Reserve policies with respect to the use of each power during that period?

5. What criteria have been employed by the Federal Reserve Board, and by the Federal Reserve banks, in determining how far each of the various monetary powers should be employed either in checking expansion or in promoting expansion with particular reference to (a) the magnitude of their open market operations, (b) the re-discount rate, (c) reserve requirements?

6. How successful have the several policies been in achieving their intended results?

7. Taking advantage of hindsight, have the results been desirable? Should policies have been different at any time? In 1924-29? In 1930-32? In 1933-37? In 1938-40?

8. If the Federal Reserve System's powers were unable to attain the desired effects, to what may the lack of success be ascribed in each case?

9. Should anything be done to make the System's powers more effective?

10. In what manner are Federal Reserve policies coordinated with the economic policies of the executive branch of the government? Should any steps be taken to improve the coordination of policy between the Federal Reserve System and the executive branch of the government?

11. What has been the function of the Board of Governors? To what extent does the Board of Governors determine the policy to be followed by Federal Reserve banks?

12. What is the relative weight of the Board of Governors, the Federal Reserve Bank of New York, the other Reserve banks, and the Open Market Committee in determining the policy of the Federal Reserve System with respect to the following matters:

    a. re-discount rates
    b. open market operations
    c. reserve requirements
    d. standards for extending Federal Reserve credit
    e. bank examinations
    f. foreign exchange operations
    g. gold operations

13. To what extent have there been differences of opinion with respect to major questions of policy within the Federal Reserve System?

14. Is the published Record of Policy Actions a full account of the significant discussions of the Federal Reserve authorities upon which policies are based?

15. Is it desirable to maintain the present number of members of the Board of Governors of the Federal Reserve System? Is their annual salary commensurate with their responsibility? Is it desirable to continue their present tenure of office? What changes, if any, should be made in the requirements for eligibility for nomination to the Board? Should the staff of the Board of Governors be placed under Civil Service?

16. What is the function of the officers and directors of the individual Federal Reserve banks? Are any changes desirable in their method of appointment? Should the banks' personnel be placed under Civil Service? Are the present salaries of the officers reasonable compensation for the services rendered?

17. Is it desirable to change the composition of the Boards of Directors of the Federal Reserve banks to give wider representation to the general public?

18. Should any matters dealt with or decisions made by the Directors of the Federal Reserve banks which are now kept confidential be made available to the public? What type of decisions and type of discussions would it be against the public interest to make available to the public? Why?

19. Would it be desirable to transfer the ownership of the Federal Reserve banks to the United States Government? Should any change be made in the disposition of Federal Reserve Bank earnings? In the rate of dividends on Reserve Bank stock?

20. What services do the Federal Reserve banks perform for member banks and other banks? What are the charges made for these services? Should any adjustment be made in these charges?

21. Can any steps be taken to improve the efficiency or economy with which the Federal Reserve banks now perform services?

22. Should any changes be made in the present relationship between the Reserve Banks and the member banks?

23. Is it desirable to increase the number of banks enrolled in the Federal Reserve System? To what extent does the fact that less than half of the banks of the United States are members of the Federal Reserve System reduce the efficacy of the System in achieving its objectives? Should State bank membership in the Federal Reserve System be voluntary? What steps can be taken to increase the attractiveness of Federal Reserve membership?

24. To what extent, if any, are open market operations influenced by the need of the Federal Reserve System to earn profits to pay operating expenses and dividends on stock?

25. To what extent does the open market committee influence the Treasury, or vice versa?

26. Is the discount rate likely to be of any influence in controlling the level of interest rates and the volume of business activity in the foreseeable future?

27. What steps, if any, should be taken to give the Federal Reserve System an effective power over interest rates and volume of outstanding bank credit?

28. Is it desirable from the point of view of (a) the banking system, (b) insurance companies, (c) other investing agencies, to have a higher level of interest rates for governments? Is it desirable from the point of view of public interest?

29. Has the Federal Reserve System facilities for analyzing business conditions? Should the System's conclusions regarding business conditions be available to the public?

30. What function has the Federal Advisory Committee performed?

31. Would businessmen be able to act more intelligently if the Board were to publish their views on what should be the general policy in various hypothetical but likely circumstances?

32. What action, if any, is desirable now with regard to bank reserves?

    a. If none is desirable now, what are the conditions under which action will become desirable?
    b. What would be the desired results of such action?
    c. What methods are there to reduce excess reserves? What are the merits and demerits of each, and which is the best method?

33. Under what conditions would you consider a policy of monetary restraint appropriate? What are the specific conditions under which the Reserve System should alter its present policy of so-called "easy money"?

34. Will the Federal Reserve System be able to do more to promote business activity during the next depression than it did in the last?

Preliminary Draft

GOLD

A. Distribution and production of the World's Gold

1. What have been the changes in the amount and distribution of the world's monetary gold since 1929?

2. What is the amount and distribution of the world's non-monetary gold?

3. How much of the non-monetary gold may become monetary gold and under what circumstances?

4. What are the known gold ore reserves in various countries?

5. What proportion of newly-mined gold (a) comes from lode mines in which gold is the principal product, (b) placer mining and (c) mining in which gold is a by-product?

6. What are the reasons behind the continued increase in the world's annual output of gold since the '20s?

7. What is the cost of mining gold in the various countries?

8. What have been the profits of the gold mining industry in the past ten years? In the United States; in foreign countries?

B. Why has the United States been getting so much gold?

1. Relation of gold movements to:

   a. the price for gold,
   b. capital movements,
   c. the balance of trade, and
   d. other items in our international accounts..

2. Why are not other countries acquiring large amounts of gold?

C. Future of Gold

1. What function does gold play in the conduct of international trade and finance?

2. Can countries conduct their international trade and finance without the use of gold? Is there any other substitute, device or method for the use of some gold shipments in the conduct of international trade and finance?

3. What are the prospects for the continued use of gold as a medium for settling international balances?

4. Are there any methods for further economy in the use of gold in international transactions?

5. How much gold are we likely to get during the next few years?

6. Will the United States be "stuck" with the gold it has acquired, and is acquiring? What are the prospects of the United States developing an "unfavorable" balance of payments during the next decade?

7. Will gold ever be demonetized?

D. The Gold Standard

1. How many foreign countries are still on the gold standard? Why have so many countries abandoned the gold standard? How widespread is the desire in each of the leading countries to return to the gold standard?

2. What kind of monetary standard does the United States now have? In what respects does it differ from the former standard? What monetary standards do the leading foreign countries have? In what way do they differ from their former standards?

3. Should the privilege of convertibility into gold coins or bullion at a fixed rate be restored? What amount of gold coins or bullion do you think the public would demand?

4. What advantages would be gained by allowing gold certificates to circulate? If both gold coins and gold certificates are permitted to circulate, would the possibility of inflation be reduced? If so, how?

5. What advantages would accrue to the banks from restoring the privilege of convertibility and the circulation of gold certificates?

6. Would a restoration of convertibility increase confidence in the dollar? How does the lack of confidence show itself and what would the effect be of increased confidence?

7. What is a free gold market? Does any country have such a market? What advantages or disadvantages would there be in the establishment of a free gold market in the United States?

8. Would the private holding of gold make monetary control more or less difficult?

9. It is claimed that convertibility constitutes an "automatic brake" on unwise actions of government. What are the merits of this claim?

10. What function does a gold reserve against note issue serve? How effective are other measures used in countries that do not have such requirements?

11. Does the gold reserve requirement against the notes and deposits of the Federal Reserve banks constitute an effective safeguard against an undue expansion or contraction in the supply of money?

12. How effective are changes in the monetary supply of gold in influencing prices?

13. Would there be any advantage in attempting to secure international agreement with respect to (a) a gold reserve requirement against notes and deposit liabilities, and (b) convertibility?

14. In what foreign countries does the executive branch of the government have powers similar to the President's powers to change the gold content of the dollar? Should that power be retained, increased or abolished?

15. What are the Secretary of the Treasury's powers with respect to transactions in gold and the terms of such transactions? Should they be modified?

16. How is the price of gold determined in England? France? Canada? Russia?

E. Stabilization Fund

1. What countries in the world have Stabilization Funds and in what amounts?

2. What has been the role of the Stabilization Fund in our monetary system since 1936?

3. What are the differences between the structure, purpose and method of operation of our Stabilization Fund and those of the Stabilization Funds of the leading foreign countries?

4. Should the size of the Stabilization Fund be reduced?

5. Should it be made to consist partly of unused borrowing capacity?

6. Should any use be made of any of the gold now in the Stabilization Fund?

7. Will the United States need to retain the Stabilization Fund after the war? If so, are its present powers and size adequate? Should it be made a permanent institution?

8. Are its powers, objectives, uses clearly enough stated, or do they need to be restated by Congress?

9. What is the cost to the American people of maintaining the Stabilization Fund?

F. International Gold Movements

1. What is the effect on foreign countries of large exports of gold to the United States?

2. What various methods have foreign countries used to reduce gold outflows? What are the comparative merits of each method?

3. What measures have foreign countries adopted to promote gold inflows? How successful have the various measures been?

4. Would it be desirable to take measures to reduce the inflow of gold into the United States if a feasible method or methods could be found?

5. The following methods of reducing the flow of gold to the United States have been proposed from time to time. Indicate the advantages and disadvantages of each method. If it were desirable to curtail inflows, which one or ones would you recommend? Indicate also the reasons for recommending or not recommending each of them.

   a. An embargo on gold imports.

   b. Reduction in the price the Treasury pays for gold.

   c. Buying only a certain amount of gold in the open market.

   d. Purchase only gold that comes from certain countries.

   e. Requiring that foreign governments acquire a pre-agreed-upon portion of their dollar needs through liquidation of their holdings of American securities.

f. Reduction in our tariff schedules. On what category of items and to what extent, if any?

g. Extension of foreign loans. To whom and on what terms?

h. An increase in the spread between the Treasury buying and selling price for gold.

i. Segregating monetary gold from non-monetary gold and acquiring only monetary gold.

j. Exchange control.

k. Resumption by international agreement of (a) convertibility, and (b) use of specie reserve against notes and deposits.

l. Any other proposal designed to curtail the inflow of gold.

G. Earmarked Gold

1. What is the legal status of gold held on earmark?

2. How much gold is kept on earmark here and in foreign countries, and by whom?

3. What are the economic advantages of earmarking gold? Are there any disadvantages?

4. Should anything be done to extend the practice of earmarking gold?

H. Method of Financing Gold Acquisitions

1. How are Treasury gold acquisitions being financed now?

2. Are there any alternative methods of financing gold acquisitions?

3. What methods of financing gold acquisitions are used by leading foreign countries?

4. Why was the program of sterilizing gold adopted in 1936-1938? Why was "Inactive Account" terminated? Under what circumstances should the Treasury reestablish an "Inactive Gold Account"? Is there any gold in the possession of the United States which is at present being sterilized?

5. What is the cost involved in sterilizing gold, and who bears it?

I. Cost of Gold Acquisitions to the United States

1. What is the difference between the money cost and the "real cost" of acquiring gold?

2. What has been the "real cost" to the United States (a) of the gold acquired from 1934 to 1940, and (b) of the gold it will acquire in the next year?

3. Under what conditions does the real cost increase or decrease?

4. How do gold purchases affect our national income and the level of business activity?

5. Is our national income affected differently by acquisitions of domestically produced gold than by imported gold?

6. Could such advantages of gold purchases as are obtained be attained better in some other way?

J. Effect of Gold Production on Prices

1. What connection is there between the world output of gold and the movement of world prices (a) in the short-run, (b) in the long-run?

2. What connection is there between the amount of gold in monetary stocks and the level of world prices: Between the amount of gold in any given country's monetary stock and its level of prices?

3. What connection is there between the amount of gold in any country's monetary stock and the value of its currency in terms of other currencies?

4. In considering whether or not to change the price of gold how much importance is attached to the effects of such a change on: (a) exchange rates, (b) the ratio of specie reserves to note and deposit liabilities, (c) domestic prices; export prices; import prices; and cost of living; (c) interest rates; (e) capital movements — short-term and long-term?

K. Price of Gold

1. What determines the value of gold? Will gold fall in value as more is produced?

2. Is it possible to develop an objective measure of the appropriate price for gold in terms of any given currency?

3. What criteria should be used to determine whether the price of gold is too high or too low?

L. Reduction in the Amount of Gold Currently Added to World Monetary Stocks

1. Is it desirable to reduce the amount of gold currently added to world monetary stocks?

2. What are the merits of the following proposals designed to reduce the world output of gold?

   a. International agreement to reduce the price of gold in terms of the major currencies.

   b. Agreement among gold producing countries

      (1) to restrict the mine output by adoption of production quotas or of restrictive tax measures.

      (2) to restrict the export of gold by the adoption of export quotas.

   c. Agreement among gold importing countries to restrict the import of gold.

   d. Segregation of monetary from non-monetary stocks.

   e. Other proposals.

Preliminary Draft

SILVER

A. World silver stocks

1. What are the stocks of monetary silver in leading countries, in the world? How are they being used?

2. What are the non-monetary silver stocks in leading silver holding countries? In the world?

3. What changes have occurred in the monetary use of silver in foreign countries in recent years?

4. What factors have been responsible for the huge exports of silver from China in recent years?

5. What have been the principle reasons for foreign nations' withdrawing silver coins from circulation during recent years? Will the amount of silver coins in circulation in foreign countries be increased after the war or will the substitution of cheaper metals and of paper currency continue?

6. Do any foreign countries hold substantial monetary reserves of silver apart from those contained in silver coins in circulation?

7. Do any foreign countries issue paper currency, such as silver certificates, backed by silver?

8. Is silver an acceptable means of payment to any foreign countries?

9. What steps, if any, can be taken to increase the monetary use of silver by foreign countries?

B. The monetary use of silver in the United States

1. Does the monetary silver stock of the United States strengthen or weaken the monetary system? How? Will a further accumulation of silver strengthen or weaken our monetary system?

2. What changes in the composition of United States money have resulted from silver acquisitions since 1933?

3. What additional amount of silver certificates could be issued by the Treasury on the basis of the existing silver stock? How would such issue affect the volume and make-up of currency in circulation?

4. How much seigniorage has already accrued to the Treasury from the monetization of silver? How much more would be available if all the silver were monetized?

5. Should the Treasury issue silver certificates to the full amount of the monetary value of the present silver holdings? What advantages or disadvantages would there be to the issuance of silver certificates against the free silver?

6. How much silver is currently used in the manufacture of United States subsidiary coins? Does the inclusion of silver in subsidiary coins help to prevent counterfeiting or serve any other purpose? What is the practice of foreign governments?

7. Can the Bureau of the Mint use "nationalized" silver, or domestically mined silver purchased under the Proclamation of December 21, 1933, or Silver Purchase Act in the manufacture of coins?

8. Should the present method of financing silver purchases by issuing silver certificates in the amount of the cost of such acquisitions be continued? If not, what procedure do you recommend?

C. Purchase of foreign silver

1. How much foreign silver has been purchased since 1933? From what countries?

2. To what extent have purchases of foreign silver reduced the silver stocks of foreign countries and to what extent do they represent the purchase of newly-mined silver?

3. To what extent has the United States progressed toward the goals set forth in the Silver Purchase Act of 1934?

4. Are there any silver purchase agreements existing with foreign governments?

5. What have been the results of the London Silver Agreement of 1933?

6. What would likely have happened to the price, production and monetary use of silver in the absence of our silver purchase program?

7. What have been the advantages and disadvantages to the United States of our purchases of foreign silver?

8. To what extent do our purchases of foreign silver represent a substitution in our specie holdings of silver for gold?

9. How much has our silver purchase program cost the United States? What has been the "real cost" as distinct from the buying price?

10. In what ways have foreign countries been benefited or harmed by our silver purchase program?

11. Should the Treasury (a) purchase silver only from particular foreign countries, (b) only newly-mined foreign silver, (c) only newly-mined silver from certain foreign countries?

12. Should foreign silver be purchased directly by agreement with foreign countries or in the open market?

13. Would it be better for the Treasury to buy a fixed amount of silver every month and permit the price to fluctuate or buy all that is offered at a fixed price?

14. Should purchases of foreign silver be made contingent upon the increased monetary use of silver by countries selling to us?

15. Should the purchase of foreign silver be made an instrument of commercial policy?

16. Upon what criteria should the Treasury base its buying price for foreign silver?

17. What would be the probable economic effects of a cessation of Treasury purchases of foreign silver or substantially lowering the Treasury's buying price for foreign silver?

    a. On our foreign trade?
    b. On employment in the United States?
    c. On the status of American-owned mining and other properties in Latin American countries?
    d. Effect on Mexico and other Latin American countries?
    e. On other countries and on world trade?

18. What is the minimum amount of foreign silver the Secretary of the Treasury could buy under the Silver Purchase Act?

19. How much would our current stock of silver be worth in the world market? Will we ever be able to sell any of it at a profit?

D. <u>The purchase of newly-mined domestic silver</u>

1. Should Congress continue to pay 71¢ per ounce for domestic silver? What criterion or criteria should Congress use in determining the price which should be paid for domestic silver?

2. How many persons are employed in mines producing silver in the United States? How many of these can reasonably attribute their employment to silver production? How many would become unemployed if the domestic price of silver fell to that of foreign silver?

3. What part of the payments to domestic silver producers goes to the payment of wages, mining supplies, dividends and taxes? What is the distribution of ownership of stock in mines producing chiefly silver?

E. Silver production

1. Is the distribution of domestic silver production by States undergoing any significant change?

2. What proportion of silver production in the United States comes from mines in which silver is a by-product?

3. What proportion of domestically mined silver is produced by the ten largest silver producing companies? What proportion of the total do the twenty-five largest producers produce?

4. Should a special profits or excise tax be placed upon domestic silver producers?

5. What are the per ounce costs of leading silver producing companies? (a) In the United States, (b) in foreign countries?

6. What are the principal silver producing countries and what is the importance of silver production to their economies?

7. What proportion of foreign silver production comes from mines in which silver is not the chief source of revenue?

8. Is silver production being subsidized by any foreign country?

9. To what extent would world silver production be reduced by a fall in the price of silver?

G. Industrial use of silver

1. How much silver is currently consumed in non-monetary uses? What are the principal non-monetary uses of silver?

2. What potential uses for silver are there if it becomes available at lower prices?

3. How would a lower price affect present industrial users of silver?

4. Should the government finance research in an effort to find new industrial uses for silver?

5. How much silver in the future is likely to be absorbed by India?

Preliminary Draft

CURRENCY

1. What is the explanation for the continuous increase in the volume of currency in circulation during the past seven years?

2. What factors in general determine the total quantity of currency and coin in circulation? What is the effect upon the total volume of currency in circulation of: (a) increase in the gold stock, (b) silver purchases and the issuance of silver certificates, (c) deficit financing?

3. What is the effect of the lending and investing activities of the commercial banks on the quantity of currency in circulation?

4. Is the power to issue currency a source of profit to the Federal Reserve banks? Would the power to issue currency be a source of profit to commercial banks? Would the government earn a profit if the Treasury had the sole right of issue?

5. What purposes do the requirements of specie "backing" or collateral for the various kinds of currency serve? What do the silver, gold, Federal Reserve assets, etc., as the case may be, have to do with the value of the currency? Could all the "backing" be dispensed with? What would be the advantages and disadvantages of doing so?

6. Should anything be done to reduce the diversity of currencies? What would be gained by doing so?

7. Is the designation of currency by Congress as legal tender sufficient to give all types of United States currency equal value?

8. Proposals have been made to make United States Government bonds legal tender. What are the merits of this proposal?

9. What purpose is served by the redemption provisions of Federal Reserve notes? of silver certificates? Should the reserve for redemption of Federal Reserve notes now required to be maintained in the Treasury be continued?

10. The proposal has been made to meet part or all of the annual Treasury deficit by issuing new currency. What are the merits of such a proposal?

11. Under what conditions, if any, would it be desirable to issue currency under the Thomas Amendment of 1933? Should the Thomas Amendment be retained, modified, or abandoned?

12. The proposal has been made to extinguish the national debt by the issuance of currency, and use the usual appropriation for interest payments on the debt to gradually retire the excess currency in circulation. Does this proposal have merit?

13. What is the relation between the quantity of currency in circulation and the level of commodity prices?

    a. Can prices be controlled by changing the quantity of currency in circulation?

    b. Is the monetary authority able to control the volume of currency in circulation? What measures can be used to achieve this control?

    c. Under what circumstances would it be desirable to control the volume of currency? Would it be desirable to change the volume of currency in circulation now?

Preliminary Draft

FOREIGN EXCHANGE

A. Level of Exchange Rates

1. What is meant by equilibrium in discussions of exchange rates? Is it possible to tell when a currency is too high or too low with relation to other currencies, or when a country is indulging in competitive currency depreciation? Can over-valuation or under-valuation of a currency be measured, and if so, how?

2. What are the consequences of over-valuation or under-valuation of a currency upon:

   a. our export trade
   b. competition from imports
   c. general level of prices
   d. agricultural prices
   e. employment in the U.S.
   f. world distribution of gold
   g. monetary stability
   h. restrictions on international trade

3. Has the dollar been too high or too low in terms of the leading currencies in the last six years? Is it too high or too low now?

4. Were the pound, franc, and yen over-valued during 1933-36 and 1936-39? Are they over-valued now?

5. What are the best methods for correcting over-valuation or under-valuation?

6. Under what conditions should the dollar be permitted to appreciate or depreciate?

7. What measures can we take, and should we prepare to take, to protect ourselves against the possibility of complete collapse of the currencies of any of the belligerent countries in Europe or Asia during or after the war?

8. Is there any danger of an era of intensified competitive currency depreciation at the end of the war? If so, what should be done about it?

B. Stability of Exchange Rates

1. Has our Stabilization Fund fulfilled the purpose for which it was founded? How does it function? Is it more active now than before the war? Has it suffered any serious losses?

2. How do its role and methods of operation compare with those of the stabilization funds of England, France and other countries? How are the stabilization funds of belligerent countries working in war time?

3. Should the present powers of our Stabilization Fund with relation to foreign exchanges be retained, modified or abolished?

4. Can the Tripartite Accord serve as a basis or a model for the stabilization of European currencies at the termination of hostilities? Can its principles be extended in such a way as to make this objective obtainable?

5. What effects does the present Anglo-French currency agreement have on exchange rates? What would be the consequences of its retention after the war? Is the principle it contains with respect to foreign balances and the franc-sterling exchange rate capable of extension?

6. What are the advantages and disadvantages of fixed vs fluctuating exchange rates with respect to:

   a. the volume of foreign trade
   b. exporters and importers
   c. the "terms of trade"
   d. the tourist, shipping and other service items in the balance of payments
   e. capital movements and foreign investment
   f. the stability of domestic economic activity and domestic price levels
   g. speculation in foreign exchange
   h. national control of monetary policy
   i. international commercial relations?

7. Is it to our advantage to pursue a flexible exchange policy?

8. Do you think that the "gold points" should be widened?

9. Would an international flexible exchange system be preferable to a fixed exchange system in the post war readjustment period?

10. What consideration should be given to the possibility of gold loans for the stabilization of world currencies when the war is over?

11. What have been the effects on exchange rates of our silver purchase policy?

12. What have been the effects of our trade agreement program on exchange rates?

13. What are the monetary consequences of:

    a. clearing agreements
    b. barter agreements
    c. multi-valued currencies
    d. exchange control
    e. export subsidies?

    Are free exchanges and exchange stability of increasing or decreasing importance when such devices are being increasingly and more extensively used and adopted by foreign powers?

14. Should we actively take steps to establish a dollar bloc? What role could the Inter-American Bank play in a dollar bloc?

