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Oalo, April 4, 1940.

CONFIDENTIAL

Mr. Edwin L. James,
Managing Editor,
New York Times,
New York.

Dear Mr. James:

As this is written, it is still nip and tuck in Germany between a military offensive in the west to reach a quick military decision, and a war of endurance until such time as Russia has been put in shape to supply Germany with adequate war materials and the Allies lose hope of victory, so that a negotiated peace becomes possible.

The basis of a negotiated peace will naturally depend on the progress of the war. At the moment it may be assumed that Germany would be willing to make peace on the territorial status quo, which means recognition of her conquests and withdrawal of all Allied influence from Eastern Europe. If Germany continues to hold her own, her price will rise with the duration of the war. But even the status quo, like the Munich settlement, would be merely a new point of departure to new conquests.

For the Nazi aims and the Nazi will to achieve them cannot be exaggerated. The talk of the "Germanic Age" that is dawning, and of the "world revolution" that Nazi Germany is leading, is not mere propaganda, but a concrete program. It means the subordination of Europe to German will, the co-ordination of Europe in the German scheme of things, and the organization of Europe as Germany's political and economic hinterland.

Politically, it means that the various countries of Europe must re-orient their policies in conformity with German policy to the exclusion of any flirtation with any rivals or enemies of

Germany. In other words, it means that the European countries shall surrender their freedom of choice and become one-sidedly depended on Germany, no matter what Germany does or how it impinges on their interests. And it means that in pursuance of such a policy, the dependent governments will also be required to control public opinion at home and suppress any anti-German "agitation," so that the respective peoples shall be deprived even of the right of protest. In return, Germany will guarantee them a "German peace" and save them from future war.

Economically, it means the organization of Europe, or of those parts Germany can control, into a Grossraumwirtschaft by means of a planned economy on a European scale, along the same lines as in Germany itself. In this international planned economy, the various countries would be required to re-organize their economy in order to produce those things which Germany needs, presumably with German help and advice, which means incidentally that they would also become completely dependent on the German market.

In some respects, this program bears a certain resemblance to the "New Order" which Japan is trying to impose on Asia. But it is far more thorough-going. For it is based on the German economic principles and totalitarian control. The economic principle is that Germany, lacking capital and unwilling to borrow abroad, even if she could, because that entails a certain economic dependence, is substituting for gold a managed fiat currency which is to be made international within the Grosswirtschaftsraum in the shape of a "labor currency." The details of such a "labor currency" are still unclear, but the general idea is that the various countries within the Grosswirtschaftsraum would exchange their goods at valuations proportionate to the amount and the value of the labor required for their production. And in this valuation, German labor would naturally

stand much higher than the labor of a Balkan peasant. The exact rates of exchange, which would determine the price of the respective goods, could be fixed on the model of the present clearing arrangements which already fix arbitrary exchange rates.

At the same time, such a planned economy is possible only by means of rigid organization and strict control which can be imposed only by authoritarian governments. The German project entails, therefore, the abolition of the remnants of democracy in Europe and the fulfillment of Mussolini's prophecy that all Europe will become Fascist. Though perhaps under different auspices than Mussolini dreamed of.

Whether, in this process, it will become necessary to incorporate other countries in the Great German Reich will depend on the circumstances and on the good behavior and full compliance of the respective countries. As regards those nations already incorporated, the Czechs, who surrendered without fighting, have a chance to survive as laborers for Germany, though they will be deprived of their intelligentsia and all possibilities of oppositional organization in order to prevent a national resurgence such as the Czechs were able to stage under the later, increasingly democratic and federalistic rule of the Habsburgs. The Poles, like the Jews, are marked for extermination -- physical extermination for the Jews and for those Poles who cannot reconcile themselves to German rule, national extermination for the remaining Poles through later absorption in the same manner in which other West-Slavic peoples were absorbed in what is now known as the Prussians, the Eastern branch of which contains much Slavic blood.

The idea behind this program is the cold calculation that Germany needs the agrarian lands of Poland for her food supply,

but that this food supply can be assured only if the land is colonized by German farmers and peasants. Now successful colonization, the Germans hold, is possible only if the native population is either exterminated or Germanized. That has been the experience of German colonization in Pomerania, and particularly in East Prussia, where the former native populations, Slavic and Baltic, have disappeared, while even complete and century-old German domination of what are now the Baltic states, in which the native populations, though suppressed, remained intact, has ended in the withdrawal of the Germans. That shall not be repeated in the Polish territories.

However, even after the "New Europe" that Hitler has announced has been organized, it seems impossible that the Nazi regime could rest content. For even the new Grosswirtschaftsraum would still be far from self-sufficient, and the same economic, if not political, considerations that impelled the Nazis to create it would also impell them to extend their system to their trade with the rest of the world -- a development that is already being prepared by the slogan "work against gold." That in this process, Nazi Germany would automatically arrive at a challenge of America's political and trade positions in the world appears inevitable. For there are few countries in the world that can get along without the European market which Germany would control. In the German view, the United States, like Russia, like the New Asia that Japan seeks to create, and like the New Europe envisaged by the Nazis, forms a Grosswirtschaftsraum by itself to which the American people can withdraw and be happy in, provided they adopt the same planned economy under a like authoritarian government such as Germany has already introduced.

These being the aims, frankly discussed and debated in Nazi quarters, what are the prospects of their attainment? And what is the attitude of the German people toward them?

It can be said at the outset that the Germans are very much divided in respect to both questions. The ambitions of Hitler himself and the Nazi zealots around him are limitless. They know, now, that they can retain power only as long as they continue to move from one victory to another. And they can continue to command the support of the German people only as long as they can make it plausible on them that the world is denying them their rights and that therefore they must fight for them. In other words, the Nazi rulers, having come to power in what the Germans have come to regard as a national emergency, can maintain their absolute control only so long as the emergency lasts. They have every interest, therefore, to make the emergency permanent. And Nazi spokesmen frankly state in private that all that has been achieved so far is merely a prelude, and a basis for bigger and better things to come.

The German masses and the classes are rather less ardent about these aims, but there can be no doubt that so far Hitler can still command the support, or at least the willing obedience, of an overwhelming majority. The masses, especially in the provinces, have only a vague idea of these aims and their implications, presented to them in catching slogans and with much oratory, but insofar as they have any idea of them at all, the grandiose vision merely flatters their national ego. Also, the Germans are patriots and the country is at war; they know that any division or opposition to the government would weaken the country in that war and they have learned to keep discipline. Finally, the entire people have been organized on the military principle and any opposition is impossible and hopeless. There is much grumbling, especially in Bavaria and Austria, but so far that grumbling is no political factor. It is no more than the normal grumbling in any army.

Wherever active opposition shows itself, it is ruthlessly suppressed. There are copious rumors of Nazi firing squads having been busy in this or that locality to stamp out discontent and passive resistance among the workers, but it is impossible to get detailed confirmation. Mention of such executions in foreign press dispatches have, however, gone unchallenged. There have undoubtedly been some, although I have been assured by American production managers in German plants that as far as they can judge from their own experience, the German workers are doing all their work with a will and in a comparatively good spirit. The war is still too short and too sparing of human lives to provoke revolt, although a basis for it has been laid throughout the last seven years. But the elements that provoke revolt will not become active until conditions grow very much worse than they have been heretofore.

The situation in the large cities, particularly Berlin, and especially among business circles and the intelligentsia, is much more critical. German industrialists — perhaps as a consolation for present hardships — entertain large hope for a long-range collaboration with Russia which they view as an immense market for German products, and which they hope to bring back to the world generally with Germany as the middle-man, as before the last war. But all the farther-reaching Nazi aims are viewed with the greatest scepticism, and often set aside as either visionary or mere propaganda. The German businessman knows that Germany can flourish only on the basis of the greatest possible world trade, and his hope is, therefore, that after the war the Nazi regime can be moderated and directed into more normal channels. But for the present, even the biggest German industrialist, like the unknown worker, is helpless to do anything except to obey orders. And that obedience is made somewhat easier for him by the consideration of what will happen if Germany is defeated. There is the prospect of a

new revolution; there is the likelihood of a new German partition which will smash the present large-scale domestic market on which German industry has been built up; there is, finally, the realization that the war, costing on top of the vast expenditures for armament and other Hitler programs, will leave Germany an empty shell that can be saved from collapse ~~only~~ by being filled up with the riches of the vanquished. (The war's cost is estimated at more than 40,000,000,000 marks a year).

On the other hand, among the more sensitive of the intelligentsia and the old conservative classes, the revulsion against the Nazi methods has reached such an intensity that it overrides all other considerations. Contrary to the businessmen who count on economic features to reassert themselves, these elements see victory fastening the Nazi regime only the more tightly on the German people and they are ready to pay any price to get rid of it. Good and highly esteemed Germans of long service to their country in war and peace have told me frankly that they are ashamed to be Germans any more and that they prefer death and all its consequences to a continuation of the present regime; but they see hope of reconstruction after defeat, but they see no hope if the present regime continues except general chaos.

Equally diverse are the German views regarding the prospects of victory. The general opinion is that a military offensive, even if it breaks through the Maginot line, would still end sooner or later in stationary trench warfare which would mean a long war; and the instinctive feeling of the people, based on their experience during the last war but also on pre-war statements of popular military authors, is that Germany is bound to lose a long war. The past winter, though it was somewhat better in the provinces than in Berlin, already caused so many hardships and privations that it has intensified this feeling, and everybody dreads another war winter. There is no actual starvation, but

the cold, the coal shortage and scanty food rations combined to leave the people, especially in Berlin, grey-faced and emaciated.