15. What special measures should the administration take to promote the foreign exchange stability of Latin American countries? Appraise each of the following as an aid in achieving such stability:

    a. widening the field for capital investments in Latin America
    b. debt settlements
    c. gold or currency loans
    d. commercial policy
    e. proposed Inter-American Bank

16. Are there any advantages from the point of view of foreign exchange policy in the existence of a central banker's bank? What role has the Bank for International Settlements played since 1931 in international monetary affairs? Can it play a useful role after the war?

17. When is a country justified in adopting and maintaining exchange controls? Is the abolition of exchange restrictions the sine qua non of a higher level of world trade? Is it expected that most countries will abandon exchange restrictions after the war?

THE FUTURE OF GOLD

By
Harry D. White

Sec. I

Preliminary Draft

THE FUTURE OF GOLD

H. D. White

The outbreak of war has intensified the already chronic discussion concerning the future status of gold. There is concern in particular about the large quantities of gold flowing into this country. One frequently hears that we are getting the large volume of gold because we pay the highest price in the world for it, that owning about 65 percent of the world's monetary gold already, we shall accumulate almost all of it before the war is over, and that there will then be no way we can use our gold. Other nations, it is said, will ultimately refuse to accept or hold gold as money. We will be left with over $30 billion of gold, acquired mostly at $35 an ounce, for which there will be only a trifling demand — to fill teeth and fashion wedding rings.

It is imperative that such prophecies and fears be openly discussed by those closest to the problems. The gold policy of the United States is not a haphazard development. At all times those responsible for it are in close touch with experts who subject the "gold problem" to thoroughgoing and constant analysis. The questions which are being raised by the public have all been subjected to meticulous discussion. How much gold will the United States accumulate by the end of the war? Why is it coming here? Is its future value in jeopardy? Will the United States be able to use the gold it is accumulating, or will we be "stuck" with most of the world's gold? Would it be better if we imported less gold? Are we paying too high a price for gold? Can we reduce the inflow? Should we? All these have received at the hands of those who shape our monetary policy the careful analysis which their importance demands.

The complexity of the problems involved cannot be minimized. The questions that have been raised are sufficiently complex even to persons acquainted with monetary practice and theory. To the man in the street they are utterly bewildering. Reading only the news comments he finds himself unable to distinguish between sense and nonsense; for very few of those who write about the subject of gold in non-technical journals have an understanding of the problems. Nevertheless, I am convinced that the subject is not beyond the layman and that notwithstanding its complexities the "gold problem" can be made clear. In the following pages, I propose to lay a basis for a better understanding of the gold situation by examining each question carefully and presenting the problem with a minimum of technical discussion and terminology.

I.

<u>Are we destined to get all of the world's gold before the war is over?</u>

There is now about $29 billion worth of monetary gold held by Treasuries, Central Banks and Stabilization Funds; we have $18 billion and the rest of the world has $11 billion. In addition, there is also some $5 billion worth of gold held in private hoards and jewelry.

Each year a large addition to the monetary stock of the world comes from the mines. About 40 million ounces of gold were produced in the world last year, and this year production will probably run up to 43 million ounces. Output, measured in ounces, has been increasing during the past decade at an annual rate of almost 8 percent and is now over double what it was ten years ago. Taking into account the change in the dollar price of gold from $20.67 to $35.00 an ounce in 1933-34, the dollar value of the world's annual gold output is now 3½ times that of ten years ago.

This large increase in world gold output is chiefly a consequence of the widespread currency depreciation which occurred in the 30's. Depreciation (and devaluation) 1/ of currencies has increased the value of gold output for two reasons: first, each ounce of gold produced has a higher monetary value; and second, the higher price stimulated an increase of production because wage rates and the prices of mining supplies remained relatively stable while the value of each ounce of output rose from $20.67 to $35.00.

The price of gold has risen in terms of sterling even more than it has in terms of dollars. The price of gold in terms of sterling is now 20 percent higher than it was a year ago, whereas the dollar price

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1/ "Devaluation" is the term which should be reserved to describe an official (de jure) decrease in the value of a monetary unit as against gold or some other monetary unit; while "depreciation" should be applied to a decline (de facto) in the value of a monetary unit in relation to gold or some other monetary unit. Thus the United States dollar depreciated (vis-a-vis gold) throughout 1933. It was devalued on January 20, 1934.

of gold is the same as it was last year. 1/ This recent depreciation of sterling currencies provides an additional stimulus to a large portion of the world's gold mining industry -- more than half the world's annual output comes from mines in the British Empire. The increase in world production this year will probably be larger for another reason as well. All governments now at war, or in danger of being drawn into war, can be depended upon to give every encouragement to gold mining in areas under their control in order to increase their "war chests".

Additions to the recorded world monetary stock have come also from the conversion of jewelry into monetary stocks, and from gold dehoarding. Additions from these two sources will continue, if not grow, in the coming years. As the war continues, belligerent governments will attempt to attract or force hoarded gold out of its hiding places into government Treasuries. Then, too, either from patriotic motives or because of increased pressure on the part of governments to obtain gold, people will sell or contribute some of their gold jewelry to public authorities to be melted down for monetary purposes, just as has been done in Germany, Italy and Japan.

All together the recorded world monetary gold stock will increase by more than $3 billion during the next two years. That means that by 1942 there will be over $32 billion of gold in world monetary stocks, or $14 billion more than we now have in the United States.

1/ In 1930 the price of gold in dollars was $20.67 an ounce and 85 shillings an ounce in sterling. By 1934 the price of gold in dollars and the price of gold in sterling increased about the same. Since 1934 the price of gold in terms of dollars has remained unchanged but the price of gold in terms of sterling has increased about 20 percent.
The price of gold in terms of Canadian dollar has risen a little less than has the sterling price, but Canada accounts for only one-fifth of the British Empire's gold output.

How much of this $14 billion are we going to get during the next two years?

We acquire our gold from two sources, from domestic mines and from abroad. Our gold acquisitions from domestic sources are easy to forecast accurately. The production of gold in continental United States during the present year will be about $150 million. Inasmuch as our balance of payments is sure to be "favorable" in the next two years, (i.e., payments due us will exceed payments due from us to foreign countries) none of the gold we mine at home will leave our shores. Since the amount of new gold going into artistic and industrial uses is small, virtually all of the gold mined in the United States will be added to the monetary stock of our Treasury. But the total is relatively small; all of it would amount to only $300 million over the next two years.

The bulk of our gold gains will, of course, come from abroad. The amount of gold that will be imported into the United States during the next year or two cannot be forecast with precision. As much gold will come to the United States as is needed to cover the net balance in our favor of all the payments for imports and exports, tourist expenditures, shipping and other services, of income from securities and other investments, as well as international transfers of bank balances, and purchases and sales of American securities. It is impossible to forecast exactly how much the net balance of all these transactions will total but it appears that gold inflows will not again reach the $3 billion level of last year even if the war continues.

One of the items -- recorded capital inflows -- which in the past contributed so much to the large flow of gold to the United States, will be greatly reduced during the coming years. In fact, instead of a large inflow of capital, substantial outflows of capital may develop in the 2nd and 3rd years of war. Recorded net capital inflow, which during 1939 amounted to $1¼ billion, will, we estimate, largely disappear during 1940, and be replaced either in 1940 or 1941 with net outflows.

This decline in the inflow of funds is anticipated for several reasons: (1) All belligerents have already applied strict exchange controls to prevent the private export of capital. This was done chiefly in order to conserve their foreign exchange resources. Even some neutral countries are applying stricter restraints on private capital outflows. (2) Some American securities owned by nationals of belligerents will be taken over and sold by their governments in order to obtain dollar exchange (or the governments will take over the dollar proceeds of the sale by their nationals of such securities, giving the sellers local currency instead.) During the first five months of the war, there was a net sale of American securities by foreigners amounting to over $60 million. (There was a net purchase by non-belligerents which was more than offset by sales of the belligerents.) This net sale by foreigners contrasts with net purchases during most of the preceding four years. (3) In addition to preventing their nationals from acquiring more dollar deposits, belligerent governments are likely also to take over and use part of the balances already held by their nationals. Many of these balances are greater than are needed for business purposes and are held as speculations or precautions against

European monetary and political developments. (4) The flow of private funds from several neutral countries — Belgium, Netherlands and Switzerland — to the United States is likely to grow smaller rather than larger. The "wisest" and most easily scared funds have already been sent abroad, and — with governments likely to take over the foreign holdings and foreign investments of their nationals in case of their participation in the war — there is no longer the same assurance of private gain in sending one's funds abroad. The flow to the United States of neutral government and Central Bank funds, however, is likely to continue so long as war scares involving neutrals sporadically appear. Though even these must inevitably diminish in volume as time goes on because the neutrals in danger of being drawn in the war have already converted a substantial portion of public funds into dollars. (5) Finally, there will probably be some increased outflow of American investments to Canada and Latin America which will not be wholly offset by exports to those countries arising directly out of such investments.

These considerations added together point to a much smaller flow of capital to the United States than has taken place in recent years.

The other item of importance in our international accounts — in fact, the most important item — is trade. Last year our exports were $900 million greater than our imports. Next year our "favorable" trade balance will doubtless be larger because of the war, but we do not expect it to be more for the coming year than twice that sum. The need of belligerents to conserve foreign exchange resources has led already to sharp restrictions on many of their normal imports. Special efforts are being made by England and France to buy all possible imports within their own empires or in countries which will accept their currencies or goods in payment. Also United States sales to neutral countries in war areas will be subjected to unusual obstacles. Belligerents are making intensive efforts to tie up the trade of neutral countries, either for the purpose of assuring necessary imports for themselves or to create additional difficulties for the enemy. The most common device used to accomplish these ends is a combination of clearing agreements and blocked balances, (arising usually out of special political and economic relationships between the countries in question) which restricts the amount of free exchange available for purchases in other neutral countries. In consequence of these obstacles an increase of less than one billion dollars in the excess of our exports over imports is expected in 1940 despite large foreign purchases of our airplanes and equipment. Our exports may increase more than a billion, but our imports will also increase, unless there should occur a decline in the year's business activity compared with last year. If business activity in the United States will in 1940 and 1941 be no lower than it was in 1939 we may reasonably expect that our trade balance will increase less than will our exports. Therefore, a "favorable" trade balance for the next two year period of \$3 to \$4 billion seems a reasonable expectation at this time.

The other items in the United States balance of payments -- shipping, tourist expenditures, remittances and contributions, interest and dividends, government transactions, services, silver, and the residual item — will call for a net total inpayment of around three-quarters of a billion dollars next year, and will not change greatly in 1941 if the war continues.

The greatly reduced net inflow of capital during the next two years will likely more than offset the increase in our export balance, so that gold inflows this year will be less than that of last year. How much less depends chiefly upon the course of the war. The longer the period of restricted warfare and the more localized the struggle, the smaller will be the increase in our "favorable" trade balance, and the smaller the flow to the United States of flight currency. On the other hand, should the fighting grow more intense and be extended on several fronts, purchases of our war materials will be speeded up, and the larger will be the flow to the United States of frightened currencies. Under favorable conditions the gold inflow will be close to $2 billion this year; under unfavorable conditions it will be closer to $3 billion.

There is the further possibility that irrational fear abroad with respect to the value of gold may be promoted by the growing volume of dire prophecies — born of misunderstanding or partisanship — about the future of gold with the result that more foreign governments and central banks will convert their gold into dollars to be kept here until after the war. In that event we may get a much larger inflow of gold than last year's. This is not a probability but it is a possibility.

Even if the unexpected happens and we get as much as $6 billion of gold in the next two years, we will still have less than three-fourths of the world's gold. Were non-monetary stocks included the proportion would be less than two-thirds.

The gold holdings of France and of the British Empire, will, of course, be reduced in the course of the war, despite the latter's annual production of $800 million or more a year. But the United States will not be the only gainer of gold. Numerous other neutrals will add to their gold holdings as well. The foreign trade of some of the neutral countries will suffer seriously and they will lose some of their gold holdings, but others will find their exports increasing as the war continues. Part of the proceeds they will obtain from these additional exports will be employed to pay for additional imports, part to purchase back their own securities, and, in some instances, to service defaulted obligations, but some part of the increase will be used to accumulate gold. Many neutral countries are eager to increase their gold holdings, both as a potential war chest and as additional support to their monetary system. They will wish to take advantage of the favorable circumstances to accumulate some gold in preparation for subsequent lean years or for possible war. Already several countries besides the United States are increasing their gold holdings.

All together it seems fantastic — on the basis of any intelligent evaluation of all the pertinent factors — to assume that we are soon to get "all the gold in the world". Our percentage will doubtless increase. It is now about 63 percent and may rise to 70 percent, or even 75 percent, before 1942 should the war continue till then.

But, it may be objected, suppose the war lasts more than three years? Suppose it lasts five years? At the rate gold is now coming in — $2 to $3 billion a year — we would assuredly have most of the world's gold by the end of the war. And even after the war is over, what about the reconstruction period? Will not the belligerents need to rebuild destroyed areas, renew worn out equipment, and convert plants geared for war production into shape for peacetime production? Will that not use up whatever gold the belligerents may have left at the end of hostilities?

Speculation as to the duration of the war is obviously futile. There exist so many variable factors in the situation, to say nothing of the probability of completely unexpected developments, that it would be just as absurd to say that the war cannot last more than three years as it would be to say that it will last that long. Nevertheless, for the purpose of the foregoing questions it may be assumed that the war may last more than three years. Even in that event, however, we will not get all the gold that even the belligerents have and produce let alone most of the gold the other countries have.

A digression at this point is called for. The reader is apt to get the impression that our desire to show that we will not get almost all the world's gold before the war is over suggests that we feel such a development would be bad for us and catastrophic for gold. Not at all. As we shall point out in a later section, continued inflows of gold yield on balance substantial benefits to the people of the United States. We are glad to get more gold. Not because we need it; we already have enough to support a sound monetary system, but because, as we shall point out, it adds to our national wealth both in terms of current goods and services, and in terms of potential purchasing power over foreign goods. We would much prefer that the world conditions were such that foreign countries did not have to part with gold. We should obviously prefer that peace and normal international economic relations should be reestablished so that the flow of trade, of capital, and of services should be freed from the large number of restrictions inevitably imposed upon such flows during periods of international acute disturbances. But the world situation being what it is, we are better off for receiving the gold than we would be were the flow directed elsewhere. e are better off getting the gold than not getting it. Large and persistent gold movements to this country are both a symptom and a consequence of the disturbed world situation. At the same time, to be sure, gold losses have added to the difficulties of several foreign countries, but the difficulties of those foreign countries would have been much greater had they not possessed the gold to enable them to meet their adverse balance of payments arising from the economic and political situation of the past few years. If they had not had the gold to lose they would have been forced to resort to restrictive measures far costlier to them than the loss of gold. Certain countries have been in just that predicament, and have suffered accordingly. This aspect of the subject will be discussed at length later. It is mentioned here in passing only to make clear that even were the inflows of gold to be much larger in the next few years than we expect it would not necessarily be cause for concern with respect to gold, but rather for congratulations, that we, at least, are saved from the national loss that we would be experiencing were the world disturbed situation to continue while our gold inflows were to cease. Such concern as we would justly feel if gold inflows continue in large magnitude is a concern over a world situation so disturbed as to give rise to such large gold movements.

To resume the explanation why we will not get almost all the world's gold should the war last more than three years. In the first place, other neutrals will get and keep some of the gold the belligerents will spend as well as some of the gold exported by countries with adverse balances of payments. But more important is the fact that belligerents will not part with all their gold. As their gold holdings diminish they will be more reluctant to dip into the remainder. Gold, after all, is the most liquid, most dependable form of purchasing power over foreign goods and services that there is and the belligerents will deem it vital to preserve substantial amounts of their gold holdings. They will wish to keep a substantial stock of gold, not only for final or unforeseen contingencies, but they will wish to have gold left after the war in order to support their currencies, to maintain some of their financial prestige, to regain some of their pre-war status as international bankers and traders, and to provide some cushion against unforeseen trends.

As and when the drain on gold continues, the British and French Empires will draw more on their other foreign exchange resources. It should not be forgotten that these two Empires have foreign exchange resources, exclusive of gold, with a liquidation value during the next few years of probably some $8 billion or more. Their understandable dislike to part with much of these earning assets will be exceeded only by their well-based reluctance to use any of the last billion or two of their gold stocks — should their gold holdings ever be drawn down to that low level. The pressure for peace, and the stimulus to find some other way of raising foreign exchange than of dipping into their remaining gold stocks will increase as their foreign exchange assets seriously diminish, and long before their gold reaches low levels, adjustments and arrangements of one kind or another will take place which will cut their exports of gold to the equivalent of their current production.

Therefore, the fact that the United States may get $4 or $5 billion more gold should the war abroad last two years does not mean that she will continue to get it at that rate, or that she will get most of the remaining billions held by the belligerents, if the war lasts longer. Unless the war is finally to drag the whole world into complete chaos -- in which case it hardly matters who has how much gold -- the return to peace will find the rest of the world with substantial amounts of gold, amounts which to other countries will be far more important than would be an equivalent sum to the United States.

As for the reconstruction period, there is no reason to believe that the belligerents will be denuded of their gold holdings by reconstruction needs. 1/ When peace is reestablished credits will flow much

1/ Incidentally, a glance at the following table giving the gold holdings of some of the belligerents and neutrals at the beginning and end of the war of 1914-1918 and 5 years after the war does not give much support to the fear that either the war or the reconstruction period will leave belligerents or neutrals without gold.

Gold Holdings of Certain Central Banks and Treasuries
(In millions of dollars, at $35 per fine ounce)

	End of 1914	End of 1919	Percentage change 1914-1919	End of 1924	Percentage change 1919-1924
England	721	979	+ 36%	1,267	+ 29%
France	1,359	1,177	- 13%	1,203	+ 2%
Germany	844	439	- 48%	306	- 30%
Italy	458	339	- 26%	374	+ 10%
Scandinavian (Sweden, Denmark, and Norway)	107	298	+ 179%	270	- 9%

more freely from country to country. Likewise, the general upswing in business conditions, which will take place after the disruption to world production caused by the transition from war-time economy to peace-time economy has passed, will permit some of the countries, particularly those who have lost gold during the war period to increase their gold holdings. Whether the replacement of an "unfavorable" balance of payments for our present "favorable" balance be rapid or long delayed is impossible to forecast. But rapid or slow, its development after the war is as well-based as is the hope for world economic recovery.

Sec. II

THE FUTURE OF GOLD

H. D. White

Section II.

What role will gold play after the war? Will it cease to be used as a monetary metal? Will it lose its monetary value and have use only in industry and the arts?

It must be made clear at the outset that gold is not an indispensable element in a monetary system. The evolution of monetary systems has long since reached a stage where the business of a country can be transacted without the aid of gold. Monetary theorists have long known this fact, but people unfamiliar with the subject of money have become aware of it only in recent years. In the past decade, particularly, they have seen country after country, under the stress of special circumstances, abandon the use of gold, first as a means of payment within the country, then as an automatic device for keeping exchange rates fixed, then as a base for the credit structure, then as a backing for note issue, and finally as a means of keeping a country's international accounts in balance. They also observed numerous countries — both important and unimportant — lose much of their gold holdings and yet manage to engage more or less freely in international trade. These events, given much attention in the press, have quite understandably impressed many persons. More and more people are beginning to suspect — in many cases with a sense of bewilderment and uneasiness — that gold is not an indispensable element in monetary systems. Formerly only understanding of the theory of the subject could have led to that conclusion; now familiarity with current events is alone sufficient.

The significant question, therefore, is not whether the business of the world can or cannot be transacted without gold, but rather whether it can be transacted as well without gold as with it, and whether the difference is worth the cost. Gold is an expensive metal; its use has become highly specialized because of the development of other monetary techniques which have supplanted gold for some monetary purposes, yet so long as gold performs essential monetary functions more efficiently than any other instrument, so long will gold continue to be used as a monetary instrument. When gold ceases to perform all important monetary functions better than can be done in some other way, then gold as money will be doomed. The crucial question therefore is: "Is gold as a monetary instrument superior enough to any other device to justify its continued use?"

The answer to this important question is not easy so far as purely domestic monetary uses of gold are concerned. There is no longer the unanimity of opinion among monetary experts as to the usefulness of gold for domestic purposes. Monetary habits have changed in recent decades, and so have monetary systems, monetary theories, as well as the character of monetary needs and techniques of control. For some domestic purposes gold is no longer used at all, for others it plays a lesser role than formerly, while its hitherto most important function within a country — that of constituting a specie base for note issue and deposits — is being regarded as an unnecessary anachronism by a growing number of economists.

The use of gold in hand to hand circulation, whether as coins or in the form of gold certificates, has ceased. Gold in the form of coins

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has not been used as a medium of exchange in the United States since 1933, and for decades before then it was used only to a small extent and chiefly for birthday and Christmas gifts or for hoarding. In practically no country in the world does gold coin now circulate as a medium of exchange. There has, however, recently appeared a renewed demand that gold coins be permitted again to circulate freely in the United States. The advantages claimed for such a step are that (a) it would reduce excess reserves and hence the possibility of inflation, and (b) it would help restore confidence in the soundness of the dollar. The merits of these claims will be examined later when various proposals for "solving our gold problem" are taken up. It is mentioned at this point merely to indicate that there is a renewed interest in the possibility of having gold coins (or gold certificates) enter circulation.

A more important function of gold was to serve as a "backing" for paper currency. (Technically that function is referred to as a fractional reserve requirement to distinguish it from the 100 percent reserves required against gold certificates.) A holder of paper currency had the privilege of converting it, whenever he wished, into gold coin (or in some countries — into gold bullion) at a rate fixed by law. His government required its Treasury or Central Bank to stand ready at all times to sell him gold at a fixed price in terms of paper currency. This privilege of free convertibility is one of the essential characteristics of the orthodox "gold standard", and used to be regarded by people generally as one of the essentials of a sound monetary system, and is still so regarded by a large number of persons. Ten years ago over thirty currencies were so convertible; now there is no country left in the world

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where a holder of paper currency can actually convert that currency at will into gold at a price fixed by law and hold that gold wherever he pleases. Today the United States is almost the only country left where gold can be purchased <u>at a fixed price</u> and even here it can be so purchased only when it is to be used for export under specified conditions. 1/

Whether the privilege of "redemption" of paper currency into gold will be resorted to in numerous countries after the return of international peace and prosperity is uncertain. There are some economists who believe that the privilege of free convertibility serves no useful purpose; that it is out-dated, a hangover from days — expected never to return — when monetary systems were supposed to function "automatically", and when the guarantee of monetary stability was supposed to lie in the ability of individuals to convert currency into gold rather than in the discretion of the monetary authorities.

Some go even further and claim that the privilege of convertibility (as distinct from the availability of gold for settlement of international accounts) has a serious disadvantage. It makes possible an internal drain of gold (i.e., withdrawal of gold by the public and banks for hoarding) as well as an external drain (i.e., for export) and does so particularly at the time when an external drain (gold exports) is becoming serious. Thus, they claim, convertibility contributes to the very condition which the possession of gold reserves is supposed to prevent, namely, abandonment of the gold standard. This is especially true when the country in

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1/ Gold bullion bars can be purchased in Belgium at the fixed legal price and held by the buyer, but it can be exported, in effect, only under certain conditions.
Gold can, of course, be purchased from the United States Treasury at a fixed price when it is to be used for industrial purposes.

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question does not have large stocks of gold. Proof that convertibility constitutes a weak link in monetary systems, these economists claim, is the fact that the privilege of convertibility has been usually withdrawn as soon as a monetary system is under severe attack.

On the other hand, there are still a great many businessmen, bankers and economists who believe that the suspension of the right of a holder of paper currency to convert that currency into gold at a price fixed by law whenever he wishes, and to hold that gold where he pleases, is only an unfortunate and temporary withdrawal of a privilege which is a vital element of a sound currency system. The suspension of that privilege, they believe, should take place, if at all, only during a severe monetary or political crisis and should be restored as soon as possible after the passing of that crisis. They believe that were people to have the privilege of converting their paper currency into gold at will the monetary system would function better; people would have more confidence in their monetary systems and business would be consequently better.

For the United States another advantage has been claimed for returning to the free privilege of convertibility. It has been held that in addition to promoting greater confidence in the dollar, the privilege of convertibility will reduce the danger of inflation by diminishing the volume of excess reserves, and will prevent any change in the price for gold except by Congressional action. 1/ How much weight should be given to these points will be discussed in a later section where various proposals are taken up and evaluated.

1/ At present the President can by proclamation alter the gold content of the dollar between $41.34 an ounce and $35.00 an ounce and the Secretary of the Treasury can, under certain conditions, alter the buying or selling price for gold.

The redemption of paper currency into gold is not the only use of gold the worthwhileness of which is being questioned; there is even uncertainty as to the desirability of maintaining a metallic reserve against note issues and deposit liabilities. On this issue, however, there is much more to be said in support of the practice, and one can find many more competent economists defending it. The legal requirement that there be a minimum proportion of gold backing against note issues is still in effect in numerous countries, and in some of them, including the United States, the gold reserve requirement extends to deposits. In the pre-depression decade more than fifty countries had such legal requirements on their statute books including numerous countries which during that decade reorganized their monetary and banking systems.

The chief purpose which the requirement (that there be some gold reserve against notes and deposits) is supposed to serve is to prevent an undue expansion of the money supply by limiting, to some previously determined ratio to gold, the maximum amount of currency notes that may be issued, and in some cases by limiting the amount of demand liabilities, (i.e., currency and/or demand deposits) that may be created.

Such gold reserve requirements are presumed to give protection against price inflation by constituting an "automatic governor" which controls the expansion and contraction of the means of payment. 1/ The gold reserve ratio operates as the "automatic" signal. When the ratio is sufficiently above the minimum requirement, it is the all clear signal for expansion; when near the minimum requirement, the ratio becomes a danger signal calling for the imposition of restrictive monetary measures in monetary policy. This automatic signal presumably must be obeyed when the ratio is dropping close to the minimum, else monetary authorities will be forced to suspend convertibility and will be at once confronted with the danger of depreciation, and flight of capital and possibly the need for imposing exchange controls. Fearful of such spectacular and drastic measures, the monetary authorities, it is

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1/ The reasoning usually offered is simple. If, for some reason or other, prices rise, and/or the means of payment — currency and deposits — increase rapidly, the ratio of gold to paper currency and deposits grows smaller. The ratio of gold reserves to the means of payment drops from two causes: (1) The means of payment increase in volume and (2) gold flows out of the country as prices rise. (It flows out because, with prices rising at home, the country imports more and exports less.) As the gold reserve ratio approaches the le gal minimum, the authorities are forced to adopt restrictive measures which check and reverse the trend of increasing deposits and prices. Monetary authorities possess numerous powers which make it possible for them to sooner or later check and reverse a rise in prices. And vice versa: when prices are falling, credit contracting, etc., etc., the gold reserve ratio increases and induces the authorities to adopt measures designed to encourage expansion of the money supply and to promote a rise in prices.

reasoned, will initiate restrictive measures in time to make their adoption unnecessary and thus the public is supposed to be protected against inflation. The system so described is supposed to be "automatic" in contrast to "managed" currency. In the latter systems monetary authorities presumably have no such "automatic" device to force action, but instead depend on their judgment in shaping monetary policy. 1/

1/ In some discussions the term "automatic" currency is used to describe that monetary system in which the sole criterion, selected by monetary authorities to guide them in their decisions on policy, is the status of the ratio of the gold reserves to demand liabilities; whereas a "managed" currency refers to a system in which the monetary authorities select other criteria for policy making decisions.

Frequently the terms are used with other implications. Much confusion surrounds talk of "managed" currency and "automatic" currency. The distinction is really quite simple. An extreme "automatic" monetary system would be one in which important changes in the stock of gold reserves, in the volume of credit, in the amount of currency issued, in the price levels, in the price of gold, in foreign exchange rates, and in short-term and long-term interest rates were not subject to direct influence or control by monetary authorities, but rather were so protected by law, custom and market behavior as to be placed outside the discretionary action of monetary authorities in the belief that the latter on the whole do more harm than good by interfering with so-called "natural" forces, i.e., the forces of competition and free enterprise working themselves out in the business and financial world. At the opposite extreme would be the "managed" currency system in which all of the above cited phenomena would be made subject to direct and constant control by some monetary authority, hedged in by no statutory or institutional restriction upon its monetary powers, and operating with the sole limitation that the best interests of the country be served.

Actually, of course, no leading monetary system falls at either of these two extremes. There is no longer any such thing as an "automatic" monetary system, nor has there been for many decades. All are "managed" to some extent, but there are different degrees of management; there are different degrees of dependence upon judgment of the monetary authority as contrasted with a statutory simple criterion of action such as is provided by gold reserve requirements. Whether the evils of permitting broader scope for money "management" are worse than those arising from too limited a scope would depend upon the particular country and particular situation. No generalization on that score is possible. There are countries which lack political stability and the governments of which reveal immaturity or irresponsibility in matters of monetary policy. These governments would be better off if less scope were left for the exercise of judgment and ore reliance placed on "automatic" criteria in determining monetary policy. On the other hand, in most other countries an attempt to restrict the monetary authority to the straight-jacket statutory reserve requirements may at times expose those countries to unnecessary shocks or too frequent cycles of business activity.

Whether fractional gold reserve requirements do in fact act as a restraint against inflation, and thereby lend strength to a monetary system, is a much debated question among monetary theorists, and is an issue on which there is no unanimity of opinion.

Taking all these considerations together, it appears that notwithstanding the widespread support of the view that gold plays a useful and important role in the domestic monetary system and can perform a more helpful role if the gold standard were adhered to, there are arguments upholding the contrary view weighty enough to arouse fears for the future of gold were its usefulness as a monetary metal wholly or chiefly dependent upon its continued use for coins, to provide metallic convertibility for currency, or as basis for note issues or credit expansion. But its usefulness does not depend upon these domestic uses; gold really derives its importance as a monetary metal not from its use within a country but because of its utility as a medium of international exchange. Even such importance as it may be thought to possess within a country derives largely from its utility as an international medium of exchange. In the performance of that function gold is as yet without peer.

This does not mean that methods other than the use of gold are not employed to exchange goods and services between countries. Just as in domestic trade persons can, and sometimes do, resort to barter, or sell their goods or services partly for credit permitting the debtor to pay his debts at the end of the year in goods or services; so in international trade countries can, and do, resort to barter, and to other devices besides the use of money to conduct their international exchange of goods and services. Yet money — gold or foreign currencies — remains the most important final medium of exchange between countries,

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and as we shall see, of the two — gold or foreign currencies —, gold is preferable.

Foreign exchange, bills, drafts, checks, are, of course, continually used in the offsetting of accounts between countries. For example, if the payments due to residents of the United States were equal to the funds due by other residents of the United States to foreigners abroad, then obviously it would be possible to liquidate all transactions without the shipment of any currency or gold into or out of the United States. The accounts would be settled merely by drafts (or checks, or bills of exchange) transferring dollars from some Americans to other Americans, and other drafts transferring sterling and other currencies from some foreigners to other foreigners. These completely offsetting transactions are possible, however, only when there is an equivalence of sums owing and owed. The moment there is a balance due in either direction, then it no longer is possible to completely offset the transaction by "swapping" domestic deposits. When a balance is due, cash sent from one country to another must be used to settle the difference, and the kind of cash that is most acceptable by one country from another is, of course, gold. Gold is the only medium that every country will willingly take, because it is the only medium that every country is certain can be used at any time and in any amount to pay for goods and services purchased from other countries.

Just imagine what the situation would be like if an American exporter received rupees for his exports to India, sterling for his exports to England, bahts for his exports to Siam, milreis for his exports to Brazil, etc., etc., and then had to sell those currencies in a market in which the rates for each one of those currencies was constantly shifting, and/or in which the foreign exchanges were subject to control and restriction. If the countries referred to did not have enough gold with which to meet when necessary a balance arising out of private transactions, the exporter to those countries might sustain a serious loss and the next time he sold his goods he would demand payment in the form of his own currency, or in gold, or some currency that would give promise of being kept stable in terms of his own currency or gold. 1/ Since there is no currency that could give such promise unless backed by substantial sums of gold, gold in the last analysis is the only form of finally acceptable medium of international payment.

The situation becomes much worse, of course, when goods are sold on long term credits, or when it is a question of capital movements between countries. The exchange risk increases with the length of time that lapses between the date of the loan (or extension of credit) and date of repayment. A country that has a currency subject either to fluctuations in value vis-a-vis strong currencies, or to exchange restrictions, finds it difficult to borrow foreign funds either for short term or long term purposes even though the loan be made payable in terms of the lending country's currency. For this very reason capital-needy

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1/ Most exporters, of course, do some part of their business under terms which involve risks of exchange, and some exporters are forced by a poor competitive position to do much of their business under such terms. But in the bulk of trade the risk of exchange loss is avoided by the exporter fixing the price of goods sold in terms of a "strong" currency, i.e., a currency that gives every promise of being stable in terms of gold. The importer, on the other hand, can avoid exchange risks only if the goods he buys is in terms of his own currency. If his currency fluctuates vis-a-vis others, exporters of other countries will be reluctant to sell him unless he pays enough more for the goods to warrant the exchange risk, or unless he buys in terms of some strong currency.

countries are particularly desirous to build up gold reserves (or foreign balances in countries that can supply gold when called upon to do so) enough to make possible both free and stable currencies for themselves.

There are some persons who believe that it will be possible, after peace is reestablished, for the world to dispense entirely with gold as a medium of international exchange and use either a universally accepted paper currency (not redeemable in gold, of course, since gold, they claim, is to be dispensed with as a monetary instrument) or any of several paper currencies which are to be kept at a fixed ratio with each other by international agreement. This belief will be found upon examination to rest on quite illusory grounds. But before the fallacies underlying that belief are indicated, a brief analysis of the role played by gold in international transactions should be presented. Most of the uncertainty and doubt as to the future role of gold persists largely because of the lack of understanding of why it is that gold is now and has been for centuries the best final medium of international exchange. It is important, therefore, that we go into the matter more fully before commenting on the feasibility of replacing gold with some other instrument in the conduct of international trade and finance.

To begin with it must be clear that so long as countries engage in foreign trade and international exchange of services and capital, either they must keep their international accounts in balance, or they must liquidate a balance with credit — by borrowing abroad if the balance is "unfavorable", or lending abroad if "favorable".

A country might, by borrowing abroad, be permitted to have an excess of outpayments. It can postpone the necessity for bringing its outpayments in balance with its inpayments. But borrowing abroad by most countries can be resorted to only in a small way, and only at times. 1/ Since under conditions likely to prevail for many decades to come most countries cannot borrow much abroad unless they have gold with which to make payment when called upon, and since a country will also not lend much to a foreign country with too little gold to support its exchange rate, it follows that countries which have no gold can conduct their international transactions in the main only if they keep their inpayments and outpayments in approximate balance. (Much more is said on this point in the following pages, and though the statement is sound as stated, it would be misleading to quote it without reference to explanation and qualifications that are found in later paragraphs.) As a general rule it would be impossible for a country with no gold assets to continue to pay for imports and meet adverse balances with short term foreign loans borrowed for that purpose.

Or a government could hold foreign earning assets (e.g., securities) which it could acquire in place of gold or foreign balances, and sell when it needed foreign exchange to fill an unsatisfied demand; (or buy foreign securities when it needed to take care of an unsatisfied supply of foreign exchange). In other words, a government could acquire a supply of foreign securities, or securities marketable abroad and utilize them in place of gold by converting them as and

1/ This is, of course, quite apart from the real possibility that a country may have an inflow of capital lasting over decades, when justified by the long term investment situation.

when needed into foreign currency. A Government could do this in preference to holding gold, but no government would do it (except possibly for investment of part of its foreign exchange assets) because of the risks involved -- risks of loss on sale of the securities; risks of exchange; and risks of loss from exchange control. Even a United States Government bond would not be so good an international medium of exchange to a foreign holder as is gold because of the possible fluctuations in its selling price. A United States Treasury bill, however, is now as good as gold because its cost price is almost face value and the dollar now is backed by so much gold as to be as good as gold.

Or an exporter might accept foreign deposits which he cannot convert into his own currency, if he has no choice of other means of payment for goods he already has exported. Certainly he will not continue to sell his exports in the knowledge that all he can expect in payment are foreign deposits which he cannot sell, or sell only at a loss. Nor could any Central Bank or Treasury continue to take over and maintain such foreign balances in order to bail out their exporters.

Thus, though credits and foreign exchange earning assets can be used in part, or for a short time, to avoid equating inpayments and outpayments, it can be stated that in the main inpayments and outpayments must be kept equal so long as countries engage in international transactions.

There are only four possible ways in which a country can keep its international accounts in balance without resort to foreign borrowing or foreign lending. (A deposit in a foreign country is in this connection equivalent to a loan to a foreign country. The role of credits will be discussed later.) These four ways, briefly outlined, are:

(1) <u>By adopting strict foreign exchange and/or import controls.</u> By regulating the issue of import permits, or the grant of the foreign exchange licenses, the demand for foreign exchange can be made equal to the supply of foreign exchange. In that way no gold would need pass from one country to another. When a country found its outpayments greater than its inpayments it could correct the imbalance by reducing imports, or by supplying less foreign exchange to tourists, by limiting outpayments for foreign services, etc. When, on the other hand, its inpayments were greater than its outpayments, it could relax the restrictions on imports, encourage foreign travel, etc., and thereby increase the outpayments required until balance was achieved between the demand for any supply of foreign exchange.

(2) <u>By permitting fluctuation in exchange rates to take place freely,</u> so as to balance the demand for any supply of foreign exchange. Under such an arrangement exports, imports and other international transactions need not be made subject to special restrictions. Thus, if the demand for foreign exchange increased relative to its supply, the market price for foreign exchange would rise (i.e., the currency would depreciate on the exchange market vis-a-vis other currencies), and repercussions on trade and service items that would result from such a rise in foreign exchange would be such as to alter the relative magnitudes of the credit and debit transactions until a balance of inpayments and outpayments was reached. Exports (and services) would be cheaper to the foreign importer while imports (and foreign services) would be more expensive to the domestic importer. As a consequence exports of goods and services would increase and imports decline until the supply and demand for exchange was equalized.

(3) <u>A third method is to conduct international trade exclusively on a barter basis</u>. In that way a government can always keep its outpayments and inpayments in balance without having to resort either to sales or purchases of gold or to fluctuations in exchange rates. All it has to do is see that the proper amount of imports are bought and exports sold to equal totals of the credit and debit side of its balance of payments. Trade could be conducted by such methods only under a complete government control over either or both imports and exports. Russia comes closest to operating on this basis, but even she does not balance her payments without the export of gold, though doubtless she could do so easily if she did not wish to use any of her gold.

(4) <u>A fourth method is to permit trade to operate without any restrictions</u> (except, of course tariff schedules) <u>and depend entirely upon gold as a means of settling any difference in the balance of payments</u>. Thus, if the outpayments exceeded the inpayments, foreign exchange would be supplied by an export and sale of gold to the appropriate centers; and vice versa, if inpayments exceeded outpayments, gold could be purchased abroad with foreign currency, brought home, sold for local currency, and the proceeds paid over to the creditors.

These four methods are the only bases upon which it is possible to continue to conduct international trade and finance (i.e., without borrowing or lending). <u>There is no other way</u>. Most countries have adopted a combination of the four procedures to keep their international accounts in balance. They impose exchange controls, require import licenses, establish and alter import quotas on a large scale, and undertake barter transactions. In some instances, in addition to all of the foregoing methods, the foreign exchange is permitted to float freely, or move only from time to time as an aid to achieving balance. But no matter what method or methods are used <u>all</u> countries today supplement those measures <u>by the use of some gold.</u>

No country uses any one of the four methods to the exclusion of all the others. The United States and a few other countries — Belgium, Switzerland, Netherlands and a few others — rely chiefly on gold movements for the balancing item, yet even they also resort occasionally to other devices. Belgium, Switzerland and the Netherlands have clearing agreements which are in effect a combination of a form of barter and granting of credits. They likewise apply some import quotas. These same countries, as well as the United States, have from time to time altered the value of their currency vis-a-vis the currencies of other countries, or have had their currency value altered by the action of other countries and permitted the change, sometimes for the reason that it helped remove "disequilibrium" in the balance of payments, and sometimes because it created the kind of "disequilibrium" which for the time being was desired (e.g., brought about an inflow of gold). Therefore, when it is stated that there are four different procedures under which international exchange of goods, services and capital are conducted, it must be emphasized that it is neither necessary nor desirable that a country pursue any one of them to the exclusion of the others. The problem of achieving equilibrium between one country's economy and another is so complex and so difficult that there are times when any method must be augmented or supplemented in varying degrees by other methods. But whatever combination is employed gold shipments always play some part in the successful working of the whole.

Because there has been such widespread practice of exchange controls, import quotas, clearing agreements and barter arrangements, a large number of persons believe that it is no longer necessary to use gold in international transactions. They believe that as time goes on more and more countries will adopt these procedures (together with much greater maintenance and shifting of foreign balances) until gold is used so little as to be virtually eliminated from the international scene as a medium of exchange. They fear that in the end the only country producing or gold holding countries will send their gold, which presumably they will not want, to the United States in exchange for our goods, our services and our securities which they will want. We will then have the yellow metal and they will have our goods, etc., etc.

This belief overlooks several vital considerations. What those considerations are is the subject matter of the next section.

Sec. III

THE FUTURE OF GOLD

H. D. White

Section III.

As pointed out earlier, the question is not whether trade can be conducted without gold but whether it can be conducted as effectively or as conveniently without gold as with it. Electricity, for example, is not useless because it is possible to obtain light, power and heat from other sources. The value of electricity as a means of creating light, power and heat depends upon its ability to produce those services for the particular purpose in hand more effectively or more cheaply than they can be produced in any other way. So it is with gold. Though it is possible to conduct trade and finance without the use of gold, the important thing is that it is possible to do so only at great inconvenience and only with substantial loss of trade and of financial transactions.

Import quotas, exchange controls, and floating exchange are crude instruments which countries resort to in order to adjust their balances only when the more efficient and smooth-working instruments, namely, gold and foreign credit, are unavailable to them in sufficient quantities. It is quite true that under special circumstances, and from time to time, good results may be obtained from any one of several trade practices. There are times, for example, when some barter transactions may be undertaken with mutual benefit to the bartering countries; when import quotas, clearing agreements, export subsidies and exchange controls will either increase a country's trade or help improve domestic business. There are even times when alteration of currency values in terms of other currencies may be warranted, and always tariff schedules may be adjusted to reduce or increase specific imports or import totals to the country's advantage.

All these methods have been and are being used both singly and in combination, and all may serve to increase trade, or to reduce the size of the balances that must be settled either in gold or credit, but they do not operate to eliminate those balances. They could be used so as to eliminate balances but only at a large sacrifice in the gains from trade, or in the volume of trade, or in the stability of domestic business. When the various methods of conducting trade (other than with the aid of gold shipments) are employed to increase the level of trade or to attain certain objectives at home with respect to specific commodities, the results may be easily obtained and may well be beneficial. When, however, those methods are resorted to for the purpose of keeping inpayments and outpayments equal, or when these methods are forced upon a country because of lack of gold or credit with which to balance its accounts, then the results are definitely harmful.

The gross total of world international transactions is somewhere in the neighborhood of $50 billion a year. That is, if one were to add all the inpayments and outpayments negotiated by each country we would have a sum of something like that magnitude. In contrast the gross movements of gold (i.e., the total exports of all countries — not net exports) amount to roughly $5 billion a year. In other words, 80 percent of the world's international business is conducted by offsetting or net credit transactions and only 20 percent by what might be called compensatory payments (i.e., gold shipments) and a goodly portion of the gross movements of gold is accounted for by newly mined gold entering the usual channels of trade, e.g., South African gold exports. With the development of international banking facilities and improved communication the proportion of gross gold shipments to total business transactions has been declining, and there is reason to believe that the downward trend will continue after the war, but it would be very difficult to raise the proportion of offsetting (and credit) transactions to 100 percent. To bring the last 10 or 15 percent in world trade in balance for each country would introduce obstacles and strains which would prove quite expensive to international trade. It would be found to be far cheaper to settle the balances with gold shipments rather than eliminate them through import exchange controls, etc. (Though for convenience we speak of trade as though it were the only significant item in the international account, actually we mean trade in services as well as goods, i.e., tourist expenditures, shipping, etc., and we also have in mind capital investments not undertaken for the purpose of balancing payments.)

Those who are worried about the future of gold forget that gold is the best medium of international exchange yet devised. No other practical method is in sight which can perform nearly so well the essential function gold performs in the international field. With adequate gold holdings, a country can permit its outpayments to be greater than its inpayments for a long period of time without being forced to attempt to raise foreign funds by borrowing abroad or by liquidating the foreign assets of its nationals, and without being forced to curtail imports, to depreciate its currency, to subsidize exports, or resort to complicated multiple currency devices in order to help balance its international accounts. Gold holdings constitute one of the effective cushions for insulating the domestic economy from the adverse repercussions of economic changes abroad, though this insulation is, of course, only partial.

Gold is for many countries an expensive tool and despite the fact that it has great usefulness as a stabilizing element and that it yields large dividends because of its convenience as an international medium of exchange, a poor country can ill afford to have much of it. Yet the misfortune is not that the instrument is frequently costly but rather that many countries under present circumstances are too poor to take advantage of so efficient an instrument. Many a farmer, for example, may be forced to use a horse and wagon because he has neither the credit nor the cash with which to buy an auto truck, or because community has so low a standard of living as to make human labor less expensive than machines freely used in other countries. That fact does not make the auto truck a useless vehicle; it simply means that many farmers cannot acquire so expensive a means of transportation, efficient though it may be.

Gold is like that. For some countries to acquire any substantial amounts of gold (or foreign exchange as good as gold) is too costly. Thus countries having to curtail imports (either through import or exchange control) because adequate amounts of foreign exchange at prevailing rates are not available, may need the imports of merchandise so badly that any increase in the foreign exchange availabilities should be used to buy more imports rather than to acquire gold. For some countries at war it is important to utilize every possible foreign exchange resource beyond a minimum deemed vitally necessary for the purpose of paying for more imports needed to conduct the war. Such countries may keep their gold holdings low for a long time, only because the most effective conduct of the war is the determining factor and is obviously more important at such times than is the advantage of having larger gold holdings. Just as a country at war sacrifices butter for cannons, so if necessary it sacrifices much needed gold for materials to make the cannons.

A second fact that persons who fear for gold's future overlook is that not only does gold constitute by far the best medium of international exchange but it also constitutes the best medium in which purchasing power may be stored or saved. The purchasing power of an ounce of gold has, on the whole, more stability over a long period than has the unit of currency of any country. In terms of real purchasing power over goods, an ounce of gold today purchases more nearly what an ounce of gold did 50 years ago than is true of dollars or sterling or francs or yen or any other currency unit. And with so much of the world at war or preparing for one, an ounce of gold is very likely to increase in purchasing power over goods and services, while most other currency units are likely to decrease in purchasing power.