The American military attache, who tested the sufficiency of the food rations by trying to live on them alone, found them completely inadequate for normal sustenance, and even health ministry representatives lecturing before foreign correspondents at the Propaganda Ministry admitted on questions that the present rations, if continued for long, are bound to produce signs of malnutrition. A symptom that this malnutrition is already there is the fact that everybody who comes from Berlin to Copenhagen, for instance, even the Danish correspondents themselves, immediately falls victim to an attack of acute indigestion: the body is simply no longer used to normal food. And Berliners who lived through the hardest winter of the last war -- that of 1927 -- insist that the past winter was even worse.

The only hope Germany has for increased supplies lies in Russia and the Balkans. But the Balkans can supply only a small amount of what Germany needs for the war because even before the war Germany absorbed some 50 per cent of their exports, so that an increase is rather difficult. And Russia must first be organized in production and transportation before it can supply Germany with any substantial quantities of materials over and above what Russia itself needs. German experts are undoubtedly now flocking to Russia for that purpose, but a high standing member of the German Economic Ministry told me that supplies above the low previous trade level cannot be expected from Russia for at least another two years. And it's a question of judgment whether Germany can hold out that long.

That is why the Nazis, including Hitler himself, have been pressing for an offensive to end the war quickly. They present three arguments in favor of it:

1. The offensive may succeed in dealing a decisive blow and winning a complete victory. In this connection, the Nazis, and especially Hitler himself, entertain great hopes for a smashing success with Germany's alleged new secret weapons, which are said to include a new poison gas and a 50-inch gun that can pulverize any fortifications.

2. The offensive may succeed only in taking Holland and Belgium, but these can then be held as pawns for a negotiated peace, permitting Germany to surrender them as price for the retention of her eastern conquests.

3. Even if the offensive falls short of complete military success, it can still achieve Germany's ultimate aims by killing off enough Frenchmen and Englishmen to bleed these two nations to death. The Nazis calculate that if France and England lose two million men each, they are through as major powers because their birthrate is already so low that this blood-letting must inevitably lead to a rapid population drop -- even if they win the war. Germany, on the other hand, is considered to be able to stand a proportionate loss because her birthrate is much higher, and also because of the new order that, irrespective of wedlock, every soldier shall leave a life behind him -- a revolutionary order whose importance cannot be overestimated.

The Army Command, on the other hand, is reluctant to undertake an offensive because it is doubtful about its success and is certain only that it will cost a million men and more. No general is anxious to assume responsibility for such an undertaking and will move only on explicit written commands. And though Hitler has urged an offensive repeatedly, he has so far refrained from issuing the explicit command. Even Goering, urged to start a big air offensive against England, is said to have conveyed word to Hitler: "Not without a written command." That is where matters still stand.

The lower and younger military ranks, on the other hand, are more eager to go. All were gloomy over the prospects of a western offensive after the Polish campaign, but the supposed Allied inactivity and public bickering at home have led to considerable pickup in morale. And some, tired of waiting at the West Wall and fearful of army morale because of the inactivity, would almost welcome an offensive as a relief from the monotony.

At the same time, there is no doubt that everything is ready for an offensive, down to the last detail. Even army food~~x~~ improved toward the end of February to bolster up morale. Whether the button will be pressed, however, is impossible to say.

The division of sentiment even among the military -- a division that extends to ideological matters as well and is said to turn around the rank of major -- naturally hampers the effectiveness of the army as a moderating and balancing factor. Yet the army is still the hope of the moderate and conservative elements in Germany as the only possible organization that could keep things together when and if the regime breaks down. But the early hope that the army could move in that direction of its own initiative has grown dim. The German army is a collective organization whose sole motor is discipline. It has neither a personal following nor has it any outstanding personalities who could command such a personal following. The German soldier obeys the uniform and the rank insignia, and without his uniform the best German general is nothing. And the authority of the general comes from the head of the state, who is Hitler.

But there is one eventuality in which the army might and probably would assume increasing control -- and that is actual large-scale military fighting, either in a German offensive or an offensive from the other side. During the Polish campaign, the army did increase its influence and extended its control, and there was considerable jubilation in conservative quarters. The party took a back

sest and Nazi propaganda virtually ceased. Everything had to be subordinated to military necessity. But once the military campaign was ended, and the deadlock on the west became permanent, military necessity lost its convincing sound and the party re-emerged from its temporary oblivion. It again dominates the scene. But generals assure their conservative friends that if and when the time comes, they will be found on the right side.

However, the Nazis also know that and are preparing for any disaffection among the military or civilian populace. They are strengthening their armed SS formation as rapidly as they can pry men loose from the military who still claims first call on man power. "What if we do have to put a few hundred thousand against the wall," said one Nazi spokesman privately, and a general remarked equally privately in reference to the armed SS formations: "they're there to watch us."

All in all it can be said that the regime is still all-powerful because of its effective control of every phase of German life, and through its totalitarian control Germany is powerful as long as that control lasts. Moreover, it will use all means and methods to keep itself in power and win the war. And if some of its methods and plans sound incredible in a modern world it must be realized that the world faces here a mentality that still seems incomprehensible to the west -- a mentality that is proclaimed as the modern political mentality but may be also described as the collective mentality. It can be helpful, tender and considerate to individual members of the tribe or class if that is ⁱⁿ the interest of the collective whole; but it thinks only in terms of the collective whole and is devoid of mercy or humanity toward the individual if his extermination serves the interest of the collective whole; and the enemy finds, of course, even less consideration. The mentality that thought in terms of "reasons of state" is merely a pale

precursor of this collective mentality, but as in the case of those who did think in those terms, the proponents of the collective mentality are always prone to identify the collective whole with their own regime.

Very sincerely yours,

Your Correspondent.

P.S. I would appreciate acknowledgement of the receipt of this. Also kindly save a copy of this for my reference, since I cannot carry a copy around with me.

CONFIDENTIAL

Oslo, April 4, 1940.

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Managing Editor,
New York Times,
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Whether, in this process, it will become necessary to incorporate other countries in the Great German Reich will depend on the circumstances and on the good behavior and full compliance of the respective countries. As regards those nations already incorporated, the Czechs, who surrendered without fighting, have a chance to survive as laborers for Germany, though they will be deprived of their intelligentsia and all possibilities of oppositional organization in order to prevent a national resurgence such as the Czechs were able to stage under the later, increasingly democratic and federalistic rule of the Habsburgs. The Poles, like the Jews, are marked for extermination — physical extermination for the Jews and for those Poles who cannot reconcile themselves to German rule, national extermination for the remaining Poles through later absorption in the same manner in which other West-Slavic peoples were absorbed in what is now known as the Prussians, the Eastern branch of which contains much Slavic blood.

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but that this food supply can be assured only if the land is colonized by German farmers and peasants. Now successful colonization, the Germans hold, is possible only if the native population is either exterminated or Germanized. That has been the experience of German colonization in Pomerania, and particularly in East Prussia, where the former native populations, Slavic and Baltic, have disappeared, while even complete and century-old German domination of what are now the Baltic states, in which the native populations, though suppressed, remained intact, has ended in the withdrawal of the Germans. That shall not be repeated in the Polish territories.

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① Those being the aims, frankly discussed and debated in Nazi quarters, what are the prospects of their attainment? And what is the attitude of the German people toward them?

It can be said at the outset that the Germans are very much divided in respect to both questions. The ambitions of Hitler himself and the Nazi zealots around him are limitless. They know, too, that they can retain power only as long as they continue to move from one victory to another. And they can continue to command the support of the German people only as long as they can make it plausible to them that the world is denying them their rights and that therefore they must fight for them. In other words, the Nazi rulers, having come to power in what the Germans have come to regard as a national emergency, can maintain their absolute control only so long as the emergency lasts. They have every interest, therefore, to make the emergency permanent. And Nazi spokesmen frankly state in private that all that has been achieved so far is merely a prelude, and a basis for bigger and better things to come.

The German masses and the classes are rather less ardent about these aims, but there can be no doubt that so far Hitler can still command the support, or at least the willing obedience, of an overwhelming majority. The masses, especially in the provinces, have only a vague idea of these aims and their implications, presented to them in catching slogans and with much oratory, but insofar as they have any idea of them at all, the grandiose vision merely flatters their national ego. Also, the Germans are patriots and the country is at war; they know that any division or opposition to the government would weaken the country in that war and they have learned to keep discipline. Finally, the entire people have been organized on the military principle and any opposition is impossible and hopeless. There is much grumbling especially in Bavaria and Austria, but so far that grumbling is no political factor. It is no more than the normal grouching in any army.

Wherever active opposition shows itself, it is ruthlessly suppressed. There are copious rumors of Nazi firing squads having been busy in this or that locality to stamp out discontent and passive resistance among the workers, but it is impossible to get detailed confirmation. Mention of such executions in foreign press dispatches have, however, gone unchallenged. There have undoubtedly been some, although I have been assured by American production managers in German plants that as far as they can judge from their own experience, the German workers are doing all their work with a will and in a comparatively good spirit. The war is still too short and too sparing of human lives to provoke revolt, although a basis for it has been laid throughout the last seven years. But the elements that provoke revolt will not become active until conditions grow very much worse than they have been heretofore.