More important, however, is the fact that every country in the world will sell goods for gold and no country will refuse gold in settlement of debt or in payment for services rendered. Every country in the world wishes it had more gold and every country attempts to accumulate some gold as soon as it feels it can afford to do so. This does not apply to any other commodity, nor any other currency (except those freely exchangeable for gold at par.)

Section III

I say that every country in the world will sell its goods and services for gold and would be glad to be paid in gold for all sums due it. However, that does not mean that all countries will hold the gold after they have acquired it. Some or many may export gold soon after receiving it, in order to liquidate claims against it, or to buy imports; others may accumulate for decades all they readily can. Whether a country will hold much or little gold, or hold newly acquired sums for a long or short period, depends upon a variety of conditions, including the trend in its international accounts, the state of business, the prospects of foreign trade, the movements of prices, the eagerness to eliminate or relax exchange controls and import quotas, the prospects of continued peace, the availability of capital, and the state of confidence in the currency. All these conditions enter into the calculations of a government when it is making the decision whether or not to encourage gold inflows and build up gold reserves. The situation with each country will differ, and the situation with any one country will vary from period to period. But always the desire will be to accumulate gold if the country can possibly afford it.

Monetary authorities here (as elsewhere) are fully cognizant of the need to leave inviolate the unquestioned acceptability of gold as a means of international payment there is no danger that they will do anything to diminish in the slightest with its unquestioned general acceptability. Hence arises the adamant opposition to give even serious consideration to proposals coming from those who know little of the subject that we stop purchasing gold, or that we stop buying the gold of any particular country, for this or for that or for any particular reason. (We shall have more to say about that point later when considering the various proposals submitted to the Treasury for consideration.)

Another important consideration overlooked by those who fear that gold will cease to be acceptable as money is that numerous countries have a large and continuing stake in maintaining the value of gold, and will do nothing to jeopardize the use of gold as a medium of international payments. The British Empire, for example, produces half the world's gold supply. It is a source of vital revenue to one of the Dominions and of considerable revenue to several other parts of the Empire and the shares of the British gold mining companies constitute an important block in the London Stock Exchange. Therefore, she would never refuse to accept gold in settlement of debts or in payment for her goods and services. And there are other countries that produce gold. Mexico, Peru, Colombia, Venezuela, Japan and Russia likewise produce gold in large enough quantities to prevent those countries from doing anything to interfere with the efficacy of gold as means of international payment.

In addition to the gold-producing countries, there are the gold holding countries. Just which countries will have gold in large quantities after the war cannot be forecast but it is certain that there will be many billions held outside of the United States and that it will be held by at least a score of countries. Countries holding gold will be as little desirous of jeopardizing its value as countries producing gold. Sweden with its stock of $300 million of gold, or Argentina with its $400 million, will be no less reluctant to have gold lose any of its purchasing power than would the Netherlands with her $700 million, or South Africa with its $100 million of holdings and $1/2 billion of annual output.

Moreover, it is not in the interests of any country to attempt to destroy the monetary value of gold. Countries at war which have little or no gold themselves but which have enemies that do have large holdings might wish gold had no monetary value so that the enemy would not have the important advantage that results from having large gold stocks, but they are powerless to do anything about it. In fact, they are so aware of the absurdity of even making the attempt that they make every effort to secure more gold, or hold on to what they have. The statements emanating from Germany, for example, to the effect that unless the United States alters its trade policy we will have all the gold which will then be of no use to us nor to anyone else are crude attempts to obtain a dual gain. They hope, by exploiting public confusion and partisan political forays on the subject of gold, firstly, to induce us to adopt a commercial policy which will make it easier for Germany to sell us more goods, and secondly, to discourage us from selling freely to England and France in exchange for their gold. Actually, Germany perhaps more than any other country, appreciates how difficult it is to operate without gold and how much better off she would have been during the past five years had she not had to resort so completely to strict exchange and import controls, clearing agreements and barter transactions, in order to keep its inpayments and outpayments so closely in balance.

German authorities themselves give so little credence to their own statements of demonetization of gold, that despite their desperate need for imports, they prefer to sell exports and tighten the belts of their people still further, rather than part with the $100 or $200 million of gold they have.

So little is the future purchasing power of gold in doubt among governments that we actually find them insisting on part payment in gold rather than goods or blocked currencies in exchange for political allegiance. And why shouldn't it be so? Gold can be saved for an emergency, and can be spent anywhere at any time for goods and services. Furthermore, the value of gold (i.e., purchasing power over goods) is more apt to increase in the next decade than diminish.

Resumption of peace can only enhance the monetary prestige of gold because peace will be accompanied by the desire to relax import quotas and exchange controls, to reduce barter transactions and clearing agreements, and also to maintain stable exchanges. To make such relaxation possible gold will be more necessary than ever as a medium of settling international balances.

The less gold a country has the more important is it for it to obtain more. But unfortunately when a country has little or no gold, it is difficult for it to accumulate more, because the fact of its having little or no gold is usually a reflection of a desperate exchange situation. It is usually proof that the country has been in such straitened circumstances that it has been forced to give up badly needed gold for even more acutely needed goods. When a country parts with gold when it has little of it, the alternative must indeed be bad. Thus, Japan, is holding on desperately to her remaining gold reserves and has drastically curtailed needed imports and done everything she possibly could to increase her exports in an effort to conserve the gold she has left. A similar situation prevailed with Italy and Germany, and now we find that England and France are likewise embarking on a course in which they will sacrificeimports in order to conserve their gold. If the war continues for many years they too will probably be forced, however reluctantly, to part with a large share of their gold in exchange for imports vital to their existence. Russia, too, despite her well known need for additional equipment and consumers' goods, has preferred to go without these rather than use up her gold holdings.

As an indication of the prevalent attitude of governments and central banks toward gold, we find numerous countries increasing gold at the first opportunity. A number of smaller countries are already taking advantage of an improved balance of payments to increase their gold holdings. Brazil, Argentina, etc., have been purchasing gold and are accumulating foreign exchange rather than increase their imports of goods. Were any government asked whether it would prefer a loan of goods or gold it would unhesitatingly elect to take gold because with gold it could buy where and when it pleased, as well as protect its exchange rates and domestic economy against the effects of a changing balance of payments.

The value of gold as a means of international payments rests on much firmer ground than its value as part of any country's monetary system. Its use as required reserves against note issues or deposits rests largely on psychological grounds, upon historic precedent, upon traditional faith in gold, and upon prejudice buttressed by a foggy understanding of the principles underlying the role of metallic reserves in modern monetary systems. In its role as a medium of international payments, however, the prestige of gold rests on something far more substantial than faith, or confidence, or historical precedent, or prejudice. It rests on performance and on logic. Its superiority over any other means of settling balances is easily demonstrable and is fully known by those in all governments who have any responsibility for the proper functioning of their monetary system. It rests on the common experience of nations which reveal time and again in many quarters of the globe that a country with gold can engage more freely and more effectively in international trade and finance than can a country with little or none.

Streamline international transactions as you will, introduce foreign balances in place of gold holdings, earmark gold abroad instead of keeping it at home, extend trading arrangements on a bilateral basis, develop banking facilities which will permit large overdrafts, build up portfolios of foreign securities when necessary -- do all of these, yet gold remains the essential ingredient which makes them workable. Sweden, Switzerland and Argentina may keep part of their reserves of international payments in the form of dollar balances or even in the form of United States Government securities, but they feel safe to do so only because they know they can convert those dollars into gold if and when necessary.

The more gold a country has in relation to its total economy, the more confidence will other countries have in its currency and the more easily will they use balances in its currency instead of actual gold as part of their reserves. Many modifications have been introduced during the past decades, both by force of circumstances and by choice, to reduce the amount of gold shipments necessary to transact international business, (e.g., gold held on earmark, adoption of gold exchange standards, foreign balances in strong currencies, etc.) but it is only because some countries have large gold holdings that substitutes for gold can be readily employed for a large part of international transactions.

There may possibly come a time when gold will no longer retain its superiority over other devices, but that can be only when national monetary systems and national monetary policies cease to exist and are replaced by an inter-governmental authority which will decide the monetary, credit and trade policy that each nation is to pursue. A sort of monetary League of Nations which would control world economic policy. If and when that time arrives gold possibly will be no more needed to settle international balances than gold is now needed to settle balances among States within the country. But until that millennium arrives gold will continue to be sought by various governments as a combination war chest and protective cushion against the shocks of international change, as well as an efficient and smooth instrument for balancing international payments, and a reserve stock of international purchasing power.

There are some who believe that a universally accepted currency not redeemable in gold (or in some other specified universally accepted commodity) is compatible with the facts of national sovereignties but a little thought reveals the impracticability of any such notion. Any foreign country is willing to accept dollars in payment of goods or services today because it is certain that it could convert those dollars in terms of gold at a fixed price. It might with equal alacrity accept sterling, or some other currency, so long as the currency was exchangeable at a fixed rate with dollars, and so long as, further, the dollars were exchangeable for gold at a fixed rate (or an approximately fixed rate). It might go even further. It might, if there were no choice, be willing to accept a currency that is not stable in terms of gold and accept a risk of exchange loss, but its willingness to accept that currency would be directly proportionate to the degree of exchange risk; the greater the risk, the greater the reluctance. If no country could employ gold to equalize the supply and demand for its currency, the foreign exchange risks would be so increased as to interfere seriously with international trade and finance.

Of course, if all countries agreed to keep their currency fixed in terms of all other currencies, or even if several leading countries agreed to keep their currencies fixed in terms of each other, and adhered to the agreement, no gold transfers would be necessary. If, for example, Great Britain, the United States, France, Italy and the Scandinavian countries and Japan agreed to keep their currency at fixed ratios with each other (with minor fluctuations permitted for technical reasons) and if further these countries agreed to permit funds to move freely among themselves then countries throughout the world could use sterling, or dollars, or francs, or yen, just as they now use gold. Each country could build up sterling, or dollar, or franc, or yen balances in the other countries secure in the knowledge that any other countries would always accept those currencies at the fixed rate. Central banks of any country could then accumulate balances abroad just as they now accumulate gold, in the knowledge that they could spend those balances when and where and how they liked.

The time may come when some such arrangement is possible, and when it does come gold will be used less and less as an international medium of exchange. But there are several things to be said on this possibility which are vitally important to an understanding of the prospects:

(1) There is nothing in past history and certainly nothing in current events which gives assurance that a group of major countries will agree to resign their sovereignty on so fundamental a matter as the value of their currency in terms of other currencies. Countries have found it in their interests time and again to alter the value of their currency in terms of other currencies. There is no reason to expect economic relationships among countries to change so much in the next several decades as to render the future sufficiently different from the past in this respect to warrant surrender of that power by leading governments. If the arrangement for holding one anothers currencies permits a country to alter its currency vis-a-vis the others, stipulation for making good the exchange loss to countries having balances in the country which has made a change will have to be provided. For any group of countries to trust each other to make good large exchange losses arising out of a change in currency relationships would indeed be a departure from previous experience.

Yet even if such a degree of international agreement could be achieved it would still be true that settling balances by accepting currency guaranteed against exchange loss would not be better than the use of gold for the purpose. It would not be as good, because gold as an international medium of exchange combines all the advantages that such an agreement would have plus the advantage of applying to all countries without need for international agreement. Many decades at least will have to pass before many countries will elect to keep their reserves in the form of some foreign paper currency never redeemable in gold rather than in the form of gold or currency redeemable in gold.

Suppose the United States had had such an arrangement with England, France, etc., during the past five years in place of gold transfers. We now might have the equivalent of several billion dollars in sterling and/or francs, etc. (It is impossible to know exactly how much foreign currency we would have because if gold had not been used as a medium of exchange, capital flows, trade balances, etc., would have been different.) We would probably now have a stake in France and England to the tune of several billion dollars of blocked balances! Surely none would contend that under such circumstances we would continue to export goods or securities and take in exchange more foreign currency deposits in the hope that we could get them out some day without loss.

And what would be the situation right now with England and France making large purchases of goods vital to the conduct of the war? Would we refuse to sell to England and France unless they paid in goods? How could they pay us in goods unless we drastically lowered our tariff or appreciated our exchange? If we could do under those circumstances, why not now? Were we to attempt either method of balancing our accounts serious political opposition would arise here, just as it would arise now under a gold regime if we tried to drastically reduce our favorable balance of payments by cutting exports and increasing imports. And would England assume the exchange loss on such a huge sum as we would have had on balance then? Would she give us the difference in paper sterling?

Would we want it? Who would guarantee us against a rise in the British price level? Or would England and France have to raise all the dollars they need by selling to us their foreign investments? England, Canada, and France have already sold us over $800 million of gold since the war. What would the effect of such large sales by on our security markets? Would England and France's creditor position be what it is had there been no gold? These questions, though dealing with hypothetical situations, cannot be ignored. They indicate some of the reasons why international agreement is not a substitute for gold.

(2) A second fact not to be overlooked is that though gold is expensive to obtain out of the ground, <u>the cost has already been incurred for the gold already in monetary stocks</u>. A country having gold <u>has already paid for it</u>. It has nothing to gain and almost the whole monetary value to lose should gold no longer become acceptable to other countries as a medium of international exchange. Were gold to cease to be used as a medium of international exchange, the only salvage value it would have would be its industrial use. Separate gold as metal from gold as money and you will find that its industrial value is small indeed.

(3) Furthermore, it must be emphasized that there is nothing in the use of gold to settle international balances which compels any country to buy gold unless it wishes to do so. A country, if it so desires, can so arrange its affairs as to accumulate no gold. A country faced with a favorable balance of payments which it does not want can always raise the value of its currency vis-a-vis others, or reduce tariff schedules, enough to wipe out a favorable balance of payments, provided it is ready to pay the price of such action. We, too, have that choice

right now. We can very easily stop gold from coming to the United States, but, as we shall see later, only at a social and economic cost that makes such action at this time most unwise. Our dilemma would be the same if no gold were in use and we were to accept foreign currencies in settlement of our favorable balance of payments. Indeed, our situation would be worse, for whereas now we receive a medium of exchange — gold — that is acceptable anywhere and in any amounts, we would, under the assumption that gold was not used, be accumulating foreign paper currencies, the value of which in the future would be much more uncertain.

If for one reason or another a country wished to accumulate dollars, sterling (or any other currency unit) credits, or balances, in place of gold, as would be the case under the assumption that one currency could either by agreement or custom replace gold as an international balance of payments, then it would be just as costly to accumulate those balances or credits as it would be for it to accumulate gold. There would be no saving to countries in accumulating foreign currency or deposits in place of gold.

Some savings in the monetary use of gold are indeed possible and will doubtless be made as time goes on. Thus the physical movement of gold from country to country can be greatly reduced by extending the practice of earmarking gold. Clarification of the legal, national and international status of earmarked gold and the return of international peace will help promote the practice of keeping gold under earmark in important financial centres and merely changing the tag of ownership rather than undertaking the cost of actual shipment. Also increased use can be made of stabilization funds so as to provide out of large foreign balances, or out of large government overdrafts, foreign exchange for seasonal movements and even for short cycles. Then, too, it may in time become feasible for most countries to continue to release gold from its domestic functions -- functions which possibly can be performed by other instrumentalities at least as well -- so that the gold can be devoted exclusively for the settlement of international balances. That would make a redistribution of the world's gold easier and enhance the effectiveness of gold shipments as an aid to autonomous monetary policy. But the effect of these savings will be to enhance, not reduce, the utility of gold in its role as the final quid-pro-quo for balances due from abroad.

(4) Fourthly, the fact that numerous countries produce gold alone constitutes a powerful barrier to the impairment of gold. Countries that hold gold would, of course, lose. Were the world to cease to accept gold as money the gold holding countries as well as gold-producing countries would lose purchasing power over foreign goods and services. Were any of them then to desire a reserve of foreign purchasing power they would have to accumulate foreign balances or foreign currencies -- a process which would be just as expensive as to accumulate gold. The countries outside of the United States will produce over a billion dollars of gold a year. They would strongly oppose any measure or policy the effect of which would be to cut off that source of national income.

Nor is it certain that non-producing non-holding countries would benefit. The only saving that might result from the substitution for gold of a foreign paper currency fixed in terms of other currencies through international agreement would be that the world as a whole would not have to give goods and services to gold producing and exporting countries, in exchange for the newly mined gold. Whether this would be a gain in the short run or even in the long run for the world as a whole is not a question that can be answered easily. Superficially it appears simple: labor and effort go into the mining of a metal which serves only as a medium of exchange; if some form of paper currency, requiring very much less labor and material, could be substituted for gold, the world would save the labor required to produce the gold. So the reasoning goes. But the correct answer is by no means as simple as that. The British Empire, for example, produces about $800 million of gold a year, and exchanges most of it for goods and services of other countries. Whether the world would be better off if the British Empire produced no gold and thus reduced its purchases from abroad by some one-half to one billion dollars a year, and if other gold-producing areas likewise reduced their imports depends, in the short run at least, on the state of world trade and world business. This question will be discussed in a later section.

In any case, the question of the treatment of newly mined gold is a very different one from the consideration of the use of gold already in stock. Even though it may be concluded that it would be wise to restrict the use of newly-mined gold as money, a proposal we shall examine in a later section, it by no means follows that it would be wise or possible to demonetize gold now in monetary stocks and substitute some other device to be used as an international medium of exchange.

(6) It may be objected that that is not the whole story. It may be contended while it is true that gold stocks are no added expense to a country already having them, they do, nevertheless constitute a claim on the labor and commodities of other countries, to be exercised whenever the holder likes. This objection makes no sense. Though, in fact, any foreign country would be glad to sell us goods in return for gold, and though there is nothing to prevent them from likewise using that gold to buy other goods, no country is forced to accept gold in exchange for its commodities and services. It does so only because it regards such an exchange as a gain. There is, for example, nothing to force us to accept gold for our goods; we could decide to stop accepting foreign gold and put the decision into effect at once by Treasury regulations. The r eason that we do not do so is not that we cannot, but rather that the consequences of such action would be an economic loss to the United States of such magnitude as to make such a step unworthy of serious consideration by any responsible authority.

Were the world different, were it possible for some super-government to establish monetary policies and principles, and other countries to abide by the policies so set, doubtless some other instrument could be used as a medium of exchange, though any medium would be almost as expensive as gold -- so far as gold already mined is concerned. Or were all important countries to adopt a completely totalitarian form of government and barter their exports for imports so that there would be no balance due either of the trading countries, gold could again be dispensed with. But to attempt to develop such forms of government in order to avoid using gold as an international medium of payment is patently absurd.

There are some who see in the recent monetary arrangement between England and France a pattern which they believe capable of extension to other countries after the war, and which will make gold unnecessary as a means of international payments. Examination of the arrangement, however, reveals the inevitable limitations of the plan which make the above expectations hopeless. The novel and pertinent part of the arrangement is that each country has agreed, among other things, to settle for the time being balances due between them in each other's local currency at a pre-agreed upon rate of exchange. Thus should France develop a net balance of payments due England she will pay in francs, and later should England have a net balance due France she would pay in sterling (both, obviously, cannot have net balances due each other at the same time.) Under that arrangement no gold need pass between England and France so long as the country with a favorable balance of payments vis-a-vis the other is willing to let the balances accumulate in the other's currency, or so long as it can take steps to spend those balances, other than by purchase of gold.

Even should the arrangement between those countries (which will doubtless be extended to include most of both Empires) prove successful during war time, it by no means follows that it can work successfully after the war. England and France are fighting a common enemy. They have pooled their military strength, and are now engaged in the difficult and complex task of attempting to pool a portion of their economic resources. Under such critical circumstances one of them may be willing to build up its deposits in the other's currency instead of taking gold, but that is a far cry from expecting similar subordination of national monetary policy when there is no common enemy at their gates. Supposing, as is entirely likely, prices in France rise much more rapidly than in England, is the French franc to be permitted to fall? Or is France going to develop a steadily increasing unfavorable balance of payments? How long is England going to accept paper francs without wishing a portion of them converted into gold? To be sure, so long as the war lasts, the problem is not insuperable since some adjustment can easily be reached through transfer of war equipment, etc., but should the war cease, would either country continue to pile up balances in the other?

And why should either country do so? What has either of them to gain by taking such risks? The question is of no significance and does not arise when the balances due in either direction are small, or when they constantly shift in direction. In such circumstance either country can let balances rise and fall in the other country since balances will not grow big enough to give rise to exchange risks of large total magnitude. That is exactly what has been done by many countries for long periods of time in the past. But, when a country's favorable balance does or may become large and persistent, the question does become important. A country may then have much to lose by continuing to pile up balances in a foreign paper currency that may depreciate. In fact, failure to withdraw the balances in the form of gold as they accumulate may well accentuate the risk by reducing still more the already curtailed chances of an adjustment of the trade balance before the situation becomes critical.

It is one thing for two Allied countries — England and France — to operate under such an arrangement, and quite a different matter for countries less friendly to do so. An extension of the arrangement sufficient to replace the use of gold involves a willingness on the part of many governments to accumulate balances in foreign currencies indefinitely. Can we imagine Germany, Italy, Japan, the United States, England and France deciding to use each other's currency as trustfully as they would gold? Then, too, whether we could pursue as independent a role in our policy vis-a-vis England, Japan, France, Germany, Italy, etc., while many billions in their currencies were held in their banks for us is an interesting question. The nature of international political and economic relationships would have to change a great deal before any government would trust other governments to that extent. Armies and navies are maintained at huge expense exactly because that degree of confidence in the major policies of other countries is lacking. After large armies and navies are dispensed with there may be some point in discussing the feasibility of replacing the use of gold as an international medium of exchange by the accumulation and maintenance of foreign balances. And even then, as we shall see, it is not at all certain that there is anything to gain by the substitution.

Many persons erroneously conceive the alternative to the use of gold as a medium of exchange between countries to be the use of goods (or services). They argue as though we now would be getting goods (or services) instead of gold if only gold were demonetized. Actually the alternative to gold imports would be imports of foreign paper currencies (or its equivalent, deposits in foreign countries) and not imports of goods. To be sure, it might be that faced with the alternative of accumulating foreign paper currencies or drastically cutting our trade balance, the public might prefer the latter despite its bad economic consequences. But since it is gold, not paper currencies or foreign I.O.U.s that we are accumulating, we can more easily avoid the consequences that an attempt to balance our inpayments and outpayments <u>under present circumstances</u> would involve.

Another alternative to gold in those cases where the foreign investments of its nationals are subject to foreign sale by the belligerent governments, could be those foreign investments. That is, we could force those countries at war to obtain their dollars by liquidating more of their foreign holdings in the United States in place of selling their gold here. How far we could go in that direction without doing our economy more harm than good is uncertain but, in any case, such possibilities apply only for countries having large foreign investments and only then where and when strict exchange controls and restrictions are in effect. Precisely one of the advantages of the use of gold in settlement of international balances is that it reduces the necessity of such restrictions on private enterprise.

Those who fear that foreign countries will continue to send us all their gold and then pursue a trade policy which will prevent them from accumulating gold exchange resources, pay inadequate attention to the fact that the balance of payments situation in any country <u>is determined by more vital considerations than the question whether or not to give up goods for gold</u>. In countries where private free enterprise and competition are the characteristic mode of business, the changes in the balance of payments are conditioned by the business situation at home and abroad, and by movements of prices, tariffs, etc. No government of such a country would deliberately restrict exports in order to reduce its favorable trade balance, unless possibly it were in the midst of a business boom or at war; nor is any country likely to deliberately stimulate its imports relative to exports through reduction of trade barriers simply in order to curtail inflowing streams of gold. Decreased exports and increased imports have consequences on the economy of a country that far transcend in economic importance and in political significance the consideration that the Treasury is gaining gold. There is a stage at which a decrease in exports relative to imports does become wise policy. No country which had relatively full employment would willingly allow its gold price, its exchange rate and its balance of payments to continue in a position which encouraged an inflationary gold inflow. But no country which has extensive idle resources of capital and labor will deny itself the stimulus of the sale of goods for gold merely because it feels it may be getting more gold than it can easily dispose of in the ensuing few years.

Governments will take drastic action to prevent <u>losses</u> of gold, but there is no instance in modern history of a government taking drastic action to check an <u>inflow</u> of gold. 1/ One has but to visualize the

1/ One occasionally sees reference to Sweden as having refused to purchase gold during the World War. The facts are as follows: The Swedish Government on February 7, 1916, released the Swedish Riksbank from its obligation to buy gold at par. The Riksbank officials wanted to be relieved of their obligation (under the terms of the Scandinavian Monetary Union) of buying Danish and Norwegian gold at par, when gold could be had cheaper through depreciated foreign exchange. Several Swedish economists supported the "gold embargo" because of the credit inflation in Sweden and the shortage of consumers' goods. Norway and Denmark adopted similar measures a few weeks later. The Swedish "gold embargo" did not forbid the Riksbank to purchase gold, and in fact the Riksbank continued to do so.

reaction of American producers to an administration and to a Congress which, for the stated purpose of reducing an inflow of gold, stimulates a flood of imports and imposes restrictions on exports at a time when there is substantial unemployment. Even our Trade Agreements program meets with strong opposition at home despite the fact that its objective is to increase our exports along with our imports and hence leave our trade balance about the same. Indeed, its principal defense lies in precisely that claim. Were it to bring greatly increased imports without obtaining additional markets for our exports the power would have been taken away by Congress long since. To ignore the connection between widespread unemployment and the desirability of maintaining or increasing exports and the significance of this connection in determining gold policy is to withdraw from the realities of life and hide in the limbo of an academic dream world in which reasoning proceeds from hypotheses devised solely for the purpose of making the exposition of a complex subject simple.

To believe that gold will continue to be used as a medium of international payments for many decades to come does not necessarily mean that the United States gains from further additions. It is possible that we in the United States have more than enough gold to satisfy our possible needs for specie. The utility of gold as a medium for settling the balance of payments after a certain level of holdings is reached increases inversely with the amount of gold a country has; the less it has, the more likely is it to need all it has; the more it has the less likely is it to find additional sums as useful. Above an amount adequate to take care of any possible demands on international account, additional sums of gold have less use as a means of international payment in the sense that there is less likelihood that the additional sums will ever be so employed. Therefore, it may be said that the only gold that is of potential use to the United States is that amount which may be used some time in the future to liquidate adverse balances of payments. From this point of view it may well be that additional receipts of gold may add very little, if anything, to the usefulness of our gold holdings. Yet we cannot be certain even of this point, despite our unprecedentedly large holdings.

In years to come a combination of circumstances may emerge which would cause for many years a large sustained outflow of gold from the United States. We cannot forecast what the relative degrees of prosperity, of investment opportunity and of security, will be among the nations of the world 5, 10, or 15 years from now. France had large gold reserves far in excess of her monetary needs for over 50 years before she needed to make use of them. Who can say that the next 25 or 50 years may not see a similar situation confronting the United States?

Even if no special situation arises -- as it did with France -- in which we would need our gold, there is no certainty that we may not be exporting gold for many years at a time. It is just as possible for the United States to have an adverse balance of payments over a period of 5 or 10 years as it has been to have a favorable balance of payments over that period of time, particularly if we can achieve and maintain full employment. Once peace is reestablished we can, after a few years, easily develop an import excess of substantial amounts which could persist for a decade, tourist expenditures by Americans could reach much higher levels, and liquid capital could flow abroad in large amounts. The steadily growing trend away from "automatic" monetary systems toward a greater degree of "management" can operate to greatly increase the length of time in which countries can have a favorable balance of payments if the governments wish to pursue such a policy, and other countries an unfavorable balance — provided the latter have plenty of gold to give up. The United States may be just in the right position of being willing gradually to develop an unfavorable balance of payments and thus steadily export gold, while numerous other countries, after regaining their essential level of imports — following their period of immediate post-war reconstruction — may be just in the position to build up their gold reserves.

He would be a bold man indeed who would say that it is improbable that we should have an unfavorable balance of payments as large as $1 billion a year for many years, while only a person having no understanding of international economic relationships could say that it is impossible.

However, before we can answer the question whether the United States gains or loses by the large annual additions to its gold stock we must answer two other questions: First, what does the foreign gold we get cost the American people? And secondly, what would it cost the United States to reduce the incoming stream?

The next section is devoted to the answers to these two questions.

Sec. IV

THE FUTURE OF GOLD

H. D. White

Section IV.

Let us turn to the first of the two questions we have just posited. What does the United States give for the gold it receives?

During the past five years we have imported on balance about $9½ billion of gold. 1/ For each ounce of gold received from abroad the Treasury paid $35 an ounce (minus 1/4 of 1 percent) to the foreign owner. What did the United States give in exchange for the dollars the foreigner received for that gold? We know that we gave merchandise, services, securities, claims on future foreign income, and banking services. The United States gave all of this but it is impossible to know what part each was of the total. So many items go to make up our international account that the dollars obtained from the sale of gold shipped here cannot be allocated as payment for any one of the items on the credit side that must be paid for with dollars or any specific proportion of the various items.

For example, from 1935 to 1939 we exported $2.7 billion of merchandise more than we imported. During that same period we expended on net tourist services and silver approximately the same amount. Should we, therefore, say that our excess of merchandise exports was

1/ Some gold comes to the United States and is placed under earmark. It does not enter our monetary system — it is merely warehoused here for safety and convenience to be disposed of by the Central Bank or Government in whose name the gold is earmarked. The United States gives nothing in return for such gold except protection and some space in the vaults of the Federal Reserve Bank. (On March 1, 1940 there was more than $1 billion of such gold held on earmark.)

paid for with dollars spent by our tourists abroad and by our government purchases of foreign silver, rather than with the dollars foreigners received from the sale of gold shipped to the United States? Or again, we received during that period on balance about $1.7 billion as interest and dividends from our foreign investments. Was that revenue received in the form of gold, or rather did we utilize that revenue to help pay our bills for shipping services and government foreign expenditures which totalled almost the same?

Streams of dollars and foreign exchange are constantly being fed into the foreign exchange markets from a variety of sources — our exports, interest payments due us, purchase of our securities, building up of foreign balances, etc. At the same time there is being withdrawn from the market a steady stream of dollars and foreign exchange in payment for our imports, shipping services, etc. Obviously it is quite impossible to indicate specifically what the dollar proceeds of gold sales were used in payment for. There are numerous items on the credit side of the international balance sheet and numerous items on the debit side; gold inflow is only one of numerous items on the credit side, and therefore it cannot be regarded as payment against any specific items on the other side of the balance sheet.

All we can say is that if foreign countries had to send fewer dollars to the United States, either because they purchased less of our goods, or sent less capital here, or owed us less interest payments, etc., — and, conversely, if we had to pay to foreign countries more foreign exchange either because we bought more goods from abroad, or because our tourists spent more money abroad, or because we bought more foreign securities, etc., — then less gold would have come to the United States. But to what extent it was the decline in foreign purchases or the decrease in capital inflow, or the increase in imports which curtailed the inflow cannot be stated.

Nonetheless, by approaching the problem from a different point of view, we can deduce in a very general way what it was the United States gave in return for the gold. We could ask ourselves what would have happened had we adopted several years ago measures designed to bring our international accounts into balance with the receipt of much less gold. By estimating how each of the items in our international account would have been altered had we adopted measures which would have reduced the inflow of gold we would be justified in allocating those changes in our balance of payments to the inflow of gold. Admittedly we are dealing here with estimates that contain a large element of guess-work. Yet no accurate method of estimating is possible when attempting to ascertain what would have happened under substantially different conditions than those which prevailed.

The chief items in our balance of payments which could have been altered by government action was our merchandise balances, capital movements and tourist expenditures. The government, by promoting a rise in the price of our exports and a drop in the prices of imports (via appreciation of the dollar, or by reducing duties on our imports) could have caused our exports to fall and imports to rise. By the same device it also might have made it attractive for American tourists to spend more money abroad; and finally by adopting special measures it could have prevented or greatly curtailed the inflow of capital. These are the chief items the government could have so altered as to significantly curtail the volume of net inpayments, and thence the inflow of gold which foreigners shipped here to obtain dollars.

Using that approach to the problem we may conclude from an examination of our balance sheet that what chiefly was given in exchange for the $9\frac{1}{2}$ billion worth of gold we obtained in the last five years was (a) possibly several billion dollars worth of merchandise, (b) from $4 to $6 billion of "capital", i.e., claims on our enterprises, bank deposits, etc., and (c) possibly a billion dollars of services. These are very roughly the amounts of change which by government action might have been brought about. Therefore it may be presumed that it was about that amount of each of the three major items indicated that the United States gave in exchange for the gold it received. But it would be very misleading to stop there. To enumerate the things the United States probably gave in exchange for the gold — merchandise, services and net claims on capital account does not give the real cost to the United States of the gold it received. To measure the real cost of these items it is necessary to examine them further.

The $4 to 6 billion worth of capital must be broken down because it consists of different elements, <u>each having different significance</u> from the point of view of cost to the United States. About one billion of the $4 to $6 billion consists of increased deposits by foreigners in the United States. For that $1 billion obviously we have as yet given nothing but the privilege of keeping a deposit in this country. The banks give no interest on these deposits and presumably the banks are willing to perform the banking function because they obtain, somehow or other, a quid pro quo. Were the banks unwilling to accept foreign deposits they would doubtless have found ways to have discouraged foreigners from holding those deposits with them (either by refusing to accept deposits above a certain amount from individuals, foreigners or banks, or by imposing service charge for servicing the accounts, etc.). They would be reluctant to do so as long as the accounts put them to little or no expense, but had they been losing any significant sums as a consequence of accepting foreign deposits, they would have doubtless found ways to avoid the loss. Therefore, it can be stated that as yet there has been no cost to the United States for $1 billion of imported gold that reasonably might be allocated to that item.

Possibly another $1 billion or so received represents the resale by Americans of the foreign securities they had formerly held. It could not be reasonably argued that the United States was necessarily losing anything in that exchange. The American holders of these foreign securities preferred dollars (in cash) to the foreign securities. This exchange of foreign securities for foreign gold, taken by itself, does not represent any sacrifice on the part of the United States. For had Americans held on to their foreign securities they would have obtained interest and dividends which most likely would also have taken the form of gold imports. It might be claimed, of course, that it might have been better for the United States had these securities been bought back by foreigners not with gold but with merchandise, i.e., exports sold to the United States. In other words, it may be claimed that there was a cost to the people of the United States in the sense that an alternative form of payment — merchandise imports rather than gold imports —

would have yielded greater benefit to the American people. Whether this is so or not we shall examine below, but in any case it seems misleading to state that the United States has sacrificed something valuable for the gold it received when what we really mean is that had circumstances been different we might possibly have got goods and services in place of the gold.

Another $1 billion of capital came to this country to purchase American securities, i.e., claims on income from American enterprise. Here is something definitely given up in exchange for gold. In view of the fact that there was no lack of capital in the United States, the gain to the United States of additional investments by foreigners in our enterprise is only indirect, if any. These security prices may have been slightly higher by virtue of the foreign buying, and the consequences of a slightly stronger security market may have been favorable to business conditions though to only a slight extent. That is the only possible advantage — and it does not seem an important one — to set off against the several disadvantages. Yet even on this item we cannot know what the United States really gave up for the gold. Much depends on what the foreigners eventually do with the American securities they acquired. They may sell them at a time when the net effect is to help promote an outflow of gold, in which case they would be returning the securities to American holders and taking gold back in exchange. Or again, the foreigners may withdraw from the United States the interest earned on their holdings, or a portion of their principal, during a period when such withdrawal would be reflected in an increase in our exports of merchandise, and when that increase in exports, instead of depriving Americans of any goods, would leave as much goods here as would otherwise have been here. Thus their purchase of American securities may actually operate to decrease unemployment at some future date. This point brings us to an important question.

Did that portion of the gold we receive that may reasonably be allocated to our "favorable" trade balance mean that Americans gave up goods and services for that gold — goods and services that would otherwise have been consumed by the American people? The answer frequently heard is "Yes, of course". Actually, however, no such certainty is warranted. It depends entirely upon the period under consideration. There are times when exports "paid for with gold" do represent a loss of goods and services to a country, and there are times when the very opposite is true, when, in fact, they would add to its stock of goods and services. This paradox becomes clear when we examine the situation which prevailed here during the past five years. With the possible exception of a brief period in 1937 we have had a large volume of unemployment — anywhere from 8 to 12 million in industry alone. Had orders for the additional amount of exports (presumably paid for largely with gold imports) not been received, a substantial part of the goods which were subsequently exported would, in the absence of those orders, never have been produced. As a consequence the number of unemployed would have been greater than it was.

In a real sense, then, we may say that what we were exporting was unemployed time and unused plant capacity. The additional persons employed (because of the increased exports) and their families were better off for being employed in private industry than had they been cared for out of public funds, and the community was better off for having them so employed. The actual physical depreciation of the machinery used to produce the additional exports was a small cost. As for the raw material used, most of it (speaking of the domestic supply only as the imported supply was paid for with gold exports, i.e., reduced gold imports) is virtually inexhaustible so far as this and the next generation are concerned, and some of the remainder of the raw material may not have been produced in the absence of the additional export orders -- or if produced and not used, might have depressed the price of those products to the point where a cost to the community in terms of adverse effects on business would have been borne. Moreover, the additional export business made possible by our gold inflows had secondary consequences which increased the national income in terms of real goods and services as well as in terms of money.

This line of reasoning could be pushed into its various ramifications and made subject to all the necessary refinements, but the end result would be much the same. You would still find that added exports, though sold in exchange for a yellow metal, did not necessarily diminish the domestic supply of goods and services, though it may have resulted in a slightly larger portion of that supply being obtained by the persons who would otherwise have been unemployed or recipients of government aid.

It is therefore an error to state that by accepting gold in exchange for our goods we deprived Americans of the goods which went abroad. Were successful arrangements made to have imported goods, rather than gold, sent here in exchange for our goods the American people *might* have had more goods. I say "might" advisedly because whether those increased imports would have added to our national income or not depends upon the nature of the arrangements referred to above. It depends, that is, upon how the shift in the trade balance which would have yielded an increase in imports relative to exports would have been brought about. The devices usually available to produce a relative increase in imports are those which would have operated to both cut our exports and increase our imports. One of the results would have been to intensify the competition of foreign goods in this market at a time when there already was a large volume of unemployment, and when excess capacity and low prices prevailed. Another consequence would have been to curtail production for export. The end result might have been not more but less goods than actually were produced and consumed by the American people. Altogether, it would hardly be contended by any thoughtful person that the United States would have been better off had its exports been a billion dollars or two less than they were during the past five years.

Furthermore, we must remember that the gold we did get by no means can be regarded as being without value in terms of real goods and real services. Omitting the favorable psychological effect on the business community that arises from large gold holdings and inflows, there is the very real advantage that gold has future purchasing power over international goods in any market of the world. To assume that the gold we are obtaining is without real value is indeed a curious assumption. In the years to come, the gold we have already received and the gold we may still receive may be used for a variety of purposes, any of which would give us as much goods and services for our gold as we have been giving up, and likely much more. Aside from the fact that our gold holdings strengthen our monetary system, and help to some extent to promote a higher level of business activity when we are getting it the gold we do have and may get may be used for the following purposes:

(1) It may be used to purchase back American securities held by foreigners.

(2) It may be used to purchase foreign securities now owned by foreigners.

(3) It may be used to return to foreigners the funds which they now have here on deposit.

(4) It may be used to pay for tourist expenditures in foreign countries — expenditures which are bound to increase greatly when peace is reestablished and as population and travel expand.

(5) It may be used to buy additional imports at a time when those additional imports will have favorable, not unfavorable, effects both at home and abroad.

(6) And finally, it some day may prove to be a valuable war chest, as is the case now with the nations at war.

It is impossible to say what portion of the gold we now have, above the sum needed for domestic monetary purposes, will eventually be used, or what we will buy with it, because it is impossible to know what kind of a world we will find ourselves in 10, 20, 30 years from now. A situation may arise in which substantial sums of gold will be used just as British and French gold was used in the past few years and will be used in the coming months. Who, ten years ago, would have prophesied that the time would come when the rich gold holding countries, Great Britain and France, might have to employ large parts of their gold holdings in their defense? Who can prophesy now what our balance of trade, of investment flow, of tourist expenditures, or a future war need, etc., will be 5, 10, or 20 years from now?

Gold constitutes one of the most effective war chests; gold constitutes the most effective and safest store of international purchasing power known! And gold can also be an effective cushion softening the disturbing shocks that constant change in the world economic situation have on domestic possible activity. To assume that an exchange of goods for gold is giving something for nothing reflects complete misunderstanding of the significance of cyclical movements of business activity as well as of the role of gold in international monetary affairs.

So far, in this section, the discussion has been confined to the question "what have we given up for the gold received in the past six years; what, that is, has the gold cost the United States in terms of goods and services?" Final judgment on this question cannot, however, be made until we examine the various ways in which the gold inflow could have been reduced. Government choice of policy, as individual choice of action, can be properly evaluated only in the light of alternative courses of action. Whether we would or would not have been better off to have received less gold depends entirely upon the effect on our economy of the measures that it would have been necessary to have taken in order to prevent that gold inflow. An examination of the methods by which the gold inflow into the United States could have been, or can now be reduced will serve not only to cast a rough balance sheet as to the cost of gold we already have received, but will help us to determine whether we want to do anything to reduce the current or future inflows of gold. The merits of the various methods of curtailing gold imports will be examined in the next section.

Preliminary Draft

INTERNATIONAL MOVEMENTS OF CAPITAL

A. Foreign capital in the United States

1. What is the volume, character and source of foreign capital in the United States?

2. What are the relationships between the various types of capital inflows and gold flows?

3. How large are the holdings of foreign governments or Central Banks of

   a. Dollar balances, both time and demand?
   b. U. S. Government obligations?

   Is there any significant difference between these holdings and the holdings of foreign individuals and private banks?

4. Last year our balance of payments contained an item of $1.2 billion classified as "residual". What proportion of the residual item can be explained by unrecorded capital inflows?

B. Causes of capital inflows

1. Why has capital come to this country in such large amounts since 1935? To what extent has each of the following been a significant factor in the flow of capital to the United States?

   a. Safety
   b. Higher interest rates
   c. Prospective speculative exchange gains
   d. Prospective capital gains on securities
   e. Evasion of taxation in home countries
   f. Increase in the price of gold from $20.67 to $35.00 an ounce
   g. Better investment opportunities

2. From which countries have Americans repatriated their capital from abroad in the last few years? What are the prospects that they will continue to do so?

3. Is it expected that the inflow of capital will be maintained with the continuation of the war? Will foreigners continue to purchase our securities and accumulate dollar deposits? How much capital has come to this country since the outbreak of war, and how much is expected in 1940?

C. <u>Effect of capital inflows on our economy</u>

1. What is the effect of capital inflows on

    a. Bank reserves
    b. Interest rates
    c. Exchange rates
    d. Gold flows
    e. Amount of capital investment in the U.S.
    f. Our security markets
    g. Tax revenues
    h. Foreign capital markets
    i. Fluctuations in business activity
    j. National income

2. What is "hot" money? Why has it come to the United States? What are the prospects of an outflow of this type of funds from the United States?

3. What is the net effect on the national income of the U. S. of foreign direct investments here?

4. What does the presence of foreign investments add to or subtract from our national income?

5. How does the freedom of movement of capital into the U. S. affect foreign monetary systems? What were the disadvantages of the outflow of capital to the countries from which it came?

6. Are political considerations a factor in determining flows of capital?

7. Are there data available on movements of capital into and out of the leading foreign financial centers? Have any studies been made and conclusions reached on the desirability or undesirability of such movements?

D. <u>Policy with respect to further inflows and outflows</u>

1. Under what conditions is it desirable to prevent or discourage further inflows of foreign capital? Under what conditions would it be desirable to control the outflow of capital already here?

2. What are the prospects of an outflow of capital after the resumption of world peace? Will private capital seek foreign investment after the resumption of peace?

3. Should a program of foreign government lending be confined to the Western Hemisphere?

4. Should foreign investment by Americans be subjected to greater restrictions or should the restrictions which now exist be removed?

5. Will free international movements of capital contribute to or detract from the stability of foreign exchanges and the prospects of world economic recovery?

E. <u>Under the assumption that it is desirable to restrict further capital inflows into the United States and encourage outflows, what measures to achieve those objectives are feasible</u>?

1. The following measures have been suggested at one time or another. What are the merits of each of the proposals?

   a. Adoption of exchange restrictions on the movement of capital

   b. Foreign deposits in the United States

      (1) Increasing the reserve requirements on foreign deposits
      (2) Introduction of a licensing system on foreign deposits
      (3) Creation of a Presidential power to stop the withdrawal or expenditure of foreign balances if and when an emergency arises
      (4) Taxation of foreign deposits
      (5) Action by the Federal Reserve Board or by agreement among the banks to make the holding of foreign deposits less attractive.

   c. Security holdings by foreigners and direct investments in American plants, real estate, hotels, etc.

      (1) Revision of taxes applying to alien-held property and alien corporations -- income taxes, capital gains taxes, the withholding rate and transfer taxes
      (2) Non-tax measures such as registration, use of American nominees and embargoes

2. Have any countries adopted any of the above devices? How effective have they been? What were the consequences of such adoption?

3. To what extent are foreign security markets and trading on account of foreigners in American security markets used for the avoidance and evasion of our regulatory and revenue measures?

4. Would any restriction on capital inflows into the U.S. operate to transfer business from American security markets to foreign security markets?

5. To what extent can the problems connected with capital movement from one country to another be solved by international arrangements such as an extension of the Tripartite understanding or tax treaties, etc.?

Preliminary Draft

INFLATION AND DEFLATION

1. The terms "inflation" and "deflation" are apparently employed in different ways. What are the significant differences in the various uses of the terms? What is meant by the terms when used by bankers, agricultural interests, business men, political representatives, labor unions? What experiences do each of these groups have in mind when using the terms?

2. What satisfactory criteria are there for determining the presence of "inflation" and "deflation"? Can any of the following either singly or in combination be used as criteria, and, if so, in what manner:

   a. Price indexes: wholesale prices, cost of living, etc.
   b. Volume of business activity
   c. Construction activity
   d. Employment
   e. Bank loans and investments
   f. Volume of deposits and currency in circulation
   g. Changes in gold holdings
   h. Federal Reserve credit outstanding
   i. Interest rates
   j. Stock market indexes
   k. Bank debits
   l. Volume of investment and savings
   m. Government borrowing
   n. Business profits
   o. Foreign exchange rates
   p. Foreign trade
   q. Inventories
   r. New orders
   s. "Business confidence"

3. Are there any indications of the presence of "inflation" or "deflation" in the United States today?

4. Are there any degrees of "inflation" and "deflation" which can be considered to be desirable? If "inflation" or "deflation" are regarded as undesirable, is every economic condition act, trend or measure which is either inflationary or deflationary in character also undesirable?

5. What powers do the government, the Federal Reserve System and the commercial banking system possess which, if used, may initiate inflation?

6. What powers do the government, the Federal Reserve System or the commercial banking system possess to promote expansion of business activity and increased prices? Are the powers to initiate such expansion identical with the powers to initiate inflation?