The situation in the large cities, particularly Berlin, and especially among business circles and the intelligentsia, is much more critical. German industrialists — perhaps as a consolation for present hardships — entertain large hope for a long-range collaboration with Russia which they view as an immense market for German products, and which they hope to bring back to the world generally with Germany as the middle-man, as before the last war. But all the farther-reaching Nazi aims are viewed with the greatest scepticism, and often set aside as either visionary or mere propaganda. The German businessman knows that Germany can flourish only on the basis of the greatest possible world trade, and his hope is, therefore, that after the war the Nazi regime can be moderated and directed into more normal channels. But for the present, even the biggest German industrialist, like the unskilled worker, is helpless to do anything except to obey orders. And that obedience is made somewhat easier for him by the consideration of what will happen if Germany is defeated. There is the prospect of

new revolution; there is the likelihood of a new German partition which will smash the present large-scale domestic market on which German industry has been built up; there is, finally, the realization that the war, coming on top of the vast expenditures for armament and other Hitler projects, will leave Germany an empty shell that can be saved from collapse only by being filled up with the riches of the vanquished. (The war's cost is estimated at more than 40,000,000,000 marks a year.

On the other hand, among the more sensitive of the intelligenzia and the old conservative classes, the revulsion against the Nazi methods has reached such an intensity that it overrides all other considerations. Contrary to the businessmen who count on economic factors to reassert themselves, these elements see victory fastening the Nazi regime only the more tightly on the German people as they are ready to pay any price to get rid of it. Good and highly esteemed Germans of long service to their country in war and peace have told me frankly that they are ashamed to be Germans any more and that they prefer defeat and all its consequences to a continuation of the present regime; for they see hope of reconstruction after defeat, but they see no hope if the present regime continues except general chaos.

Equally diverse are the German views regarding the prospects of victory. The general opinion is that a military offensive, even if it broke through the Maginot line, would still end sooner or later in stationary trench warfare which would mean a long war; and the instinctive feeling of the people, based on their experience during the last war but also on pre-war statements of popular military authors, is that Germany is bound to lose a long war. The past winter, though it was somewhat better in the provinces than in Berlin, already caused so many hardships and privations that it has intensified this feeling, and everybody dreads another war winter. There is no actual starvation, but

the cold, the coal shortage and scanty food rations combined to leave the people, especially in Berlin, grey-faced and emaciated.

The American military attache, who tested the sufficiency of the food rations by trying to live on them alone, found them completely inadequate for normal sustenance, and even health ministry representatives lecturing before foreign correspondents at the Propaganda Ministry admitted on questions that the present rations, if continued for long, are bound to produce signs of malnutrition. A symptom that this malnutrition is already there is the fact that everybody who comes from Berlin to Copenhagen, for instance, even the Danish correspondents themselves, immediately falls victim to an attack of acute indigestion: the body is simply no longer used to normal food. And Berliners who lived through the hardest winter of the last war — that of 1917 — insist that the past winter was even worse.

The only hope Germany has for increased supplies lies in Russia and the Balkans. But the Balkans can supply only a small amount of what Germany needs for the war because even before the war Germany absorbed some 50 per cent of their exports, so that an increase is rather difficult. And Russia must first be organized in both production and transportation before it can supply Germany with any substantial quantities of materials over and above what Russia itself needs. German experts are undoubtedly now flocking to Russia for that purpose, but a high standing member of the German Economic Ministry told me that supplies above the low previous trade level cannot be expected from Russia for at least another two years. And it's a question of judgment whether Germany can hold out that long.

That is why the Nazis, including Hitler himself, have been pressing for an offensive to end the war quickly. They present three arguments in favor of it:

1. The offensive may succeed in dealing a decisive blow 22 and winning a complete victory. In this connection, the Nazis, and especially Hitler himself, entertain great hopes for a smashing success with Germany's alleged new secret weapons, which are said to include a new poison gas and a 30-inch gun that can pulverize any fortifications.

2. The offensive may succeed only in taking Holland and Belgium, but these can then be held as pawns for a negotiated peace, permitting Germany to surrender them as price for the retention of her eastern conquests.

3. Even if the offensive falls short of complete military success, it can still achieve Germany's ultimate aims by killing off enough Frenchmen and Englishmen to bleed these two nations to death. The Nazis calculate that if France and England lose two million men each, they are through as major powers because their birthrate is already so low that this blood-letting must inevitably lead to a rapid population drop -- even if they win the war. Germany, on the other hand, is considered to be able to stand a proportionate loss because her birthrate is much higher, and also because of the new order that, irrespective of wedlock, every soldier shall leave a life behind him -- a revolutionary order whose importance cannot be overestimated.

The Army Command, on the other hand, is reluctant to undertake an offensive because it is doubtful about its success and is certain only that it will cost a million men and more. No general is anxious to assume responsibility for such an undertaking and will move only on explicit written commands. And though Hitler has urged an offensive repeatedly, he has so far refrained from issuing the explicit command. Even Goering, urged to start a big air offensive against England, is said to have conveyed word to Hitler: "Not without a written command." That is where matters still stand.

The lower and younger military ranks, on the other hand, are more eager to go. All were gloomy over the prospects of a western offensive after the Polish campaign, but the supposed Allied inactivity and public bickering at home have led to considerable pickup in morale. And some, tired of waiting at the West Wall and fearful of army morale because of the inactivity, would almost welcome an offensive as a relief from the monotony.

At the same time, there is no doubt that everything is ready for an offensive, down to the last detail. Even army food improved toward the end of February to bolster up morale. Whether the button will be pressed, however, is impossible to say.

The division of sentiment even among the military -- a division that extends to ideological matters as well and is said to turn around the rank of major -- naturally hampers the effectiveness of the army as a moderating and balancing factor. Yet the army is still the hope of the moderate and conservative elements in Germany as the only possible organization that could keep things together when and if the regime breaks down. But the early hope that the army could move in that direction of its own initiative has grown dim. The German army is a collective organization whose sole motor is discipline. It has neither a personal following nor has it any outstanding personalities who could command such a personal following. The German soldier obeys the uniform and the rank insignia, and without his uniform the best German general is nothing. And the authority of the general comes from the head of the state, who is Hitler.

But there is one eventuality in which the army might and probably would assure increasing control -- and that is actual large-scale military fighting, either in a German offensive or an offensive from the other side. During the Polish campaign, the army did increase its influence and extended its control, and there was considerable jubilation in conservative quarters. The party took a back

seat and Nazi propaganda virtually ceased. Everything had to be subordinated to military necessity. But once the military campaign was ended, and the deadlock on the west became permanent, military necessity lost its convincing sound and the party re-emerged from its temporary oblivion. It again dominates the scene. But generals assure their conservative friends that if and when the time comes, they will be found on the right side.

However, the Nazis also know that and are preparing for any disaffection among the military or civilian populace. They are strengthening their armed SS formation as rapidly as they can and are loose from the military who still claim first call on war power. "What if we do have to put a few hundred thousand against the wall," said one Nazi spokesman privately, and a general remarked equally privately in reference to the armed SS formations: "They're there to watch us."

All in all it can be said that the regime is still all-powerful because of its effective control of every phase of German life, and through its totalitarian control Germany is powerful as long as that control lasts. Moreover, it will use all means and methods to keep itself in power and win the war. And if some of its methods and plans sound incredible in a modern world it must be realized that the world faces here a mentality that still seems incomprehensible to the west -- a mentality that is proclaimed as the modern political mentality but may be also described as the collective mentality. It can be helpful, tender and considerate to individual members of the tribe or class if that is in the interest of the collective whole; but it thinks only in terms of the collective whole and is devoid of mercy or humanity toward the individual if his extermination serves the interest of the collective whole; and the enemy finds, of course, even less consideration. The mentality that thought in terms of

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"reasons of state" is merely a pale precursor of this collective mentality, but as in the case of those who did think in those terms, the proponents of the collective mentality are always prone to identify the collective whole with their own regime.

Very sincerely yours,

Your Correspondent.

P.S. I would appreciate acknowledgement of the receipt of this. Also kindly save a copy of this for my reference, since I cannot carry a copy around with me.

No. 391.

American Consulate,
Birmingham, England, April 20, 1940.

CONFIDENTIAL

Subject: **British Machine Tool Industry
(Output for War Purposes Problem).**

THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor, with reference to the Department's cablegram no.3 dated March 1, 1940, herewith respectfully to transmit a memorandum treating of the output for war purposes problem of the British machine tool industry.

The enclosed memorandum is based largely upon statements made to me by persons prominently identified with the machine tool business in this country. Among the persons in question were three rather large producers, and several experts occupying important positions in British agencies distributing American machine tools.

Within the last few weeks it has been possible to obtain a considerable amount of information bearing on shadow factory "feeders". The term "feeders" is used to indicate manufacturers to whom

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are farmed out contracts for the production of parts and components for use at shadow factories and at private plants where aircraft and aircraft motors are assembled.

It is hoped that at an early date it will be possible to furnish the Department with a memorandum relating to feeders in the British fighting aircraft production field.

Respectfully yours,

James R. Wilkinson
American Consul

Enclosure:

Memorandum, as stated.

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JRW:mec

A true copy of
the signed original. (10)

American Consulate,
Birmingham, England.
April 19, 1940.

28

CONFIDENTIAL

BRITISH MACHINE TOOL INDUSTRY
(Output for War Purposes Problem)

Background.