7. Do the government and the Federal Reserve System possess powers to control the inflationary processes once initiated, whether those processes are initiated by its own actions or by forces outside its control? Should additional powers be granted to control inflation? If so, what powers?

8. What monetary powers are available to the government or the Federal Reserve System to restrain expansionist or contractionist movements? Are these powers adequate to attain effective and desirable control of these movements? Should the government or the Federal Reserve System be granted additional powers for this purpose?

9. At what point is it desirable for the government or the Federal Reserve System to initiate restraints upon an expansionist or contractionist movement of:

   a. Business activity
   b. General price movements
   c. Changes in the volume of money
   d. Changes in the volume of investments
   e. Changes in the volume of savings
   f. Changes in interest rates
   g. Speculations in commodities and securities

10. Is it possible to check the expansion of business activity without introducing contraction of business activity? Is it possible to check the contraction of business activity without initiating expansion of business activity?

11. To what extent have each of the following policies of the administration contributed to (a) expansion of business activity, and (b) inflation:

   (1) The Gold policy
   (2) The Silver Purchase policy
   (3) Other features of the government's general monetary policy
   (4) Government deficits

12. Has the reorganization of the banking and monetary systems since 1933 eliminated the danger of a repetition of the disastrous financial contractions prevalent in previous crises?

13. What is meant by lack of confidence in the dollar? How does confidence in the dollar or lack of confidence in the dollar specifically express itself in terms of:

    a. Increased rate of private expenditure
    b. Hoarding
    c. Savings
    d. Investment
    e. Entrepreneurial initiative
    f. Flights of capital or inflow of capital
    g. Interest rates
    h. Government bond prices?

14. Do the excess bank reserves constitute a danger to our economy that might arise from inflation?

15. What effective action can be taken to absorb excess bank reserves on the basis of existing powers? Should additional powers be granted to the government or the Federal Reserve System to enable them to completely absorb any volume of excess reserves considered to be desirable?

16. The volume of excess reserves was considered as constituting a danger to inflation several years ago. Since then excess reserves have risen very greatly. Why has not their increase led to inflation? Are there any other factors which must be present before excess reserves can promote inflation?

17. Is there any merit in the proposal that banks be required to maintain reserves of 100 percent against demand deposits as a device to prevent inflation and deflation?

18. Does an "easy money" policy of the authorities constitute a danger of inflation? Would it be desirable to promote higher interest rates?

19. What is the relation between increasing public debt, expansion of business activity and inflation? How long is it necessary for government deficits to persist before definite signs of inflation become apparent?

20. What effect does an increasing public debt have on the following monetary factors:

    a. Excess reserves
    b. Long-term and short-term interest rates
    c. Confidence in the currency
    d. Foreign exchange rates
    e. International movements of capital

21. What criterion is there which will indicate the maximum size of the public debt that can be maintained before the danger of inflation becomes imminent?

22. What is the economic difference between an increase in the public debt and an increase in private debt in their relationship to inflation? Does an increase in private debt constitute a danger of inflation? If it does, would it be desirable for the authorities to attempt to restrain increases of private debt?

23. What specific examples are there in modern history of inflations occuring in countries other than during periods of, or immediately following, foreign or civil wars?

24. To what extent would adherence by the United States to the orthodox gold standard be a protection against inflation and deflation?

25. What effect would the resumption of the privilege of convertibility of currency into gold have on the volume of excess reserves, inflation and deflation?

26. Is the presence of war in Europe likely to bring "inflation" or "deflation" into the American economy?

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

April 3, 1940

My dear Mr. Secretary:

There is attached hereto a memorandum, with attachments, covering the meetings held yesterday in connection with the procedure for the release of restricted airplanes, engines and accessories. There is also attached a copy of memorandum given to General Watson this morning on this matter.

As is pointed out in the memorandum, the War Department now definitely recognizes the authority of the Liaison Committee concerning the contacts of foreign powers with the military services in all cases where it is desired to purchase any items manufactured under specifications of those services.

As soon as the intra-departmental details of the War Department concerning this procedure are approved by the Secretary of War I feel that the long stride will have been made in expediting in a business-like manner the release and negotiation for sale of restricted items. I further feel that no small part of this procedure is due to the untiring efforts of General Brett in staying continuously behind it and expediting its "processing" in every way possible.

This morning I sent a letter to Mr. Purvis, copy of which is enclosed. I also talked with him over the phone, and he seemed most appreciative of the action that has been taken.

Shall I advise Mr. Evans, President of Allison, of your prospective visit to his plant Saturday, and also General Brett of your visit to Wright Field?

With kindest personal regards,

Sincerely yours,

Harry E. Collins

Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury

April 3, 1940

MEMORANDUM FOR GENERAL WATSON

Meeting was held yesterday with Colonel MacMorland and Major Lyons of the War Department concerning the proposed procedure to be followed in the release of restricted items designed to specifications of the War Department.

Manufacturers of models of airplanes in which the Anglo-French Purchasing Board has indicated an interest were advised by telegraph that they are authorized to enter into conversations at once to determine the types and numbers of planes the Allied Board may desire. Likewise, a letter was addressed to each of the manufacturers of other aeronautical items designed to the specifications of the War Department. While the Allied Board had not stated any interest in their products, it was felt that they should be given an equal opportunity to present their models to the Board.

Yesterday afternoon I had a meeting with Admiral Towers and went over the proposal of the War Department to which he agreed. He advised me that the Aeronautical Board, before which comes the question of all releases, held a meeting yesterday and revised their regulations in accordance with the changed policy approved by the President on March 25th.

From the action that has been taken during the past few days it appears that no unnecessary delays should now be encountered in releasing to the Anglo-French Purchasing Board for negotiation with the manufacturers those planes, engines and accessories in which they may indicate an interest.

HC:gm

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Yesterday afternoon Messrs. Cairns and Feidler of the General Counsel's Office came in to see me. They raised the question as to the rate at which certain South American currencies may be purchased by persons resident in the United States so that such purchased currencies can be used in entire payment for any purpose in the respective countries of issue. They also wanted to know what the rates for such currencies were and what they were called in each case, that is, "export" or "official" or "free" or what. The countries they were interested in were Chile, Brazil and Uruguay. I told my callers that I was not an expert on Latin-American currencies. I could explain to them the working of the most controlled currency, namely, the Reichsmark as an example. I pointed out that the official Reichsmark purchased at the rate quoted in New York for the Reichsmark, could be utilized for any purpose in Germany, although the purchaser would incur a loss in using it for many purposes, since he is entitled by German regulations to procure certain types of Reichsmark at rates lower than that quoted for the official Reichsmark at New York. The lawyers understood this, but wanted an answer to their question, without consideration of the point as to whether the purchaser would exercise good judgment in utilizing his currency for all purposes.

I told the visitors that I could either ask someone in the Latin-American section of the State Department, preferably Mr. Collado, to give us such information as they have, or I could telephone Mr. Knoke in the Federal Reserve Bank at New York for the information. The attorneys preferred not to have the matter taken up with the State Department, hinting that there was a difference of view between these two Departments on the question under consideration. The lawyers did not state the purpose for which they desired the information.

At my request, they dictated to my secretary the exact wording of the question which they desired to be posed. This appears on the attached sheet.

At 3:50 p.m. I telephoned Mr. Knoke in the premises, and the wording of the question was passed on from my secretary to his secretary.

This morning Knoke telephoned me back and stated that he would consult his lawyers on the question and would then either ask me to have Cairns call his lawyers directly, or would ask his lawyers to call Cairns. It is my understanding that the Federal Reserve Bank must be very cautious in the wording of a reply to the questions under reference, since some litigation is already in course on just these points, and certain questions between the Federal Reserve Bank and the Treasury involve the same points.

At 4 o'clock this afternoon Knoke telephoned me that he had discussed the currency question with Mr. Trimble of his legal staff, with whom Mr. Cairns should speak directly. I immediately telephoned this information to Mr. Cairns.

H.M.C.

Is there any one rate at which Chilean currency may be purchased by persons resident in the United States so that such purchased currency can be used in entire payment for any purpose in Chile? If so, what is that rate?

Same with regard to Brazil and Uruguay.

What is it called in each case? Export, or official, or free, or what?

Phoned Knoke
3:50 pm
Apr 2.

Questions dictated by Messrs.
Cairns and Fiedler.

A.W.F.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

There was a recession in the open market rate for sterling today following the declaration by Field Marshal Goering that the German war machine would launch a smashing offensive against the Western Powers as soon as Hitler gave the word. In Amsterdam, the sterling rate moved up from 3.57-7/8 to 3.58-15/16. Goering's announcement was made just prior to the New York opening. The first quotation here was 3.58, and sterling fell to a low of 3.54 in the first hour of trading. By noontime the rate had recovered to 3.56-1/4. In the early afternoon it eased to 3.55-5/8 and moved within a narrow range until just before the close. The rate then advanced on some late buying and the final quotation was 3.56-1/2.

As indicated by the reported turnover figures, sterling received good support in the market, mainly as a result of purchases by foreign banks.

Sales of spot sterling by the six reporting banks totaled £453,000, from the following sources:

By commercial concerns....................................	£ 177,000
By foreign banks (South America and Europe).............	£ 276,000
Total..........	£ 453,000

Purchases of spot sterling amounted to £708,000, as indicated below:

By commercial concerns....................................	£ 297,000
By foreign banks (Europe, South America and Far East)....	£ 411,000
Total..........	£ 708,000

The following reporting banks sold cotton bills totaling £25,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 12,000	by the National City Bank
7,000	by the Guaranty Trust Company
6,000	by the Bankers Trust Company
£ 25,000	Total

The Swiss franc, which has shown virtually no movement in the last two weeks, today strengthened to .2245. The closing rate was .2244.

CONFIDENTIAL

A firm tendency has characterized the quotation for the belga during the past week, but today it receded and closed at .1706.

The other important currencies closed as follows:

French francs	.0202-1/8
Guilders	.5308-1/2
Canadian dollars	17-7/8 % discount

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

$ 25,000,000	from the Bank of England
15,000,000	from the Bank of France
$ 40,000,000	Total

The Federal Reserve Bank of New York reported that the following gold shipments were being made to it:

$ 3,377,000	from Canada, shipped by the Bank of Canada, Ottawa, for sale to the U. S. Assay Office.
1,692,000	from Italy, shipped by the Bank of Italy, to be earmarked for account of the B.I.S.
$ 5,069,000	Total

The State Department forwarded to us a cable stating that the following gold shipments were being made from Hong Kong, all of which will be sold to the U. S. Mint in San Francisco:

$ 824,000	shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N. A., San Francisco.
253,000	shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco.
146,000	shipped by the National City Bank, Hong Kong, to the American Trust Co., San Francisco.
$ 1,223,000	Total

The Bombay silver quotation declined to the equivalent of 38.76¢, off 11/16¢.

The London fixing prices for spot and forward silver both rose 1/8d to 20-3/8d and 20-5/16d respectively. The U. S. equivalents were 32.90¢ and 32.62¢.

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

CONFIDENTIAL

We made three purchases of silver totaling 275,000 ounces under the Silver Purchase Act. Of this amount, 100,000 ounces represented a sale from inventory and the remaining 175,000 ounces consisted of new production from foreign countries, for forward delivery.

H.M.Jr.

CONFIDENTIAL

JR

PLAIN

London

Dated April 3, 1940

Rec'd 1:20 p.m.

Secretary of State,

Washington.

841, April 3, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. Questioned in the House of Commons about Lord Stamp's statements to the press, reported in my 826, April 2, the Chancellor of the Exchequer replied: "If the Honorable Gentleman is referring to any statements in newspapers as to budget proposals, he may take it that there is no sort of authority for any sort of statement in any newspaper on the subject at all."

2. Yesterday Montagu Norman and Catterns were reelected Governor and Deputy Governor of the Bank of England respectively. This will be Mr. Norman's twenty-first year as Governor.

3. The principal South African Mining groups report an all time record gold tonnage for last month's operations of 5,049,200 as compared with under 3,000,000 tons crushed a month in 1932.

KENNEDY

McL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Copenhagen

NO.: 53

DATE: April 3, 1940

Referring to my telegram no. 51 of April 2, 5 p.m., the selling price for sterling has been fixed by the National Bank at 19.80 for the time being.

The following are the three different buying rates for sterling: (1) a steady rate of 19.40 for exports of butter, condensed milk, bacon, and eggs; (2) the National Bank will temporarily pay the same rate for all other exports, including industrial exports of Danish products; (3) the National Bank will pay the free market rate (which is 18.54 today) for all other sterling offered to it.

There has been a tightening of the foreign exchange laws. Foreign exchange held abroad by Danish citizens must now be deposited with authorized exchange dealers in Denmark and foreign exchange accounts overseas held by Danish citizens must be closed. Also Danish citizens must declare to the National Bank their investments abroad.

Danish producers of butter, bacon, and eggs will, through a subsidy from the Government, receive a rate of at least 21.65 on their exports to the British market.

Please inform Commerce Department.

ATHERTON

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 3, 1940, 6 p.m.

NO.: 425

FOR THE TREASURY. FROM MATTHEWS.

This morning I made a courtesy call on the new Minister of Finance, M. Lamoureux. I congratulated him on being appointed Minister, and expressed the hope for continuation of the same cooperation which existed with the previous Finance Minister. He said that he in turn knew well the frank and cordial collaboration which existed between our Secretary of the Treasury and M. Reynaud, and asked me to assure Secretary Morgenthau of his sincere hope and confidence that the same spirit would govern future financial relations between the United States and France. M. Lamoureux added that he hoped to have the pleasure sometime in the future of getting to know the Secretary of the Treasury personally "if he remained as Finance Minister". He expressed appreciation particularly of the friendly and understanding attitude shown recently toward France by Secretary Morgenthau during an interview with Leroy-Beaulieu "not only in words but in action".

The Minister asked some pertinent questions with obvious interest about sentiment in the United States with regard to France, and then brought up the matter of of franc and sterling behavior on the free market recently. He hastened to assure me, like others here - reference, telegram of April 1, No. 417 from the Embassy - that the drop in the franc value was solely the result of its tie-up with sterling, and that the drop in no way was an indication of intrinsic weakness or any fault of French administration of exchange control. He said in effect that in their recent measures the British had decided to take a risk, but if they had correctly estimated what the result would be, they would probably have gone ahead more slowly. M. Lamoureux said that in any event he had the impression that the rates were stabilized now to a certain extent. He made mention of the "possibility of counteracting" measures on the part of the United States, with apparent understanding of the possible need therefor and without criticism for such measures. In his reception room there were a number of deputies waiting to see him, perhaps significant of current political uncertainties. I gained the impression that he does not have much time to make a study of the problems of his new position.

At lunch today I was told by M. de la Baume, the Director of Division of Political and Commercial (omission) at the Foreign Office (he has been giving his time to problems of the Ministry of Blockade and Trade Agreements) that

that the end of this week he was going to London to study ways and means of "tightening up" on Italy, saying that Germany is being supplied by Italy on too important a scale, in particular with oils and fats and petroleum products. M. de la Baume is in favor of taking a stronger stand immediately to bring down these blockade leaks through Italy. Incidentally he added that Switzerland is still getting its oil through Italian sources, and through this means Italy is acquiring foreign exchange, but since France cannot furnish the necessary transportation facilities it has no objection to this. My contact is also in favor of doing everything possible to stop shipments of iron ore to Germany from Sweden; he mentioned the shipments through Narvik in particular. From the Allies' point of view, he remarked, the problem is a difficult one. However, points in favor of the Allies are the fact that Lulea is open only four months out of the year, and it is a further strain on the overburdened transport system of Germany to provide added rail transport for shipments through the south of Sweden. If the Germans are really to use the railroad to supply coal to Italy, the latter point is particularly pertinent. However, M. de la Baume seemed to be skeptical as to whether Germany would do this. Stocks of iron ore in Germany are probably considerable,

he

he admitted, but he seemed to be of the opinion that one of the most effective economic weapons for the Allies was to stop supplies thereof. He seemed to be optimistic with respect to ferro-alloys.

END SECTIONS ONE TO SIX INCLUSIVE.

MURPHY.

EA:LWW

GRAY

PARIS

Dated April 3, 1940

Rec'd 4:27 p.m.

Secretary of State,

Washington.

425, April 3, 6 p.m. (SECTION SEVEN)

Today's Journal Officiel publishes a decree providing for the organization and duties of Ministry of Supplies under Henri Queuille (Daladier's Minister of Agriculture). It is to be in charge of the provisioning of military and civil population with agricultural and food products and forestry products.

The Journal Officiel also publishes an arrete of Minister of Public Works regarding the rationing of coal (my telegram No. 323, March 11, 4 p.m.). For purposes of rationing consumers will be divided into four categories namely:

MURPHY

JT GRAY

PARIS

Dated April 3, 1940

Rec'd 5:55 p.m.

Secretary of State,

Washington.

425, April 3, 6 p.m. (SECTION EIGHT)

: (one) Public services of an industrial nature such as water pumping stations and garbage incinerator plants; (two) other public enterprises including Government offices, schools, libraries, hospitals, prisons, seminaries, convents, laboratories and embassies and consulates; (three) commercial establishments, "small" indifferent enterprises, i.e., consuming less than 20 tons of coal per month and (four) private houses. The consumption of coal by the first three categories of consumers will be regulated by special instructions issued by the Minister of Public Works to the prefects. These will call for a definitive reduction of their coal consumption below their average annual consumption during the past two years. Coal ration cards will be issued to private householders

The securities market was definitely weak today on further profit taking, recent hostility toward France displayed by Italy, and growing political uncertainties with regard to the future of the Reynaud Government. Most

variable

-2- #425, April 3, 6 p.m. (SEC EIGHT) from Paris

variable revenue issues were down about 3%. Rentes, however, showed greater resistance and lost but minor fractions on the average.

(END OF MESSAGE)

MURPHY

LMS:EMB

MEMORANDUM

April 3, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

I met Laughlin Currie at his request in the "Library" of the Rogers Smith Hotel. Currie wanted me to know that there was being considered seriously the advisability of introducing a tax bill, however futile it might be. There was some thought, that since the President's budget message pointed out the demand for $460,000,000 additional revenue, it would be politically desirable to follow up this demand with at least a gesture. Currie said of course there would be no need of a tax bill this year and there was no danger of exceeding the debt limit. I disagreed with him on both counts and then he discussed the manner in which certain agency accounts had been and could be shifted about. He also referred to and appeared to be very much interested in the additional revenue we would get by expanding bureau personnel.

We also discussed the repeal of exemptions on future Government securities. He seemed to think that this was of no importance, because it would not yield any substantial immediate revenue. Later, he concurred with me that this would have to be done some time and this year might be a good time to do it, if there were to be a tax bill of any kind. I agreed to talk with him about the matter next week, after I had had time to think over his proposal.

The only comment I made was that the introduction of a tax bill of the "gesture" type would inevitably attract questions as to the shifting about of accounts, which might not be desirable at this time.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Maurice St. Germain, Assistant Manager of the Guaranty Trust Company in Paris, who was my source of much foreign exchange information for seven years, stopped off in Washington yesterday to see me, while enroute from Paris, via New York, to New Orleans, where he will visit for a few weeks with his wife and children, who were sent to the United States from Paris last October. Mr. St. Germain is an absolutely honest banker, with splendid sources of information in Paris. He told me that 78% of the staff of his bank had been called out for military service. The vacancies have been filled mostly with women. For six months the bank has paid salaries in full to the employees called to the colors, but beginning in March was to reduce the level to 45%, in keeping with the practice followed, I believe, by the Bank of France.

St. Germain said that the business which his bank could transact was necessarily much reduced by Exchange Control Regulations. There is now no official exchange market and St. Germain does not go daily to the bourse as heretofore. His principal task consists in compiling reports to the French Exchange Control of the limited transactions which the Guaranty Trust can perform. He said that the paper work involved was tremendous.

In answer to my question as to who was actually handling exchange control, he named the three former Inspectors of Finance who are running the system. They first took space in a branch of the Bank of France in the uptown district of Paris, but were subsequently obliged to seek larger quarters when the staff grew to approximately three thousand people. St. Germain stated that various French Ministries were still making purchases on the American market through unofficial French francs. I have mentioned to him that our reports from Matthews indicated the desire of the French Ministry of Finance that application be made for foreign exchange to pay for all such purchases in the United States, in order that the creation of free franc balances may be avoided.

Mr. St. Germain told me that Mr. Trimble of the American Embassy telephoned him now and then in regard to a proper translation of some French phrase in exchange regulations, but that neither Matthews nor Trimble had regular contact with him. As the Treasury is aware, St. Germain was my most dependable source of exchange information during my period of service at Paris, and I either talked with or visited him daily.

St. Germain stated that Messrs. Jay and Kennedy of the Paris firm of Morgan and Company are now in New York and that Mr. Bernard Carter will join them there very shortly. They are trying to decide in New York what form the Paris concern should take following the change in the setup of J. P. Morgan and Company in New York. The idea of an agency involves certain difficulties, particularly as a result of American neutrality legislation. That is, an agency bank in Paris cannot invest in French Government bills or notes or other types of state paper issued subsequent to the date of our neutrality law. St. Germain said that there is developing considerable resentment in official circles in Paris against American agency banks which accept deposits in francs but are not willing to invest those francs in French war loans or are not otherwise financing French Government requirements.

Mr. St. Germain stated, in answer to my inquiry, that life in Paris was not gay. He had recently suffered a broken arm due to a fall in the "black-out". He said prices were going up; three days a week were meatless, and ration cards were to be arranged for in April. He thought the rule prohibiting the sale of liquors, other than wines and champagne on certain days were wise, since the population had been drinking too much in an effort to forget its troubles. He said there were not many British soldiers seen in Paris, except young officers of the British Flying Corps, who frequent the Crillon bar.

In answer to my inquiry as to whether a German attack was expected this spring, St. Germain said that nervousness on the part of the French is increasing as good weather comes, but there is by no means a general conviction that an attack will take place. In answer to my further inquiry as to whether France might attack Germany, St. Germain ridiculed the idea. He stated that the French aviation plan had developed into a great scandal. He said France did not have at present more than one hundred and fifty bombers which it could put in the air. The Morane (?) fighting planes were proving a great disappointment. They will remain in the air only one and three-quarter hours. During that time they splatter so much oil in the pilot's face that he is lucky if he gets his plane down without mishap. Few pilots have taken such planes up more than three times without an accident.

When I told St. Germain of the report yesterday that Lachambre was one of the Radical Socialist leaders now heading an attack on Reynaud, with the hope of returning Daladier to the Premiership, St. Germain said he could readily understand this. Lachambre was a young man of no particular reputation whom Daladier took into his Cabinet, with the warm indorsement of a high American official in France, and who has served as Air Minister under Daladier until Reynaud took office a few days ago and replaced him by another man. The French are greatly disappointed at the lack of progress made in the aviation program under Lachambre and his chief, Daladier. It is gossip that Senator Caillaux recently launched violent charges against Daladier and Lachambre, in a secret Senate session, for their conduct of the aviation program. This is supposed to have been one of the causes leading to Daladier's downfall. Caillaux is said to have tolerated Daladier a while longer only because he knew of no one better to replace him.

Now that Reynaud is in, little more confidence is inspired. Reynaud is not trusted in financial matters. It is reported that he has been anxious to occupy the post of Minister of Munitions in order to be in on all of the buying contracts. He permitted certain loopholes under the exchange regulations which allowed Lazard Freres to send one of their men to Amsterdam and there open an office through which tremendous benefits were made in speculation against the franc. This man recently died from a cerebral hemorrhage. In the past, Reynaud's connection with Mannheimer, the banker from Amsterdam who died last summer, a couple of days before his firm went bankrupt, has been the subject of much criticism in the past.

As I have been aware from the beginning, the most advantageous posts in connection with war purchases have been occupied by friends or officials of Lazard Freres. The naming of Jean Monnet to head the Anglo-French Board at London was bitterly opposed by the Bank of France since this institution knew of his past record in financial transactions, which was that of an adventurer, if not an actual criminal. The British accepted Monnet, knowing his past and distrusting him thoroughly, but feeling that they could "manage" him. It is now rumored that the "Deuxieme Bureau" is now investigating Monnet. This is the Secret Service of France which looks into espionage and other matters. When I asked St. Germain if French Purchasing Missions during the World War received commissions in this country, he quickly confirmed that they did and pocketed the funds individually. He was convinced that effort would be made to follow the same practice under the present setup, and that the privileged group of friends who are handling supply and purchasing arrangements will make a tremendous cleanup.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The sterling rate fluctuated in an irregular manner today. After opening at 3.55-5/8, the quotation rose to a high of 3.57-7/8 in the mid-morning. It then turned downward and in the noon hour, business was done at 3.56. During the afternoon, sterling moved higher in a small market. It closed at 3.57-1/4.

The reported volume of sterling transactions reveal an excess of sales over purchases amounting to £320,000. The Federal Reserve Bank was informed that the New York agency of the Chartered Bank of India, Australia and China was a good buyer of sterling.

Sales of spot sterling by the six reporting banks totaled £672,000, from the following sources:

By commercial concerns	£ 128,000
By foreign banks (Europe, Far East and South America)	£ 544,000
Total	£ 672,000

Purchases of spot sterling amounted to £352,000, as indicated below:

By commercial concerns	£ 177,000
By foreign banks (Far East and Europe)	£ 175,000
Total	£ 352,000

The following reporting banks sold cotton bills totaling £42,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 15,000	by the Chase National Bank
13,000	by the National City Bank
9,000	by the Bank of Manhattan
5,000	by the Guaranty Trust Co.
£ 42,000	Total

The downward movement in the belga which started yesterday continued in today's market. The final quotation for that currency was .1703.

The Canadian dollar improved in a very thin market and it closed at 16-7/8% discount.

The other important currencies closed as follows:

French francs	.0202-1/2
Guilders	.5309
Swiss francs	.2243-1/2

There were no gold transactions consummated by us today.

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

$ 3,527,000	from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of Java.
3,273,000	from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.
2,257,000	from England, shipped by the Bank of England to the Federal Reserve Bank of New York, for account of the Swiss National Bank. The disposition of this shipment is unknown at the present time.
731,000	from Sweden, shipped by the Bolidensgruv Aktiebolaget to the New York Trust Co., New York, for sale to the U. S. Assay Office.
$ 9,788,000	Total

The State Department forwarded to us cables stating that the following gold shipments would be made from England, all of which will be sold to the U. S. Assay Office at New York:

$ 3,790,000	representing three shipments by Samuel Montagu & Co., London, to the Bankers Trust Co., New York.
1,397,000	shipped by Johnson Matthey & Co., London, to Johnson Matthey & Co., New York.
507,000	shipped by Pixley & Abell, London, to Bankers Trust Co., New York.
211,000	shipped by Samuel Montagu & Co., London, to the Central Hanover Bank and Trust Co., New York.
12,000	shipped by the Midland Bank, London, to the Swiss Bank Corporation, New York.
$ 5,917,000	Total

The Bombay silver quotation rose to an equivalent of 39.46¢, the gain of 11/16¢ exactly offsetting yesterday's loss.

In London, the spot and forward silver prices were both fixed at 20-3/16d, representing a decline of 3/16d and 1/8d respectively. The U. S. equivalents were 32.33¢ and 32.15¢.

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

We made four purchases of silver totaling 191,000 ounces under the Silver Purchase Act. Of this amount, 18,000 ounces represented a sale from inventory, and the remaining 173,000 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 3:45 this afternoon Mr. Summerscale telephoned me from the British Embassy. He stated that he was talking to me in Pinsent's absence.

Summerscale reported that his Ambassador had one-half hour earlier sent a note to Secretary of State Hull conveying a message received from the British Government. Summerscale summarized this briefly. As a result of the Order in Council which took effect March 25 in regard to payment for certain British exports in foreign currencies or official sterling, the British Government understood that the American Government was considering the question of the application of Section 522 of the United States Tariff. The British remarked that the bulk of their imports into this country are subject to ad valorem duties. They requested postponement of any application of a new arrangement pending the receipt of an explanation which the British Government was cabling, and without opportunity for discussion with the British Embassy here. Furthermore, the Ambassador offered to procure from London any information in the premises which the Treasury Department might desire and which is not immediately available here. In answer to my question as to who the officer in the Department of State was who would receive this message, Summerscale said it was Feis. I told the former that I was not directly concerned with the Customs proposition, but would pass on to my colleagues the information which he had given, and for which I thanked him.

Upon terminating the telephone conversation, I promptly gave the foregoing information to Acting Secretary Bell, who said he would give the necessary instructions to Mr. Cairns.

H. M. C.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Livesey of the State Department telephoned me at 3:30 this afternoon to quote a telegram which his Department had just received from Mr. Harvey Gibson of New York in regard to the invitation which the American Creditors Standstill Committee had received to meet at Rome to discuss with the Dutch, Swiss and Belgian groups, as well as representatives of the Reichsbank, the question of continuing the Standstill Agreement which expires this Spring. Mr. Livesey contemplated drafting a reply which would indicate that the Government had no comment to make on the proposal, but would interpose no objection to the trip. I reminded Mr. Livesey that a somewhat similar attitude had been taken last Autumn when Rovensky came to Washington to talk over American participation in a new Standstill arrangement, and that I thought his reply was acceptable as far as the Treasury was concerned. He promised to send me a copy of the telegram from Mr. Gibson, as well as a copy of the State Department's reply. While I was still speaking with Mr. Livesey he was obliged to cut off to confer with the Passport Division in regard to applications which were already being received from members of the American Bankers group who contemplate going to Rome.

H.M.C.

Mr. Bartelt	Mr. Allen
Mr. Bell, D. W.	Mr. Barnes
Mr. Heffelfinger	(2) Mr. Batchelder
Mr. Maxwell	Mr. Bell, Charles
Mr. Peterson	Mr. Birgfeld
Mr. Banning	Mr. Brooks
Mr. Greenberg	Mr. Broughton
Mr. Barrett	(1) Mr. Cochran
Miss Burke	Mr. Collie
Mr. Cake	Mr. Dietrich (279)
Miss Edelin	Mr. Easby
Mr. Gerardi	Mr. Harper
Mr. Jones, G. E.	Mr. Hearst
Mr. Landis	Mr. Hyland
Mr. Martin	Mr. Kilby
Mr. O'Daniel	Mr. Mulvihill
Mr. Rains	Mr. Nussear
Mr. Schleeper	Mr. Sherbondy
Mr. Schwalm	Mr. Starrett
Mrs. Sullivan	Mr. Thompson
	Mr. Weber
File	Mr. Ziegenfus

Could you handle, for Mr. Bell's absence, or suggest who should. Thanks MB.

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MR. MORGENTHAU'S OFFICE TO—

Mr. Bell	Mr. Thompson
Mr. Gaston	Mr. Foley
Mr. Sullivan	Mr. Graves

******

Mr. Alexander	Mr. Haas
Mr. Allen	Mr. Hall
Mr. Bartelt	Mr. Hanna
Mr. Batchelder	Mr. Harper
Mr. C. S. Bell	Mr. Harris
Mr. Berkshire	Mr. Helvering
Mr. Bernard	Mr. Irey
Mrs. Betts	Mr. Julian
Mr. Birgfeld	Mr. Kilby
Mr. Blough	Miss Lonigan
Mr. Broughton	Mr. Rose
Mr. Bryan	Mrs. Ross
Mr. Cochran	Mr. Schwarz
Mr. Collie	Mr. Sloan
Capt. Collins	Mr. Spangler
Mr. Delano	Mr. Tarleau
Miss Diamond	Mr. Upham
Miss Flanagan	Mr. White
	Mr. Wilson
	Mr. Young

Department of State

BUREAU }
DIVISION } EA

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

TREASURY

U. S. GOVERNMENT PRINTING OFFICE 1—1032

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

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 862.51/4807

April 4, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information a copy of a telegram dated April 3, 1940 received from Mr. Harvey D. Gibson, Chairman, American Committee of Short Term Creditors of Germany, Manufacturers Trust Company, New York, New York, with regard to the contemplated journey to Rome of representatives of the Committee, to participate in a meeting to prepare some arrangement for extension of an existing agreement expiring May 31. There is also enclosed a copy of the Department of State's reply to Mr. Gibson.

Enclosures:

1. Telegram of April 3 from Mr. Gibson.
2. Department's reply thereto.

PY:EA:LWW

TELEGRAM RECEIVED

7wu eb 160 NT 12 EX

CD NEW YORK NY APL 3 1940

The Hon Secy of State

WDC

Committee representing American banks with short term credits in Germany has been urged by creditors in Holland Switzerland and Belgium and by the Reichsbank to meet with them in Rome end of April to try to prepare some arrangement for extension of existing agreement expiring May 31st stop To this end the committee has decided to send representatives to discuss and if possible prepare some agreement to be signed only if committee here approves stop Wish to advise you of this since should American government have any objection to this course we would wish to discuss matter with you stop Meanwhile passports for following persons are being applied for and the committee requests same be issued for necessary travel Andrew L. Gomory Vice President Manufacturers Trust Co, Ewen C. MacVeagh, lawyer with Davis, Polk, Wardwell, Gardiner and Reed, and Louise T. MacVeagh other names to follow

HARVEY D GIBSON Manufacturers Trust Co.
Chairman American Committee of Short Term
Creditors of Germany.

April 4 1940

In reply refer to
EA 862.51/4807

My dear Mr. Gibson:

The Department has received your telegram of April 3, 1940 regarding the contemplated journey to Rome of representatives of the Committee of Short Term Creditors of Germany, to participate in a meeting to prepare some arrangement for extension of an existing agreement expiring May 31.

The Department does not wish to comment on the proposed action of the Committee. The applications for passports which may be submitted for the Committee's representatives will be given prompt consideration by the appropriate division of the Department.

Sincerely yours,

For the Secretary of State:

Adolf A. Berle, Jr.
Assistant Secretary

Mr. Harvey D. Gibson, Chairman,
American Committee of Short Term Creditors of Germany,
Manufacturers Trust Company,
New York, New York.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 2:30 this afternoon I received Mr. Barnes, an American citizen who represents the interests of the Pan American Airways in the China National Aviation Company operating in the Far East. My understanding is that this concern is owned 45% by the Pan American and 55% by the Chinese Government. Captain Collins had sent Mr. Barnes to me and spoke to me over the telephone about him.

Mr. Barnes explained that his Company had for some time experienced no difficulty in exchanging its Chinese currency receipts for foreign exchange to the extent which it required. Difficulties have arisen recently, however, and his concern is now accumulating more Chinese currency than it desires to hold. This total is now around $2,000,000. Mr. Barnes inquired as to whether his Company could look for any assistance from the Export-Import Bank or from the new credit which he understands the Export-Import Bank is now extending to China. He explained that his Company would prefer to incur no loan, but would like to have the facility for trading its Chinese currency in against dollars in order that more airplanes and equipment therefor may be purchased in the United States for the Far Eastern service.

I told Mr. Barnes that it was my impression that the Export-Import Bank could not make any new credit, beyond that for $20,000,000 now under contemplation, for use in China. I advised him that he should keep in touch with the Chinese authorities and endeavor to have them earmark enough of this credit to take care of his needs, since his air service seems so essential to China. He explained that he had already been in touch with Mr. Chen, who seemed sympathetic, but who stated that final decisions rest with Dr. Kung. Since Mr. Barnes explained that he has close relations with Mr. Kung, I recommended that he take the matter up with Kung. I promised that if I had a chance I would say a good word for him to Mr. Chen or Mr. Lochhead.

Mr. Barnes emphasized the degree to which China is now dependent upon air communication. He hopes his service will shortly begin transporting wood oil to ports for export to this country. He gave me some interesting side lights on the difficulties of transportation by land in China, including the proclivity of Chinese Government chauffeurs not only to steal the gasoline but also to run away with the trucks. He said that much of the transportation difficulty comes not from insufficient roads or enemy bombing, but from lack of stiff enough management by the men directly in charge of Chinese transportation.

In talking over the general Chinese situation, Barnes feared there might develop some difficulty with the Chinese leaders in the tin district, who are not yet closely affiliated with the Central Government. That is, if the tin export business appears too profitable, these leaders may become independent and hard to handle. He thought that the shady transactions of David Kung had hurt his father considerably. He does not know where David is at present. He said that Madam Kung's reputation for sharp financial practice is almost as bad as her son's.

B.M.R.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Ballantyne, Secretary General of the Anglo-French Purchasing Board in Washington, telephoned me at 3:30 p.m. to the effect that his people had received instructions to arrange for the sailing from New York tomorrow morning at 11 a.m. on the S.S. Georgic of Mr. G. K. Cummings, an employee of the British Board of Trade who has been in this country for almost a year as examiner for the British Government of purchases made of Sperry Gyroscope Company. Mr. Ballantyne said that Cummings' only compensation was about $200 per month paid to him by the British Board of Trade. Cummings has applied at the income tax division of the Customs House in New York for clearance, but was informed that this could only be obtained through Washington.

Mr. Ballantyne apologized for the delay which has been involved in submitting the certified list of employees of his organization which Assistant Secretary Sullivan had requested through me when Mr. Sullivan expedited the departure of Colonel Earle.

I immediately took this matter up with Assistant Secretary of Treasury Sullivan who telephoned me back to the effect that this man would be cleared through New York, and that the appropriate instructions had been given, but that the British must undertake to provide the Treasury with a certificate from the British Embassy in this city as to Cummings' compensation. Furthermore, this is the last case in which we can grant exceptional treatment in the absence of a certified list.

I got this information to Mr. Ballantyne at 4 p.m. He was most appreciative of Mr. Sullivan's assistance. He promised to get the desired certificate from the British Embassy and also to ask Mr. Purvis to rush the list of employees which, I let him understand, must also come to us through the British Embassy.

H. M. C.

ARNOLD BLASTS ALLIES PLANE SALES BY U. S.

Times-Herald

APR 4 1940

67 Million Slashed From Army Bill

By WILLARD EDWARDS

The Roosevelt administration's excuse for permitting huge sales of warplanes to the British and French was blasted by Maj. Gen. H. H. Arnold, Chief of the Army Air Corps, in recent testimony before a House Appropriations subcommittee, it was revealed yesterday.

General Arnold's evidence was made public in connection with the submission to the House of an Army appropriation bill totaling $780,000,000. This was a reduction of $67,357,680 below President Roosevelt's recommendations.

Woodring-Johnson Stand

The Administration's explanation of its approval of plane sales to the empire nations was furnished to the House Military Affairs Committee last week by Secretary of War Harry H. Woodring and Assistant Secretary Louis Johnson.

Responding to the nation-wide expression of fears that foreign orders were interfering with this nation's military defense plans, the two officials asserted that plane manufacture in the United States had been so speeded up by such orders that the Army could afford to permit a delay in deliveries to our armed forces.

To buttress this contention, Assistant Secretary Johnson asserted that the airplane industry's output at the start of this year was at the rate of about 17,000 bodies and 13,000 engines annually and would reach a total of between 30,000 and 40,000 planes by the end of the year.

Discrepancy Shown

General Arnold, appearing before the subcommittee on March 7, gave official statistics showing vast discrepancy in comparison with Johnson's estimate.

General Arnold testified that the monthly production capacity of the airplane factories was about 351 a month, an annual average of approximately 4,200. The average during 1939 was only 200 planes. He estimated that production would reach about 800 a month some time in September.

The Air Corps chief's statistics showed that Assistant Secretary Johnson overestimated the nation's airplane production capacity by some 400 per cent in attempting to justify the sale of thousands of planes to the Allies.

General Arnold said he had been assured by the plane manufacturers that the Army would get its planes on scheduled time. He said it would be impossible to tell whether plane deliveries to the Army were lagging until quantity deliveries started late this spring.

Penalty for Delivery Delay

Army contracts carry a provision that the manufacturer must pay one-twentieth of 1 per cent on each airplane for each calendar day of delay but not to exceed 15 per cent of the unit price of any plane.

To foreign buyers it would be a small item to pay this 15 per cent to get planes destined for the Army, he admitted. He said he had heard rumors that the British and French were paying this 15 per cent penalty in their haste to get planes.

In such a case, there would be an indefinite delay in the delivery of planes ordered by the Army. It was too early to ascertain

(Continued on Page 2, Col. 3)

Plane Sale Excuse Disputed by Arnold

67 Million Slashed From Army Bill

(Continued from Page 1)

whether or not the placing of foreign contracts has interfered with procurement of planes for the Army, he said.

"I think the American manufacturer is patriotic enough to put the United States above England and France," he told the subcommittee.

Equipment for Million

The Army appropriation measure provides for $103,710,000 for new equipment. This total included $61,250,000 for antiaircraft artillery, semiautomatic rifles, tanks, antitank guns, and artillery; $12,000,000 for sea-coast defenses, including fixed and mobile guns; $18,500,000 for augmentation and replacement of motor vehicles for both the Regular Army and the National Guard, and $9,700,000 for airplanes for the Army and National Guard.

Gen. George C. Marshall, chief of staff, told the subcommittee that the acquirement of these critical needs was the Army's great objective. The aim is to amass equipment for a force of 1,000,000 men. This objective takes precedence over personnel increases, he said.

However, the chief of staff remarked, major developments in the European war should be paralleled by added precautions in this country.

Record Troop Massing

"If the situation grows more desperate," he recommended, "we should add to the numbers of seasoned troops in the Regular Army and to the strength of the National Guard. If Europe blazes in the late spring or summer, we must put our house in order before the sparks reach the Western Hemisphere."

Brig. Gen. Frank M. Andrews, assistant chief of staff, disclosed that the Army plans its biggest peacetime concentration of men in the Watertown-Plattsburg (N. Y.) area this summer. Approximately 125,000 officers and men of the First Army will participate in maneuvers.

A genuine mobile field force is being perfected by the Army, General Marshall declared.

"We are beginning to feel for the first time since the World War that we have a real Army," he testified.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Upon appointment, Mr. Julien Chadenet, Manager of the Societe Generale of Paris, who has been in New York and Buenos Aires for some months attending to the opening of branches in these cities, called on me yesterday, accompanied by Mr. Chandler, who is to be left in charge of the New York branch. Mr. Chandler is an American banker with several years experience in London.

Mr. Chadenet had no business to take up, but merely desired to present Mr. Chandler and to thank me for certain information which I had given him in the past, while stationed in Paris and later in Washington, in regard to his contemplated opening of a branch bank in the United States.

Mr. Chadenet hopes that his bank may have some role if and when the French Government decides to take over dollar securities held by residents of France, and take steps to dispose of them on the American market. I assured Mr. Chadenet that the Treasury would be happy to cooperate with his New York branch if it should be utilized by the French Government in such capacity.

H.M.C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Bogotá
NO.: 71
DATE: April 4, 1940

I was informed today by the British Minister that a meeting would be held this afternoon between the Minister of Hacienda and Mr. A. C. Thompson, Manager of the Bogotá branch of the Bank of London and South America, as the sole British representative. At this meeting negotiations will be initiated for the settlement of outstanding national pound bonded indebtedness now in default.

EA:EB

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 4, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Shipments to U.S.S.R.

The S.S. Eastern Guide, an American ship, sailed from New York for Vladivostock April 1st. The original cargo schedule contained $1,187,000 of copper and brass which was removed before sailing. Additional cancellations consisted of $397,000 electrical and industrial machinery, and a re-export item of $42,000 of Latex crepe rubber.

Attached are details of the cargo which was finally carried.

Att.

CC to: Mr. Gaston
Mr. Basil Harris
Mr. Cochran

Following are details of the S.S. Eastern Guide which sailed April 1st for U.S.S.R.:

Domestic exports:		
Industrial machinery	$1,684,619	
Tin plate	233,369	
Electrical machinery and apparatus	162,362	
Stainless steel sheets	56,170	
Seamless steel tubes	43,550	
Scales and balances	28,478	
Hand tools	22,848	
Wheels of artificial abrasives	11,050	
Other scientific and laboratory instruments	5,785	
All other commodities	33,360	
Total domestic exports		$2,281,591
Re-exports:		
Shellac	7,411	
Liquor	2,523	
Lignum vitae	2,180	
All other commodities	1,543	
Total re-exports		13,657
Total Cargo		$2,295,248

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BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

April 5, 1940

From DIRECTOR

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

For

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

Carroll L. Wilson
Carroll L. Wilson,
Acting Director.

April 4, 1940

ECONOMIC DEVELOPMENTS

QUOTATIONS ON "FREE" STERLING in the New York market declined from approximately \$4.00 to \$3.50 during March. The reason for this drop was the announcement that beginning on March 25 certain exports from sterling countries could no longer be paid for by free sterling but must be paid for in dollars (and certain other currencies) at the official rate of exchange—\$4.03½. The commodities coming under the regulation are rubber, tin, jute, whisky, and furs exported from the United Kingdom; rubber and jute from India; and rubber and tin from producing colonies. As imports of these goods into the United States in 1939 were about \$250 million, it is evident that the United States demand for free sterling to pay for imports from the Empire has been considerably reduced by the new regulations. Hence the decline in the free sterling rate of exchange.

Comparison of Official Sterling and Free Exchange Rates

	Official	Free
July	—	4.681
August	—	4.611
September	4.04 1/	3.995
October	"	4.011
November	"	3.925
December	"	3.930
January	4.035 2/	3.964
February	"	3.963
March	"	3.759
April 3	"	3.558

1/ Rate established September 14.
2/ Rate changed on January 8.

SIGNIFICANCE: The wide spread between the official and free rates of exchange raises the question of the function of the British foreign trade and exchange system and its possible effects upon us. Under the British regulations all transactions with foreign countries are subject to control. The authorities determine what imports and exports of goods and services are to be allowed and they also determine what transactions are to be cleared at the official rate of exchange. Hence, they determine the volume of transactions cleared in the free market and, although they do not interfere with the day-to-day fluctuations of free sterling as far as we know, they do control the general level of free sterling exchange, at least by indirection. This is so simply because they fix the amount of official exchange they make available after having determined the total volume of transactions (within relatively narrow limits).

IN ESSENCE, THE BRITISH PROBLEM IS THIS: The war requires heavy purchases of essential materials abroad—purchases in such volume as can not be paid for out of current receipts (exports, shipping services, dividends, etc.). This means that they must pay to some extent in gold and other liquid foreign assets which they own; they must eat up some of their foreign capital to fight the war. Naturally, they want to keep the utilization of accumulated assets to a minimum consistent with the exigencies of the military situation. This minimum is not fixed but depends upon how much they can restrict imports of non-war materials and how much they can expand exports.

THESE AIMS ARE BEING EFFECTUATED not only by direct measures but by the dual exchange system.

TRANSACTIONS at the official rate:

(1) Keep down the sterling price of essential imports by making dollars (or other neutral currencies) available for them at the official rate.

(2) Hold up the foreign exchange receipts from non-competitive exports by requiring that they be paid for at the official rate. This procedure is now applied to rubber, tin, jute, etc., as mentioned above.

TRANSACTIONS at the unofficial rate:

(1) Raise the sterling price of non-essential imports and thus restrict imports as the free rate is allowed to decline.

(2) Lower the foreign price of competitive exports and thus stimulate exports.

(3) The free rate also serves the purpose of reducing the amount of gold and foreign exchange required to liquidate pre-war balances of foreigners (other than American) held in the London market.