During the eleven year period preceeding 1934 the British machine tool industry did not have to concern itself with any problem arising out of a prospect of the United Kingdom becoming involved in a European war. While it is true that many of the machines it manufactured during this period were for use in connection with the production of armaments or munitions for the British Government, their manufacture was accomplished as was that of machines for other purposes, that is to say, in normal course.

The only really outstanding feature of the period in question was the spurt in output occasioned by orders from Russia. These were filled in 1931 and 1932. However, aside from the feverish activity resulting from the acceptance of these orders, the industry, between 1932 and 1934, contented itself with strengthening its financial position by meeting the steadily increasing demand for its products without, except when absolutely necessary, taking the risk involved in making capital outlays for new equipment or plants.

In consequence of the steadily increasing demand referred to and the manner in which the industry dealt with it, its financial position had by 1935 become

extremely/

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extremely sound. True, it lost much business to the United States and Germany by virtue of the chary attitude it adopted towards making capital outlays. But it could view this with a feeling of equanimity when it simultaneously viewed the magnificent record it achieved in the profit field. True also, owing to having operated on a working load basis for so many years, it had a great deal of worn-out or obsolete equipment and little or no reserves of skilled or semi-skilled labor. But it saw no good or sound reason why it should buy a new machine or hire an additional workman when doing so involved even so much as the smallest risk of less profit on gross business done.

When, after 1934, the British Government launched an armament program, there naturally occurred a sudden increase in the domestic demand for machine tools. The first fruits of this were an intensification of activity at British producing plants and a rising tide of imports. But British producers hardly batted an eye at the early suggestion that they ought to expand plant, hire and train more workmen, and otherwise get themselves ready to meet a national emergency, if such should arise.

In 1935, in 1936, in 1937, in 1938 and even until the war broke out in September, 1939, the tendency among British producers to assume whatever risks might be involved in increasing output capacity by general expansion in the labor, equipment, and plant fields was regarded as being perilously weak by those who

considered an armed Britain the only guarantee against war. But right or wrong, these producers so consistently and generally along to their attitude that they could not, as a class, be expected to assume risks in the national interest that, when the war did break out, one of the most serious problems with which the British Government was confronted was how to obtain the machine tools without which it faced almost certain defeat.

Pre-War Government Position.

While there were many officials who, as early as 1935, thought that the British Government should bring about by financial guarantees and as a safeguard against the very situation which arose four years later a suitable increase in the output capacity of the domestic machine tool industry, no effective step was ever taken in this direction and even the fact that the Government during the early stages of its armament efforts commenced exempting foreign machinery needed for armament purposes from customs duties failed to produce any noteworthy result.

Pre-War Output History.

Between 1923 and 1934 the annual value of Britain's domestic machine tool output never rose much above the four nor sank much beneath the three million pound level, but commencing January 1934, the value in question began quickly to mount. By the end of 1937 it had reached ten million pounds, by the end of 1939, twelve million. Without question, the marked rise in the

value of the industry's annual outputs during the 1934-1938 period were in large part attributable to armament needs and could not have been attained without considerable general expansion throughout the industry in the fields of labor, equipment and plant. But it is important to observe that outlays in these fields were usually resisted to the last ditch and that, in consequence, at no time during the whole period just mentioned was there seen the lively and consistent expansion that might in the circumstances have been expected but rather at first a trepidant tendency to expand which only shortly before the war broke out turned into a disposition to accept expansion as the sole method by which Government requirements could at all be coped with.

Post War History.

Between January 1 and the outbreak of the war on September 3, 1939, output was much enlarged, but principally by resort to hiring more labor, purchasing more equipment and the building of more plant. The value of the output for that year has been variously estimated, some mentioning a figure as high as twenty-five million pounds. But the effects of expansion begun after September 3, 1939, are just beginning to be felt and in the opinion of two large domestic producers, the value of the current year's output will reach forty million pounds.

The Government and the Industry Under War Conditions.

All the Government did and perhaps could do in

its pre-war effort to persuade the industry to increase its output capacity to meet a possible emergency was to let foreign made machinery in duty free. But the industry preferred seeing imports increase by leaps and bounds to risking capital outlays for plant which might, through war being avoided, soon become idle.

But the outbreak of hostilities quickly changed all of this and under war conditions, the Government and the industry have established a relationship between themselves which, in the circumstances, will probably yield as good results as can possibly be achieved.

So far there has been no coercion by the Government under such war powers as it may possess, and there seems to be no prospect of there ever being any. The Government says what machines ought to be produced and in what order, trusting the producer or producers concerned to carry out its indications. The producer judges whether expansion is the only means by which the wish of the Government can be satisfactorily executed and, if it is decided that it is, the producer expands, willingly postponing for future adjustment or settlement any capital loss expansion may occasion. Just what, if any, guarantees the Government might in a given case offer with respect to capital outlays made by a producer to enable himself to execute the Government's wish, would depend upon circumstances. Without doubt, however, if it came to the Government putting up capital for expansion as the only means of obtaining desired machinery domestically, the Government would

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put up the capital.

In any event, each need for specified machinery is the subject of consultation between the Government and one or more likely makers. The negotiations are usually informal and friendly and makers are disposed themselves to decide which among them is in the best position to fill the need.

Labor.

Nothing which has been said in the preceding paragraph should be interpreted as meaning that the domestic industry has become capable of satisfactorily meeting current Government requirements for machine tools for use in connection with the prosecution of the war. Even if the industry's plant and equipment were today sufficient, lack of enough and the proper classes of labor would render it impossible for the industry to come anywhere near meeting those requirements. Indeed, it is the very problem to which the lack of labor gives rise which now so frequently limits or postpones the usefulness even of expansion. "What is the sense of my buying new equipment and erecting new plant if I cannot hire workmen?" This is in effect if not in exact wording a question which is being repeatedly heard in machine tool producing circles in the United Kingdom.

Unfortunately for the British, shortage is not the only factor involved in the labor problem. Right now great endeavors are being made peacefully to adjust

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and keep adjusted conditions under which already available British labor can make its war efforts much more telling than it as yet has done. The machine tool industry has suffered probably as much if not more than any other on account of the factor referred to, and there are among its leaders some who believe that labor conscription may eventually have to be resorted to as the only means of keeping men who can do a job at that job - regardless of labor union rules.

The Machine Tool in Relation to the Event of the War.

There are a great many commodities without which it would be impossible for the Allies to prevail against Germany. Most of these, however, the Allies can obtain in adequate quantities and in ample time from one source or another. But machine tool men in the United Kingdom are fearful lest the Allies lose the war or do not win it, because they are not sure that enough machine tools and enough workmen to operate them will be available in time.

According to these men, the fact that machine tools cannot be put to immediate use on account of lack of labor is one thing, but the urgency of obtaining and installing machine tools before the necessary labor to man them becomes available is quite another. In this connection and with particular reference to the Government's plan to erect and equip some twenty-seven ordnance or munitions factories, it has been pointed out that, regardless of the present state of

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the labor situation, these plans should be carried out at the earliest possible instant and the question of manning the factories left for future consideration.

How the United States Figures in the Picture.

Some British producers have expressed the opinion that the likelihood of the Allies being able to inflict a real defeat upon their enemy would be substantially reduced were the United States cut off as a source from which Britain could obtain machine tools. A few have gone to the length of intimating that the likelihood just mentioned has already been substantially reduced by the inability of Britain to induce American producers to give preference to British requirements.

The exact degree to which the supply of American machine tools has already influenced or will influence the event of the present European war cannot, of course, be determined, but if the beliefs general among British producers are an indication as to the truth of the matter, the way in which the American industry meets British requirements can have a great deal to do not only with the actual event of the war but also with the character of the defeat the Allies inflict upon Germany - if they inflict any sort of a defeat upon that country.

The volume of British war orders thus far placed with the American industry is very small as compared with what it would have been but for the limitation upon that industry's ability to deliver within a

reasonable/

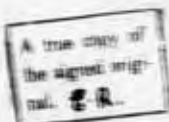
- 9 -

reasonable time. There are British producers who think that the British effort to gain and maintain unquestioned supremacy over Germany in the realm of armament and munition supply would even now hold much greater promise of proving successful if only the American industry would for the next few months give absolute preference to British orders.

James R. Wilkinson,
American Consul.

SSA,2

JRS:ar



RECORDED BY 152

RECEIVED
DECEMBER 1941

MEMORANDUM

April 20, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

SUBJECT: Relationship of Appropriations to
Budget Estimates as of April 20,
1940.

1. Bills passed by Senate and House
and signed by the President are
below budget estimate by \$37,346,881
2. Bills passed by Senate and House
but not yet signed by the President
are below budget estimate by 74,460,946
3. Bills passed by Senate and House and
now in conference because the two
branches do not concur in amount show:
 - (a) House figure is below budget
estimate by 160,000,000
 - (b) Senate figure exceeds
budget estimate by 66,198,660
4. Bills passed by House and not yet voted
upon by the Senate are below budget
estimate 18,003,580

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April 30, 1940

My dear Mr. President:

After I had learned that you had received Mr. Philip Publiker and Captain Harry Collins, the name rang a bell in my memory and I had him looked up. I found that he had, on two different occasions, been in serious difficulty with our Alameda Tax Unit.

I communicated this immediately to your Eleanor and confirmed it in writing and sent details in regard to Mr. Publiker's association with (1) the American Distilling Company and (2) the Haffner Chemical Corporation. Eleanor said she would pass this information on to the friends. I also have given this information to Captain Collins who, in turn, has passed it along to Admiral Robinson. I am inclosing copies herewith for your information.

I don't think that Mr. Philip Publiker is too far from public.

Yours sincerely,

The President,
Warm Springs, Georgia.

April 20, 1940

My Dear Mr. President:

After I had learned that you had received Mr. Philip Publicker and Captain Harry Collins, the name rang a bell in my memory and I had him locked up. I found that he had, on two different occasions, been in serious difficulty with our Alcohol Tax Unit.

I communicated this immediately to your Kleanor and confirmed it in writing and sent details in regard to Mr. Publicker's association with (1) the American Distilling Company and (2) the Nifflin Chemical Corporation. Kleanor said she would pass this information on to the friends. I also have given this information to Captain Collins who, in turn, has passed it along to Admiral Robinson. I am inclosing copies herewith for your information.

I don't think that Mr. Philip Publicker is too pro bono publico.

Yours sincerely,

The President,
Warm Springs, Georgia.

April 20, 1940

My dear Mr. President:

After I had learned that you had received Mr. Philip Publicker and Captain Harry Collins, the name rung a bell in my memory and I had him locked up. I found that he had, on two different occasions, been in serious difficulty with our Alcohol Tax Unit.

I communicated this immediately to your Kleanor and confirmed it in writing and sent details in regard to Mr. Publicker's association with (1) the American Distilling Company and (2) the Mifflin Chemical Corporation. Kleanor said she would pass this information on to the friends. I also have given this information to Captain Collins who, in turn, has passed it along to Admiral Robinson. I am inclosing copies herewith for your information.

I don't think that Mr. Philip Publicker is too pro bone publico.

Yours sincerely,

The President,
Warm Springs, Georgia.

April 19, 1940.

My dear Eleanor:

I am taking the liberty to call to your attention certain facts disclosed by the records of the Bureau of Internal Revenue regarding Mr. Philip Publicker, of Philadelphia, who has been introduced to you as being interested in the development of a new alloy for manufacturing uses. As you will see from the attached memorandum, Mr. Publicker is connected in an executive capacity with companies which have been detected in serious violations of the internal revenue laws relating to distilled spirits. You may wish to pass this information on to his sponsors.

Affectionately,

Henry

Mrs. Franklin D. Roosevelt,
The White House.

HNC/mff

April 19, 1940.

Re: Philip Publicker

American Distilling Company

The American Distilling Company operates a number of plants under the supervision of the Bureau of Internal Revenue, among them being a registered distillery at Pekin, Illinois.

Investigation disclosed that in 1935 and 1936 the company purchased organic acids through irregular channels, secretly stored them on the distillery premises at its Pekin plant, and surreptitiously introduced them into spirits at the time of production, in violation of the internal revenue laws. Upon discovery of the violation, the rectification tax of 30 cents a proof gallon was assessed in the amount of \$837,870.35 on 2,792,961.18 proof gallons of spirits treated in this manner during the period July 7, 1935 to January 25, 1936.

Since a large quantity of the spirits treated during the period covered by the assessment had been disposed of by the company prior to the discovery of the violation, there was doubt that the samples taken were representative of the quantity of spirits produced during the period covered by the assessment. An offer from the company in compromise of the above tax liability, in the amount of \$300,000, was accordingly accepted on March 8, 1938.

Philip Publicker was vice president of the corporation at the time this violation occurred.

Mifflin Chemical Corporation.

The Mifflin Chemical Corporation of Philadelphia, Pennsylvania, formerly held a permit from the Bureau of Internal Revenue authorizing the tax-free withdrawal of 33,150 gallons of specially denatured alcohol monthly for the manufacture of various pharmaceutical preparations, principally rubbing alcohol compound.

Investigation in 1937 disclosed that this company knowingly, unlawfully and wilfully diverted large quantities of

rubbing alcohol compound to other than lawful tax-free purposes. The application for a permit for the year 1937 was accordingly disapproved. This disapproval was sustained by the courts. Subsequently, taxes in the amount of \$254,746.80 were assessed as the result of the unlawful diversion of 127,373.40 proof gallons of rubbing alcohol compound.

The company then filed a petition for reorganization under Section 77-B of the National Bankruptcy Act. The referee, after hearing, disallowed the tax claim, and exceptions to his disallowance are now before the district court.

Philip Publicker was president of the corporation at the time these violations occurred.

April 19, 1940.

My dear Eleanor:

I am taking the liberty to call to your attention certain facts disclosed by the records of the Bureau of Internal Revenue regarding Mr. Philip Publicker, of Philadelphia, who has been introduced to you as being interested in the development of a new alloy for manufacturing uses. As you will see from the attached memorandum, Mr. Publicker is connected in an executive capacity with companies which have been detected in serious violations of the internal revenue laws relating to distilled spirits. You may wish to pass this information on to his sponsors.

Affectionately,

Henry

Mrs. Franklin D. Roosevelt,
The White House.

HNG/mff

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April 19, 1940.

Re: Philip Publisher

American Distilling Company

The American Distilling Company operates a number of plants under the supervision of the Bureau of Internal Revenue, among them being a registered distillery at Pekin, Illinois.

Investigation disclosed that in 1935 and 1936 the company purchased organic acids through irregular channels, secretly stored them on the distillery premises at its Pekin plant, and surreptitiously introduced them into spirits at the time of production, in violation of the internal revenue laws. Upon discovery of the violation, the rectification tax of 30 cents a proof gallon was assessed in the amount of \$837,670.35 on 2,792,901.18 proof gallons of spirits treated in this manner during the period July 7, 1935 to January 25, 1936.

Since a large quantity of the spirits treated during the period covered by the assessment had been disposed of by the company prior to the discovery of the violation, there was doubt that the samples taken were representative of the quantity of spirits produced during the period covered by the assessment. An offer from the company in compromise of the above tax liability, in the amount of \$300,000, was accordingly accepted on March 8, 1936.

Philip Publisher was vice president of the corporation at the time this violation occurred.

Kittlin Chemical Corporation.

The Kittlin Chemical Corporation of Philadelphia, Pennsylvania, formerly held a permit from the Bureau of Internal Revenue authorizing the tax-free withdrawal of 33,150 gallons of specially denatured alcohol monthly for the manufacture of various pharmaceutical preparations, principally rubbing alcohol compound.

Investigation in 1937 disclosed that this company knowingly, unlawfully and willfully diverted large quantities of

rubbing alcohol compound to other than lawful tax-free purposes. The application for a permit for the year 1937 was accordingly disapproved. This disapproval was sustained by the courts. Subsequently, taxes in the amount of \$254,746.80 were assessed as the result of the unlawful diversion of 127,373.40 proof gallons of rubbing alcohol compound.

The company then filed a petition for reorganization under Section 77-B of the National Bankruptcy Act. The referee, after hearing, disallowed the tax claim, and exceptions to his disallowance are now before the district court.

Philip Publicker was president of the corporation at the time these violations occurred.

April 20, 1940

Mr. Felt

Mr. Cushman

Will you kindly send a cablegram along the following lines:

"American Embassy, Paris.

The Secretary of the Treasury requests that Matthews come to Washington for consultation. Travel will be at Treasury expense by air or water, according to Matthews' preference. Department authorizes if agreeable to you that Matthews leave at this time."



HHC/rmm 4/20/40

April 20, 1940

While HM, Jr was talking on the phone to Berle about Greenland, he sent for Mr. Gaston and Gaston heard the latter part of the conversation. The following is HM, Jr's conversation with Gaston at the conclusion of the phone call with Berle.

HM, Jr: Tell the Coast Guard to get a ship ready to sail in a northerly direction, destination unknown, to stay out a month, but to have her ready, get her fitted out. One of the 320 footers.

Mr. Gaston: For a fairly extensive voyage.

HM, Jr: I would say to set out for an extensive voyage. I don't know when you start your ice patrol.

Mr. Gaston: I don't even have to tell them north.

HM, Jr: They may fit themselves out differently. Wouldn't they take different food? I would say in a northerly direction.

Mr. Gaston: Yes. Clothing. And hold it in readiness. We could sail in a day on 24 hours or less notice when they could get the cargo aboard.

HM, Jr: Well, I would fit her all up ready to go.

Mr. Gaston: They will want to take some relief cargo and, of course, we won't know about that until the last moment.

HM, Jr: Yes.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany
via Brussels

DATE: April 30, 1940,

Rec'd 2:20 p.m. 22nd.

NO.: 1067

FOR TREASURY FROM HEATH and for the information of
the Department of State also.

The following is confidential:

A Viennese by the name of Weissulogg, who was formerly
in the banking business in Warsaw, is now connected with
the Deutsche Bank, which describes him as the Bank's
"observer" for Rumania. He approached the Embassy yesterday
and asked for a card of introduction to the American Com-
mercial Attaché stationed at Bucharest.

Weissulogg asserted that he had concluded arrangements
with Swedish interests for transferring their blocked funds
in Rumania, and he had the permission of both the German
and Rumanian authorities to do so. Germany, he said, was
in the market for lei, and that large sums were needed to
pay, for example, the growers of soya beans. He said they
would welcome the opportunity to get lei at a cheap rate at
the cost of utilizing dollar credits and German gold re-
serves.

Heath told Weissulogg that he would write to Edison in
Bucharest in the thought that the contact with him might
be informative, although no responsibility is assumed
for

- 2 -

for Weissulogg's reliability or the character of his proposed transactions in Rumania. Weissulogg's address in Bucharest will be the Athenae Palace.