DOES THE DEPRECIATION OF FREE STERLING THREATEN OUR INTERESTS? Of course, the depreciation improves the competitive position of the British in both this and neutral markets compared with their position without depreciation. Compared with the situation before the war, however, the British position has been impaired by the sharp rise of prices in Britian and increased shipping costs.

Changes in Price and Exchange Rates

	Percent Change Aug. 1939 to date
Wholesale Prices — United States........	+ 4
Wholesale Prices — United Kingdom.......	+32
Change in sterling quotation.............	-25

SIGNIFICANCE: Although only a very rough measure, these figures indicate that the British have just about offset through depreciation to $3.50 the competitive position lost by the rise of internal prices. But since further depreciation is possible and since British policy aims at increasing exports by direct methods, the problem is a continuing one.

There is no doubt that relative to our pre-September position we stand to increase our net exports because of the war. The whole problem from the British standpoint centers around the fact that they must increase their purchases abroad—and particularly in this country. Thus our total exports will increase relative to British total exports. But there is a decided possibility that difficulties will arise in particular industries by reason of shifts in belligerent exports and imports. For example, the British are buying more aircraft in this country. They might attempt to pay for these in part by increasing their exports of textiles to (say) this country and Latin America—and this might adversely affect our textile industry. Similarly, they can, as they have done, cut down their imports of tobacco in order to import more machine tools.

What our attitude should be is a larger matter of policy than can be discussed here. But this much should be recognized. The free rate for sterling is only one means by which British foreign trade is controlled. If we objected to depreciation and the British agreed to maintain the rate, they could easily gain their ends by direct control of imports and of export prices. We are, of course, in a position to exercise considerable influence upon the British in decisions of policy which affect us.

FOREIGN TRADE NOTES

Denmark: All reports from that country are calling attention to the very serious economic situation resulting from unfavorable price developments, curtailment of exports to England, and resulting scarcity of exchange. It is reported that Denmark is practically living on a month-to-month basis and that important Danish industries are always threatened by the uncertainty of the supplies of raw materials resulting from the present precarious shipping situation.

Since the outbreak of the war, import prices have risen by 66 points, while export prices have increased by only 19 points.

It was expected that England would insist on a reduction in the Danish butter shipments of 30 percent, and also a decrease of 3 percent in price with a provision that the freight costs be borne by the Danish producers, which will mean a total decrease of about 10 to 15 percent in the Danish butter prices. It is also expected that the bacon shipments to England will be cut down by 25 percent for April, with a price decrease of about 5 percent. In addition, it was also anticipated that the British would insist more strongly on blocking of credits in England.

All Danish ships of 5,000 tons and over were expected to be requisitioned on April 1 by the Danish Government for a period of 4 to 5 months, to be used for carrying grain and cattle feedstuffs from North America to Denmark. While this measure will help to carry Danish agriculture, it involves a loss of exchange to shipping interests.

Brazil: Contracts for British purchases of 55,000 tons of chilled meat in Brazil were concluded the middle of March. The orders amount to approximately $6,500,000 and represent the first instance of British Government purchases of chilled meat in Brazil. The order was divided among British and American packing plants.

Italy: In spite of its totalitarian regime, Italy has been subject to far greater economic fluctuations than Germany, which may be explained by the differences in capacity for organization, and also by the greater dependence of Italian economy on foreign supplies and markets. As a result of the rising cost of living and the disparity between prices and wages, the Italian Government has been compelled to extend its price fixing policy, and to increase salaries and wages from 10 to 25 percent.

<u>United Kingdom</u>: In connection with a recent inquiry in regard to the availability of import licenses for American oranges this season, it was pointed out by the Ministry of Food that the whole trend of British policy is toward elimination of dispensable foodstuffs imports, even from Empire sources, and that there was no likelihood of any import licenses being issued for American oranges this season.

Bureau of Foreign and Domestic Commerce,
April 4, 1940.

WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939 Apr. 1	1939 Aug. 26	1939 Sept. 16	1940 Mar. 23	1940 Mar. 30	Percent increase, Mar. 30, 1940 from– Apr. 1, 1939	Percent increase, Mar. 30, 1940 from– Aug. 26, 1939
All commodities	76.5	74.8	79.3	77.9	77.9	1.8	4.1
Farm products	66.6	61.1	69.7	67.5	68.1	2.3	11.5
Foods	70.5	66.7	75.5	69.9	69.8	- 1.0	4.6
All commodities other than farm products and foods	80.7	80.4	82.4	82.9	82.8	2.6	3.0
Hides and leather products	92.0	92.6	98.3	102.1	102.0	10.9	10.2
Textile products	66.0	67.4	71.4	72.7	72.5	9.8	7.6
Fuel and lighting materials	73.7	73.2	74.1	72.6	72.3	- 1.9	- 1.2
Metals and metal products	94.4	93.5	94.9	95.4	95.5	1.2	2.1
Building materials	90.0	89.7	90.7	93.3	93.1	3.4	3.8
Chemicals and drugs	76.0	74.2	77.1	77.3	77.2	1.6	4.0
House-furnishing goods	86.5	87.0	87.1	89.5	89.5	3.5	2.9
Miscellaneous	73.9	73.1	76.1	76.5	76.6	3.7	4.8
Raw materials	70.2	66.2	73.0	71.5	71.8	2.3	8.5
Semimanufactured articles	74.6	74.4	82.0	79.4	79.5	6.6	6.9
Finished products	80.3	79.3	82.3	81.2	81.0	0.9	2.1

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

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		April 5	August 30	Sept. 13	March 27	April 3
Copper, electrolytic, New York	¢ per lb.	11	10 1/2	12	11 1/4	11 1/8
Lead, prompt shipment, New York	do	4.85	5.05	5.50	5.15	5.00
Zinc, New York	do	4.84	5.14	6.64	6.14	6.14
Tin, straits, New York	do	46 1/5	49 3/4	1/ 75	45 1/2	45 1/2
Rubber, plantation, N.Y.	do	16 1/16	16 13/16	22 1/2	18 5/16	18 9/16
Hides, light native cows, Chicago. . . .	do	9 1/2	11	15	12 1/2	12 1/2
Silk, 13-15 denier, 78% seriplane, N.Y.	$ per lb.	2.32	2.72	3.21	2.89	2.64
Cotton, middling, average, 10 markets. . .	¢ per lb.	8.43	8.53	9.01	10.26	10.40
Print cloth, 60x64, 38 1/2 inches, N. Y.	¢ per yd.	4 1/4	4 5/8	5 3/8	4 3/4	4 7/8
Wool tops, May 1940 futures, New York. .	¢ per lb.	2/79.0	3/81.5	3/111.9	92.9	94.0
Sugar, raw, 96°, duty free, New York . . .	do	2.90	2.92	3.70	2.80	2.77
Cocoa, Accra, New York	do	4.65	4.38	6.45	5.60	5.68
Coffee, Santos, No. 4, New York	do	7 3/8	7 5/8	7 3/4	7 1/4	7 1/4
Lard, cash, Chicago. .	do	6.12	5.65	7.75	5.55	5.65
Cottonseed oil, May 1940 futures, N. Y.	do	2/ 6.49	3/ 5.61	3/ 7.30	6.54	6.97
Wheat, May 1940 futures, Chicago . . .	$ per bu.	2/ .67 5/8	3/ .67 1/4	3/ .85 3/8	1.05	1.04 3/4
Hogs, good and choice, 220-240 lbs., Chicago	$ per cwt.	4/ 7.25	6.88	8.13	5.18	5.13
Steers, beef, medium, 750-1,100 lbs., Chi.	do	9.13	8.38	8.88	8.38	8.13

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

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

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Date	Motor gasoline, 65 octane	Light fuel oil, number 2	Diesel oil, ships' bunkers	Bunker oil, grade "C", cargoes
	(Cents per gallon)		(Dollars per barrel)	
1939:				
April 5	4.50 - 4.75	3.00 - 3.125	1.45	0.73 - 0.75
August 30	4.75 - 5.00	3.375 - 3.75	1.45	0.78 - 0.80
September 13	6.25 - 6.875	3.875 - 4.00	1.45	0.825 - 1.00
1940:				
March 27	5.25 - 6.00	4.125 - 4.25	1.70	0.90 - 1.05
April 3	5.25 - 6.00	4.125 - 4.25	1.70	0.90 - 1.00

Source: Platt's Oilgram.

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

Date	Pig Iron 1/	Steel Scrap 2/	Finished Steel 3/
	(Dollars per gross ton)		(Cents per pound)
1939:			
April 4	20.61	15.25	2.286
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.50	2.236
1940:			
March 26	22.61	16.29	2.261
April 2	22.61	16.08	2.261

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

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

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

Source: The Iron Age.

MEMORANDUM

April 4, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

On April 3rd Congressman Taber called about a tax matter. In the course of our discussion reference was made to the consolidation of the Federal Alcohol Administration with the Alcohol Tax Unit. He said he thoroughly approved the consolidation if we did not take over Alexander. He stated that Alexander had gone to the officials of the largest winery in New York state and asked them to try to persuade their Congressman, Mr. Taber, to vote for the Federal Alcohol Administration's appropriation. Taber said that he did not believe that any man who would obligate himself to people whom he was supposed to regulate was a fit man to be retained in any regulatory service.

I am forwarding this information to you in view of the "understanding" that Alexander was to be taken care of in the Internal Revenue Bureau.

JLS

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1940.

TO Secretary Morgenthau

FROM Mr. Schwarz

Ned Bruce is pleased that you will be able to join him in the radio broadcast April 25. It's at NBC from 10 to 10:30 p. m. that night and other participants will be Senators LaFollette and McNary and Administrator Carmody. John Dewey of Columbia, the philosopher, will be master of ceremonies, so they shouldn't expect more than five minutes from you and Bruce promises to provide some good material.

I am attaching a story from today's paper written by Willard Edwards of the Chicago Tribune, which apparently is dying hard in its effort to make something out of the 'plane situation.

I am also attaching excerpts from Whaley-Eaton and Ray Tucker. Their assertions aroused my curiosity and today I had lunch with Emmitt Davison, head of the AFofL International Machinists Union. He insists there are plenty of skilled men available if the manufacturers will go along with apprentice systems instead of trying to promote their own training schools. He says that one-fifth of the million trained machinists in the country (only 200,000 of which belong to his organization) are out of work today.

The National City Bank
of New York
ESTABLISHED 1812

OFFICE OF
THE VICE CHAIRMAN
OF THE BOARD

New York April 4, 1940.

Dear Henry:

Since talking with you, the only new case which has come to our attention in which the decline in sterling appears to have affected the American exporters, is that of cement. There appear to have been some instances where the British have been able to underbid us in world markets on cement.

We have also been making some interesting computations. We asked our London branch for an estimate of the percentage of British exports which under the new regulations would have to be purchased with official sterling. They estimate that the following percentages come into the official classifications:

Exports from the United Kingdom	13 1/2 %
Exports from India, Burma, and Ceylon	53 1/2 %
Exports from Malaya	88 1/2 %

These percentages are based upon the 1938 trade figures, and are, of course, very approximate, but they give a rough idea of how much of British trade must be done at the official rates.

We have also been making here an estimate from 1937 and 1938 trade figures of the percentage of imports into the United States from British sources which come under the official rates. This shows that approximately 33 per cent of our imports from the United Kingdom (chiefly whiskey) will have to be paid for at the official rate, while 67 per cent can still be bought with free sterling. The percentage of our imports from India covered by the regulation is about 54 (jute and burlap); from Ceylon 65 (rubber); and from Malaya 95. (Nearly all of our imports from Malaya consist of rubber and tin.)

As you will have noticed the decline in sterling seems to have had some sympathetic effect on basic commodity prices.

Sincerely yours,

Randolph

Honorable Henry Morgenthau, Jr.,
The Cloisters,
Sea Island Beach, Georgia.

WRB.H

HSM

PLAIN

London

Dated April 4, 1940

Rec'd 12:13 p. m.

Secretary of State,

Washington.

848, Fourth.

FOR TREASURY FROM BUTTERWORTH.

Today's published returns indicate that unemployment as of March 11 at just over one million is the lowest since June 1929 and shows reductions of 383,000 since February 12, of 660,000 since March of last year and of 135,000 since July last. The improvement is widely spread over all industries except printing and all districts except London. The fact that there was a reduction in such non-essential trades as entertainments, hotel services, tailoring and the distributive trades, in so far as it indicates revival in these industries rather than a shift of workers out of them into the fighting services and war industries, is but another sign that there is still much adjustment necessary before the nation's manpower is fully diverted into essential war industries. Many problems remain to be solved arising from the need for special skilled labor

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in the armament and shipbuilding trades, the isolated position of new arms factories, special labor needs of such important export industries as cotton and wool textiles, et cetera. These problems cannot be automatically solved by the mere absorption of those still seeking work.

It is generally estimated the irreducible minimum for the unemployment figures as published (that is unemployables plus labor turnover registrations) is about 700,000 and as this level is approached the problem of the curtailment of consumption will become increasingly important if the inflationary spiral is to be avoided.

Thus the home front presents the double need of organization of the existing manpower and the timing of measures to put the brakes on consumption. The latter problem is as indicated in my 815, April 11, 7 p. m., in the lap of the British Treasury and April 23 is budget day. In connection with the problem of the organization of manpower it is noteworthy that Sir Kingsley Wood, generally regarded as one of the more able administrators in the Cabinet with drive and initiative, has now been virtually put at the head of the departments in charge of the home front. When the problem of unemployment really becomes transformed into the problem of finding labor, and some such measures as those adopted by Germany

before

hsm -3- No. 848, April 4, from London

before the outbreak of war become necessary, the need for organization will be more than apparent. Already as reported in my 826 of April 2nd a census of labor in the engineering and shipbuilding trades is being undertaken.

KENNEDY

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 4, 1940, 6 p.m.

NO.: 428

FOR THE TREASURY DEPARTMENT. FROM MATTHEWS.

This morning I called on the managing Director General of the Banque de Paris et des Pays Bas, M. Henry Jahan. The political situation was mentioned first by M. Jahan; he said he thought if the usual peace-time political give-and-take should now bring on another cabinet crisis, the reaction throughout the country with France at war would be strong against Parliament, which factor he believed might be a restraining influence on those who are now playing to overthrow Reynaud. M. Jahan said that he himself had no political connections, since running the bank kept him busy enough. However, it seemed to him that because the Radical Socialist Party had governed France for so long a time, they were not accustomed to being out of power, they did not like this, and that anyone more intelligent than themselves always made them suspicious.

As for the economic situation, Jahan could see that industrial production had improved. As an example he cited the fact that at present the coal output of France is at the rate of 10,000,000 tons a year above the average output for the recent past. However, with regard to exports,

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he did not think there was much that France could do, that it was all very well to speak of taking the overseas markets of Germany, but France under present circumstances had no export surplus of machinery and other items such as were normally supplied by Germany. M. Jahan said that there had been some improvement in getting impărt licenses for raw materials where such materials could be definitely shown as destined for reexport in the form of finished products. The foregoing is somewhat different from the opinion of the Under Secretary of State for Commerce and Industry, Senator de la Grange - whose duties will pertain to the export problem entirely. Yesterday he told me that for export industries to get import licenses of essential raw materials is still difficult.

Jahan told me that British imports from France are more satisfactory than they have been for a long time, saying this was due to the removal of various protectionist restrictions which the British had built up in the past few years. At the present time the principal obstruction to trade between France and Great Britain was the lack of adequate facilities for transporting the goods - compare the statement by Couve de Murville in telegram of April 1, No. 417, from the Embassy.

He was enthusiastic about and talked for some time about the real spirit of cooperation existing between industrialists of of France and Great Britain at the present time, as symbolized by the recent meeting of delegates of the Patronat Francais and the British Federation of Industries. Reference: telegram of March 11, No. 323 from the Embassy. He feels they are gradually building up a comprehension of their reciprocal interests and needs which will go on after the war, and augurs well for the new Europe after the war. He said that British manufacturers for the first time in history are really making an effort to cooperate with the French and trying to understand the French point of view. He still does not have any real concern over the behavior of sterling and the franc on the free market - reference: telegram of March 18, No. 357 from the Embassy. He said that if the war continues for a year or two, sooner or later there is bound to be a drop in the value of the pound and the franc, and that in fact they are rather fortunate as the French burden of debt today, when reduced to terms of gold, is well below what it was in 1914. Swiss friends of his, in commenting on the recent sterling drop, had emphasized the importance played by sales and conversion into dollars of British securities held by nonresidents all over Europe.

He brought up the question of French reserves of gold and foreign exchange, and said that such reserves should last without difficulty for much more than another year, since war purchases in the United States were reduced to a necessary minimum. For instance, he mentioned the possibility that next year heavy copper payments now made in dollars might be transferred to the sterling area, with the supplier being Rhodesia - reference, telegram of March 20, No. 366. However, he added that naturally it is impossible to foresee the course of the war, and this course would materially affect such expenditures.

Jahan said that when the war is over, if Europe behaves itself and by the abundance of means sets up a system whereby the greatest possible interchange of goods can be made - such as is advocated in the speech which Reynaud made last night to the United States - gold credits might be granted to them by the United States. He said it was the height of absurdity to speak of raw materials in terms of vital spaces, and that this is so must be realized by Europe.

He had the impression that in the future there will be a marked tightening of the Allied blockade, particularly as concerns Italy. It was his understanding that in this regard the British are now in favor of stronger action - reference, telegram of April 3, No. 425, from the Embassy reporting on de la Baume's remarks in this connection. Jahan is also of the opinion that supplies on an important scale are going to Germany from Italy. He expressed the belief that the war would be materially shortened and the victory half won if they could cut off supplies of Swedish iron ore and oil from various sources.

END SECTIONS ONE TO EIGHT, INCLUSIVE.

MURPHY.

EA:LWW

JT

GRAY

PARIS

Dated April 4, 1940

Rec'd 4:40 p.m.

Secretary of State,

Washington.

428, April 4, 6 p.m. (SECTION NINE)

Today's JOURNAL OFFICIEL contains a decree regarding the terms of application of the law of August 22, 1936 establishing a state export credit insurance agency. The decree replaces that issued on the same subject on October 8, 1938 (Embassy's despatch No. 3104 of October 12, 1938) and is designed to "simplify the operation of the credit insurance regime" to encourage exporters to avail themselves of this service. The principal changes embodied in the new decree are: (one) exports credit insurance will enter into effect on the first day of the month following the conclusion of an export contract without regard to the date of invoicing exportation, etc.; (two) while export contracts were normally expressed in francs credit insurance may now be issued to cover exports calling for payment in foreign currency provided such currency is one approved by the Minister of Finance for the settlement of exports;

MURPHY

EMB

MA GRAY

Paris

Dated April 4, 1940

Rec'd 5:20 p.m.

Secretary of State

Washington

428, April 4, 6 p.m. (SECTION TEN)

(Three) whereas heretofore each payment made to an exporter resulted in an equal monetary reduction in the total amount of the insurance underwritten by the state hereafter each reduction in the insurance cover will be on an equivalent percentage basis; (four) increased penalties will be imposed on exporters who fail to pay their credit insurance premiums within the established time limit; and (five) export credit insurance will not cover maritime war risk or losses by exchange. The maximum limit to the state's participation in the credit risk, 80 per cent of the total amount involved in the export contract, remains unchanged.

The securities market was firmer today. Rentes, however, were down fractionally. The Bank of France statement for the week ending March 28 showed largely normal month end changes. Commercial advances were up 574,000,000, note circulation increased 1,088,000,000 and the state drew 300,000,000 on its advance account.

(END OF MESSAGE).

EMB MURPHY

No. 296

COPY

CONFIDENTIAL

Rangoon, Burma, April 5, 1940.

CONFIDENTIAL

SUBJECT: Export of wood oil from China; first large shipment through Rangoon goes to New York on American vessel.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D.C.

SIR:

I have the honor to report that the third consignment of China wood oil (tung oil) to be exported through Rangoon left here for New York on the M.S. EXTON of the American Export Lines, Incorporated, on March 28, 1940. The shipment consisted of 1,219,095 net pounds (544.24 long tons) of oil, valued at US $0.26 a pound, or US $316,964.70.

The first wood oil from China exported through Rangoon consisted of a trial shipment of 110,875 net pounds, made in September 1939. Nineteen drums of oil, with a net weight of 8,038 pounds, which arrived too late to be included in the first shipment, were forwarded from this port late in October 1939.

The shipment on the M.S. EXTON was made by the Foo Shing Trading Corporation, and the oil is consigned to the Universal Trading Corporation of New York, the concern which last year entered into an agreement with the Export-Import Bank for commercial credits for purchases for China, to be repaid from the proceeds of sales of wood oil.

Cost of Transport Over Highway.

The oil shipped from Rangoon on March 28th was packed in 2,893 used gasoline drums, and the gross weight was approximately 610 long tons. The cost of transport by motor trucks over the Yunnan-Burma highway, from Yunnanfu to Lashio, a distance of 715 miles, was placed at CN$831,169, or about US $56,182, which gave a rate of US $0.1334 a ton a mile. It is stated that considerable oil was lost through leakage on the journey from Yunnanfu to Rangoon, and that reconditioning of drums was found necessary at both Lashio and this port. The heat on the wharf here caused two drums to burst and several others to crack. The losses in oil are said to be due chiefly to the fact that the only containers obtainable are old drums, some of which have been used several times.

<u>No Transit Duty Levied by Burma</u>.

No transit duty was levied on the oil by the Burma Government. There are assurances that if such a duty is established later it will not exceed one percent ad valorem, which is the duty now charged on re-exports to China. The charge for rail transportation from Lashio to Rangoon was at a rate of 40 rupees (about $12.00) a long ton, and the ocean freight rate, Rangoon to New York, was $20.00 a long ton. The expectation of obtaining regular shipments of wood oil for New York has had much to do with the announced intention of the American Export Lines, Incorporated, to maintain a monthly service of vessels to and from Rangoon.

<u>Statement of Oil-Export Plans</u>.

Mr. C. T. Tung, director of the Foo Shing Trading Corporation with offices in Hong Kong, was in Rangoon late in March, and he called at the Consulate on March 26th. He said that his concern had been able to supply in 1939 the 25,000 tons of wood oil called for by the terms of the Universal-Foo Shing agreement with the Export-Import Bank, and that he thought shipments in the first quarter of this year would total approximately a fourth of the 35,000 tons to be delivered in 1940. According to Mr. Tung, there is a plentiful supply of wood oil in China, and the principal problem in connection with deliveries for export is that of transport. Under normal conditions, he said, it was possible to ship

150 tons of wood oil daily over the French railway from Yunnanfu to the port of Haiphong, provided supplies could be maintained at Yunnanfu. He pointed out that the cost of shipping oil over the Yunnan-Burma highway and the Burma Railways was much greater than that involved in shipping over the French railway, but regardless of this fact, he said, it was intended to send 500 to 1,000 tons of oil monthly to Rangoon, using trucks of the Southwest Transportation Company returning over the highway from Yunnanfu. Highway shipments would necessarily be increased in the event the Japanese again cut the French railway.

Smuggled Oil Shipped Through Hong Kong.

Mr. Tung stated that some wood oil was being smuggled out of China through ports held by the Japanese, and that this oil was being shipped through Hong Kong.

The Foo Shing director reported that 300 of the American motor trucks purchased for his concern were still at Haiphong. About 90 of the American trucks imported for Foo Shing at Rangoon and assembled and equipped with bodies here are still at Lashio, to which point they were shipped months ago.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

1. In quintuplicate to Department.
2. Copy for Embassy, London.
3. Copy for Embassy, Chungking.
4. Copy for Consulate, Yunnanfu.

800-869.3
ACB/cp