At one time it is understood Weissulogg had been commissioned to draw up a plan for occupied Poland's economic and financial reconstruction. However, Frank, the Governor General, decided to form his own staff and economic program, and Weissulogg's plan was rejected.

This telegram has been repeated to Bucharest.

KIRK.

EA:LWW

April 20, 1940
9:47 a.m.

H.M.Jr: Hello.

Adolf
Berle: Good morning. How are you?

H.M.Jr: O. K. How are you?

B: First rate. Henry, we're struggling with the question of Greenland.

H.M.Jr: Greenland?

B: Yes. The situation is this. The Danish Minister, of course, is standing by and keeping his chin up.

H.M.Jr: Yes.

B: He has got into communication with the Greenland Consuls there, which now are the residues or relics or whatever Danish sovereignty there is. They are likely to send telegrams to us early next week asking for American protection. The word is an unfortunate one and we may be able to get that changed.

H.M.Jr: Yes.

B: And of course we are taking the position here that among — under the Monroe Doctrine we don't want to change their sovereignty, therefore we are not letting the British or the French declare protection and thus grab it.

H.M.Jr: Yes.

B: And of course that in turn makes us really responsible for it.

H.M.Jr: Yeah.

B: The thing that I wanted to ask you whether perhaps you could turn over in your mind is this. This isn't going to be done entirely with fair words.

H.M.Jr: With what?

- 2 -

B: With fair words. Eventually there will have to be an American ship mounting -- with an American flag and mounting at least a Coast Guard gun showing up off there just to stake out the territory.

H.M.Jr: Right.

B: We haven't got to that yet, but the idea, of course, is being turned over here. The Danish Minister will be in at eleven thirty and we'll probably cook up some telegrams which I think we would send either through commercial or Navy sources as a matter of courtesy for him to the Greenland Consuls and get back probably authority for the Danish Minister from the Governors of those Greenland provinces to represent them and go on acting in connection with American protection or whatever finally it's decided to be called.

H.M.Jr: Yeah.

B: I was rather hoping perhaps that you could ask the Coast Guard men if they'd at least work out some method by which a ship, or ships, could stand by to run up there if it were necessary. This is, as you see, more formal than anything else, but one of the things that will be on the Greenland Consuls' mind is whether the -- whether a ship supposed to be by way of protection will show up. The Danish custom used to be to send a small Danish warship up there every once in so often to look at the place and go home again.

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

B: And I reckon we'll have to do the same thing.

H.M.Jr: I tell you what I'll do, Adolf.

B: We aren't there yet. This is still tentative, Henry, but I.....

H.M.Jr: No, I'll have -- it always takes about a week to get one of those ships ready.

B: Yes.

H.M.Jr: I'll have a ship be gotten ready to go in a northly direction.....

- 3 -

B: Fine.

H.M.Jr:in case we need it.

B: Right. Of course the President will have to -- I have to get ahold of the President on this before we get any further, but I think his mind is running the same as ours so far as I know.

H.M.Jr: Well, I'll have a -- it takes a week to get a ship like that in shape.

B: Right.

H.M.Jr: And without telling them, I'll simply tell them I may want a ship to go on a month's patrol in a northerly direction and they should be getting ready.

B: Well, that's awfully decent. You agree with the general line, don't you, Henry?

H.M.Jr: I tell you something, I'd love to get more background. I don't -- I just don't know enough about it.

B: Well, we're all feeling in the dark a little and it's pretty fast. I can give you, if you care to take a couple of minutes here, of what has happened so far.

H.M.Jr: Yeah. I mean, I -- I've asked a couple of times and I can get the -- the Iceland one I understand but I don't quite get the position -- I mean -- for instance, Moffat tried to explain to me why we didn't want the Canadians to go in there.

B: Well.....

H.M.Jr: And I didn't quite understand that.

B: The broad outline, of course is this. Immediately after the Danish Government was submerged by the military occupation the British took the line that they were protectors (in quotes) of everything that was left. This would include the Faroe/, Iceland and Greenland. Well, the Faroe Islands

- 4 -

Islands obviously they are on the other side of the world and that's that. Iceland, while technically in the Western Hemisphere, is still very obviously a part of the European system and that also is that.

Greenland, which is nothing but a chunk of ice, as you know, is a little closer to home and an air base, for instance, on the southern tip of Greenland could make us a considerable lot of nuisance.

H.M.Jr: Oh, well, it'd be something to worry about.

B: So if anybody were going to rake it in, we'd prefer to rake it in ourselves, but our plan was to try to hold it on the line without motion in the hope that eventually Denmark re-emerges and re-assumes the situation.

H.M.Jr: Well, that's a pious hope.

B: What is it?

H.M.Jr: That's a kind of a -- I'm afraid that that will be some years off.

B: Well, I see your fears but in any event for the time being that's the logical line to take if a change of policy has to come by reason of the continuance of the European situation; and that's something else again.

H.M.Jr: Yeah.

B: But for the time being the obvious thing would appear to be to hold it on the line. Accordingly, we called in the British and French and Canadian representatives here and said that under the Monroe Doctrine we did not accede to changes in territory on this side of the world and accordingly hoped that they would recognize that fact. We are supporting the Monroe Doctrine.

H.M.Jr: Yes.

B: And they've agreed to do, or at least have acceded to so far as we now know, and it leaves it up to us. Meanwhile, the Danish Minister here has had some

- 5 -

difficulty getting in touch with the Greenland Consuls who are now cut off from their home Government, and they are of course what's left of Denmark.

H.M.Jr: Yes.

B: So he represents that and that is a sovereign government, such as it is. Our plan I think was to keep it exactly in that status for the time being. Now, I know this will run along over a period of months, or years, one can't tell.

H.M.Jr: Well, what I don't understand is this, in the eyes of international law, and maybe you can explain it to me. On what basis have we got to act as protector for Greenland?

B: We have none.

H.M.Jr: I mean, I can understand why it's to our interest to do it, but what's the excuse we're going to give?

B: Well, the excuse is that President Monroe made that statement a few thousand years ago, which was in substance that the -- no European Government could acquire additional territory or change territory on this side of the world. If they did we would regard it as an unfriendly act. That doctrine has been acceded to now for a century.

H.M.Jr: Now let me ask you this. This may be a dumb suggestion. In the eyes of the world would it be any better if United States and Canada did this jointly?

B: I don't know. If -- it's difficult to tell. No, frankly, I don't think so.

H.M.Jr: On account of their being a belligerent, I suppose.

B: Yes, I think that in the eyes of the world it probably would be a good deal worse to turn it over to a belligerent than it would be to keep the thing in status quo.

H.M.Jr: Now, let me make another, raise another point. How about if we did it jointly with some of the Pan-American Republics?

- 6 -

- B: That would be undoubtedly the thing we would do if it were south of the -- south of the line instead of north.
- H.M.Jr: Well.....
- B: It's pretty difficult to get a Pan-American republic to recognize any responsibility as far north as that. Undoubtedly, for instance, if it were a case of the -- of Guiana, or something of that kind, we would have to operate in consultation with the -- with the Spanish powers.
- H.M.Jr: Yes.
- B: But when it gets as far as north as that, everybody knows that not one of them has a ship capable of going that far north.
- H.M.Jr: I see.
- B: And it would get to be a bit stupid. We are ourselves a member of the Pan-American group and in the event that there was any danger to the American peace arising from that, we should be obligated to consult. Of course we haven't crossed those bridges because at the moment we are doing nothing except to protect the original Danish sovereignty, you see.
- H.M.Jr: Yeah. Well, I -- don't misunderstand. I'm all for doing it.
- B: I understand.
- H.M.Jr: But I'm trying to think of some way of dressing it up and making it look like a pretty package.
- B: I agree with you entirely and I think all the ideas on that are all to the good. The package -- of course the Monroe Doctrine was an extra legal document, it was a declaration of policy. You can say that we have no right to say that Great Britain shan't annex a chunk of Venezuela, but we did say that and everybody said aye.
- H.M.Jr: Yes.

- 7 -

B: And they are going to go on saying aye. In this case we will have likewise probably a pretty definite request from the -- Greenland's people themselves, so that the package will be that they say "we're cut off from our home government, we should like to have some of the essential services if you will do so as a matter of charity and relief," and so forth done here and hold it for further reference. We can't tell yet what the further reference will be so what we really are doing is, as a matter of courtesy and kindness, doing the essential relief and export services which the Danish Government used to provide, and we meanwhile have requested that other people do not take affirmative action.

H.M.Jr: Right.

B: We are not taking affirmative action ourselves except in a somewhat limited sense. But it has of course a real implication.

H.M.Jr: Well, I'll be glad to be kept posted and in the meantime we'll fit a ship out, and have her ready provided we get a written -- direct instructions from the President on that.

B: Well, undoubtedly -- of course it would have to be on direct instructions from the President. I was merely getting everything set in case when he decided to send a destroyer up there and start monkeying with the situation.....

H.M.Jr: Well, we'll be ready.

B: Thank you, sir. If you don't mind I'll bother you from time to time about it.

H.M.Jr: No, I'm tremendously interested.

B: If you have any ideas as to the ribbon around the package, why please pass them on.

H.M.Jr: O. K.

B: Right.

H.M.Jr: Thank you.

B: Goodbye.

TREASURY DEPARTMENT

58

INTER-OFFICE COMMUNICATION

DATE April 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The rate for sterling moved upward today as a result of certain New York banks' attempts to execute, in a thin market, buying orders of foreign banks and commercial concerns. The opening quotation was 3.52, and a high of 3.53-1/2 was reached in the midmorning. After returning to 3.52-3/4, sterling again advanced to close at 3.53-1/2.

Sales of spot sterling by the six reporting banks totaled £116,000, from the following sources:

By commercial concerns.....	£ 45,000
By foreign banks (South America and Far East).....	£ 71,000
Total.....	£ 116,000

Purchases of spot sterling amounted to £365,000, as indicated below:

By commercial concerns.....	£ 146,000
By foreign banks (Far East, South America and Europe).....	£ 219,000
Total.....	£ 365,000

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

£ 15,000 by the Bankers Trust Company
8,000 by the Guaranty Trust Company
£ 23,000 Total

The other important currencies closed as follows:

French francs	.0200-1/4
Guilders	.5308-1/2
Swiss francs	.2242-1/2
Belgas	.1677
Canadian dollars	15-1/4% discount

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

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

The Federal Reserve Bank of New York reported that the Bank of the Colombian Republic shipped \$2,106,000 in gold from Colombia to the Federal for the Colombian Bank's account. The disposition of this shipment is unknown at the present time.

CONFIDENTIAL

59

- 2 -

The State Department forwarded to us a cable stating that the following shipments of gold had been made from Hong Kong, for sale to the U. S. Mint at San Francisco:

\$ 950,000 shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco.

132,000 shipped by the National City Bank, Hong Kong, to the American Trust Company, San Francisco.

\$1,082,000 Total

A shipment of 216,051 ounces of refined silver bullion arrived in New York yesterday from London, England, according to the Department of Commerce's statement of daily silver exports and imports. The silver was consigned to the Irvington Smelting and Refining Works. This is the first importation of refined silver bullion that has come from England since the outbreak of war. It appears that payment for this silver was effected in sterling purchased at the open market rate.

The Bombay spot silver quotation was slightly lower at an equivalent of 40.61s.



MP

GRAY

Milan

Dated April 20, 1940

Rec'd 9:32 a. m.

Secretary of State,
Washington

9, April 20, 1 p. m.

Department's 14, April 19, 6 p. m., report stock
exchange transactions: Friday's market active; prices
higher: turnover 126,325 shares. Today's market less
active: prices slightly weaker. Turnover not yet
available: will be reported Monday.

SHOLES

CSB

JT

GRAY

BERLIN

Dated April 20, 1940

Rec'd 12:33 p.m.

Secretary of State,
Washington.

1062, April 20, 9 a.m.

My No. 979, April 15, 10 a.m.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S INFORMATION

The Berlin press yesterday afternoon featured the speech made by Reichsbank President and Economics Minister, Funk before the annual meeting of Reichsbank. The main points of his address were the following:

One. He attacked a policy of excessive increases of taxation as destructive of substance and capital, economic incentive, and joy of work. At the same time Funk indicated without definitely announcing such a development that some increase in taxation must occur in the interest of responsible and just war financing and to some of the present excess of purchasing power. He frankly admitted that there was not only increasing disparity between increasing volume of money and the diminishing supply of consumption goods, but also an increase in national money income as well which in part was due to increasing wage payments occasioned by an increase of overtime work and

the

-2- #1062, April 20, from Berlin

the advancement of certain classes of workers to higher pay skilled labor categories.

Two. He stated that the recent reduction of the Reichsbank's discount rate was the first step towards a substantial systematic reduction of the interest structure of the entire German economy. In this connection he announced that at the present time the Reich was paying an average of 3% for its short term borrowing on the money market. Discussing the fullest extent the general lowering of interest rates he remarked that the new schedule of interest rates which he indicated would be announced before long might seem to be to the advantage of the prejudice as the case might be of certain classes of credit institutions or their clients but that this situation would be quickly corrected through later developments. Evidently in an endeavor to forestall discontent over a reduction in interest on savings deposits he asserted that any lowering of rates on such deposits would in certain cases be partly or fully offset by such measures as advancing the date on which interest on deposits shall accrue and by giving tax abatements to depositors willing to waive the withdrawal privileges on fixed term deposits.

Three. His address contained the customary assertion as to the essential stability of the German currency which he stated was secure because of the fact that monetary

management

-5- #1062, April 20, from Berlin

management in Germany was supported by efficient economic controls which he asserted insured full utilization of German economic forces and labor.

Four. He terminated his address with a resume of the financial results of the Reichsbank's operations in which he pointed out that the net earnings for the past year totaled 117,000,000 marks of which the Reich received 100,000,000 marks (last year 30,000,000 marks) and the stockholders 7.5 million marks enabling the payment of a 5% dividend.

NINE

NPL

TELETYPE UNIT

JT

PLAIN

April 20, 1940

2 p.m.

ALLEGATION

OSLO

162, twentieth.

Your no. 151, April 15, 1940

1. Executive Order of President and Regulations of Secretary of Treasury, both dated April 10, 1940 are issued under Section 2 of Emergency Banking Act enacted March 9, 1933.

The New Executive Order amends Executive Order No. 6560 of January 15, 1934, so as to prohibit, except as specifically authorized under regulations or licenses, transfers of credit between banking institutions, payments by banking institutions, transactions in foreign exchange, and export or withdrawal from United States or earmarking of gold or silver coin or bullion or currency, if any of foregoing involve property in which Norway or Denmark, or any national thereof, has at any time on or since April 8, 1940, had any interest of any nature whatsoever.

The new Executive Order and regulations provide for filing of detailed reports concerning property interests

in

-2- #162, April 29, to Oslo

in United States in which Norway or Denmark or any national thereof have at any time on or since April 8, 1940 had any interest of any nature whatsoever. Transactions subject to the new Executive Order and Regulations may be permitted under licenses issued by Secretary of Treasury.

Under the Regulations applications for licenses are filed with the appropriate Federal Reserve bank which issues or denies licenses after receipt of instructions from the Treasury Department.

WILL
(RF)

DA:FL:EB

TELEGRAM SENT

JT

GRAY

April 30, 1948

2 P.M.

AMERICAN EMBASSY

PARIS

298

The Secretary of the Treasury requests that Matthews come to Washington for consultation. Travel will be at Treasury expense by air or water, according to Matthews' preference. Department authorities if agreeable to you that Matthews leave at this time.

WILL
(EF)

EA:EF:UVT

April 20, 1940

TELEGRAM TO THE PRESIDENT
(VIA WHITE HOUSE TELEGRAPH ROOM)

THE PRESIDENT
WASH SPRINGS GEORGIA

AM PLEASED TO INFORM YOU THAT THE NEW YORK TIMES
INDEX WILL BE UP SIX TENTHS OF ONE PERCENT THIS
WEEK

HENRY MORGENTHAU JR

April 20, 1940

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(VIA WHITE HOUSE TELEGRAPH ROOM)

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April 20, 1940

TELEGRAM TO THE PRESIDENT
(VIA WHITE HOUSE TELEGRAPH ROOM)

THE PRESIDENT
WARM SPRINGS GEORGIA

AM PLEASED TO INFORM YOU THAT THE NEW YORK TIMES
INDEX WILL BE UP SIX TENTHS OF ONE PERCENT THIS
WEEK

HENRY MORGENTHAU JR

MEMO

PLAIN

Stockholm

Dated April 21, 1940

Rec'd 6:20 p.m.

Secretary of State

Washington

337, twenty-first.

Following bills introduced by government in Riksdag yesterday:

One. Authorization to place in effect National Labor Service Law to centralize under direct state control all municipal and provincial employment agencies to facilitate direction of labor from industries suffering from unemployment to industries suffering from shortage of labor (see Legation's telegram 317, December 21, 1939.)

Two. Additional appropriation for coming fiscal year of sixty-five million crowns for artillery material; three million two hundred thousand for ammunition works; one and half million for warehouses and garages for army and eight hundred thousand for material for salvaging submarines.

Three. Fifty million crowns to be added to thirty million already appropriated under supplementary budget for present fiscal year for price regulation measures in agriculture.

Four. Bill to enable government in special circumstances to decree financial moratorium when because of measures taken abroad payments to Swedish creditors are stopped or rendered particularly difficult.

STEFAN

PMB

Reliable information comes to me from a banker in Amsterdam, under date of April 21, 1940, as follows:

"The services of the Transatlantic Clipper, which twice functioned incredibly quickly, seems at the moment to be again delayed. The delay in the arrival of the Clippers has an immediate effect on the exchange of Dollar notes which normally ought to cost 1.90 Guilders to the Dollar and which a few days ago rose to 1.96 Guilders. As soon as the arrival of the Clipper in Lisbon has been announced, the rate again sinks to the normal rate of 1.90 because the arbitrage houses are receiving regularly from New York quantities of Dollar notes by the Clipper and when they know that the Clipper is in Lisbon they can fill the demand on the market. The buyers of the Dollar notes in Amsterdam are the German Nazis who purchase them against Guilders. They need the Dollar notes for their payments in Northern countries as well as in Rumania, Yugoslavia, etc., where as we see, they are being used very successfully."

In reply refer to Subtitle
and No.

NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

22 April 1940

Dear Mr. Secretary:

Thank you so much for the mimeographed copy giving the inside on the German situation as seen by Mr. Sulzberger.

I appreciate your thought in sending it and have thoroughly enjoyed reading it.

Yours very sincerely,

H. R. Stark

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

64-8989A

74
THE SECRETARY OF STATE
WASHINGTON

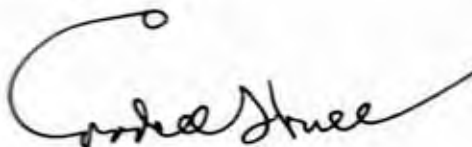
April 22, 1940

My dear Henry:

Thank you very much for your note of April twentieth enclosing a copy of a letter from Oslo dated April fourth, which I shall examine with great interest.

It was very kind and thoughtful of you to send it to me.

Sincerely yours,



The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

75

Dr. White also got a photostat
of this material.

April 22, 1940

My dear Cordell:

I am sending you herewith a report covering increased German traffic via the Trans-Siberian Railway, which was given to me in strictest confidence.

Yours sincerely,

Henry

Hon. Cordell Hall,
Secretary of State.

(This document is
att. to meeting with
Parras 4-18-40, 330pm)

April 22, 1940

My dear Cordell:

I am sending you herewith a report covering increased German traffic via the Trans-Siberian Railway, which was given to me in strictest confidence.

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I am sending you herewith a report covering increased German traffic via the Trans-Siberian Railway, which was given to me in strictest confidence.

Yours sincerely,

Denisy

Hon. Henry A. Wallace,
Secretary of Agriculture.

(This document is att
to meeting with Purvis
4-18-40, 330 pm)

April 22, 1940

My dear Henry:

I am sending you herewith a report covering increased German traffic via the Trans-Siberian Railway, which was given to me in strictest confidence.

Yours sincerely,

Henry

Hon. Henry A. Wallace,
Secretary of Agriculture.

April 22, 1940

My dear Henry:

I am sending you herewith a report covering increased German traffic via the Trans-Siberian Railway, which was given to me in strictest confidence.

Yours sincerely,

Henry

Hon. Henry A. Wallace,
Secretary of Agriculture.

JR

GRAY

The Hague

Dated April 22, 1940

Rec'd 1:10 p.m.

Secretary of State,
Washington.

133, April 22, 4 p.m.

Reference Legation's despatch No. 99, November 12, 1934.

Effective April 20 the clearing act was applied to all financial transactions resulting from merchandise, traffic and all other receipts and payments between the Netherlands including overseas areas and Norway and Denmark.

GORDON

WVC

83

April 22, 1940

Memorandum for the Secretary:

Colonel Johnson dictated this
to me over the telephone.

H. S. Klotz

*Called to Bureau on phone
get that record + attach it*

April 22, 1940

**AMOUNTS WHICH AMERICAN MANUFACTURERS GET
FROM THE ALLIES FOR THE BENEFIT OF THE ARMY DEVELOPMENT**

Bell	\$ 500,000✓
Lockheed	1,148,000✓
Curtiss Wright	739,000✓
Martin	850,000✓
Consolidated <i>-C-24</i>	600,000 900,000 <i>-OK.</i>
North American	300,000 <i>-?</i>
Douglas	Nothing Additional
Allison Engines	1,000,000 <i>O.K.</i>
Curtiss Wright Engines	400,000
Pratt Whitney Engines	400,000
Hamilton Standard Propellers....	200,000
Curtiss Wright Propellers	<u>200,000</u>
TOTAL	\$6,637,000

The above covers everything except two turbine superchargers,
Boeing Company.

Notes on Conference in Secretary's
Office, Monday, April 22, 1940, 3:05 P.M.

Those present, Secretary Morgenthau, Mrs. Klotz, Assistant Secretary of War Louis Johnson, General Brett, Colonel Burns, Captain Collins, and Philip Young.

Colonel Johnson gave the Secretary a confidential list of prices showing what the Army pays for airplanes. Secretary Morgenthau subsequently returned this list to General Brett and asked him to keep it. Colonel Johnson inquired from the Secretary what he was going to do with this confidential price material. The Secretary replied that the President had instructed him to see that Purvis did not get stuck.

Colonel Johnson demurred at turning over this confidential information to Purvis, so it was arranged that when Purvis was ready to state the type and the quantity of the planes to be purchased, he should meet with the Secretary, General Brett, and Colonel Burns who would be in a position to advise Purvis whether or not the quotations he had received were fair.

Colonel Johnson gave the Secretary a list showing planes ordered and negotiations pending together with what the Army expected to gain from such deals. Contracts for the Lockheed, the Bell, the Curtiss, and the Glen Martin planes had already been discussed previously.

Colonel Johnson stated that we wanted \$800,000 for development purposes if the Allies bought 50 Consolidated B-24 planes. According to Colonel Johnson, no definite information had yet been received from North American, Douglas, Curtiss Wright Engine, Pratt and Whitney, Hamilton Propeller, and Curtiss Propeller. With respect to Allison Engine, Colonel Johnson stated that we wanted \$1,000,000, and then enumerated certain items and improvements which the Army expected to gain from the deal, including two new experimental engines.

Secretary Morgenthau gave Colonel Johnson a copy of the chart, prepared by Mr. Haas, showing employment in aviation, asking him to keep it confidential.

The Secretary asked Mr. Young to call Ballantyne to explain the situation with respect to the negotiations of a fair price

- 2 -

for planes as outlined above, specifically Mr. Purvis was to be informed that if he wished to discuss plane prices at the conference to be held next Wednesday, April 24th, he should come prepared with data relative to type and quantity and with the understanding that General Brett and Colonel Burns would be present. If Mr. Purvis were not so prepared on Wednesday, the Secretary said that he would arrange for such a meeting whenever Mr. Purvis was ready providing that advance notice was given.

The meeting adjourned at 3:30 P.M.

After the meeting adjourned, the Secretary asked Captain Collins and Mr. Young to remain while he talked with Mr. Purvis on the telephone in New York. The Secretary told Mr. Purvis that we wanted \$600,000 for Consolidated B-24 planes and emphasized the fact that 60 planes would have to be purchased. Mr. Purvis replied that he would have to take that up with the Air Mission.

The Secretary inquired as to progress of Mr. Purvis negotiations with North American, and Mr. Purvis inquired as to the price wanted by us. After some hesitation, the Secretary replied \$300,000.

With respect to Allison Engine, the Secretary stated that we wanted \$1,000,000, at which Mr. Purvis seemed surprised inasmuch as he stated the contract with Allison Engine had been settled two weeks ago. Evidently, no one here had been made aware of that deal, and, because of the Secretary's doubts that the deal was consummated, Mr. Purvis was going to check that situation with the Air Mission.

The Secretary asked Mr. Young to get for him another copy of the chart showing employment in aviation from George Haas. The Secretary also turned over to Mr. Young a memorandum which he had received from Mr. Purvis on April 18th, dealing with industrial diamonds, which needed clarification.

A.Y.

April 22, 1940

10:30 a.m.

PRESENT: Capt. Collins
Dr. White
Mr. Cotton
Mr. Young
Mr. Thompson
Capt. Puleston
Mr. Haas
Mr. Cochran
Mrs. Klotz

H.M.Jr: What I wanted to do here -- the reason you most likely don't understand the combination, but each one of you has been doing something for me and I had purposely kept you apart, but the thing has become so big that I have to have the thing correlated. Let me go back a little and let me explain what I am doing.

When the President thought that this was going to be a World War and we might get into it he had this regular committee under Mr. Stettinius set up which would have handled munitions, etc.

Capt. Collins: The National Resources Board.

H.M.Jr: And so on. Well, for one reason or another he decided he wouldn't have it and he did not like what they put up anyhow so therefore, also for reasons of his own, he set up a Board with the head of the Procurement, Quartermaster General of the Army and the Paymaster General of the Navy, who should receive the various foreign purchasing missions and be a clearing house for the President and for the Army and the Navy and the State Department, etc..

Well, what was back of his mind and what was back of mine is that we did not want to have happen what happened during the last World War and that is that suddenly everybody wanted blankets, or everybody wanted a certain kind of steel, or a certain kind of aluminum, and have our prices distorted due to foreign purchasing. And I think when the President released that store of eight hundred thousand pounds of sugar and cracked the sugar market -- and I recommended twice that he do it -- he served notice on our

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own domestic economy that we would not have this dislodgment of our own prices and our price level has been more or less stationary.

Mr. Haas: Yes, gone up a little the last few days.

H.M., Jr.: Gone up very, very little.

Now you gentlemen -- and I will explain it to you in a few minutes -- you gentlemen, working for me and for the President, have sources of information which I have never had correlated before all on a uniform statistical basis, and certainly aside from the individual prices, if we can get a true estimate of what both the belligerents and neutrals are going to buy for the rest of this year in dollars and what kind of things they are going to buy, we can estimate our recovery position, unemployment position, much more accurately.

Now, certain of this information should be passed on to the Army and Navy and when it is Mr. Collins will pass it on through the Army and Navy representatives, or you, Collins, both. You will give them each a copy for their people.

Now, for instance, we will start in here with Cotton. Cotton has been trying to get for me, and I got a sample which I glanced at very quickly, of the Export-Import Bank finances and what they buy. That's one part of the picture. See? Now I just make a list of these things. Some of this stuff I brought down and some of it I didn't. Now this comes on this form (exhibiting a chart).

Now, George has been with me long enough and he knows the way I like things. And, George, this is the first thing I am going to turn over to you. Now Cotton is the Treasury Director for Export-Import and he ought to be able to find out what they are buying, classification of money they are lending, you see?

Incidentally, I pulled in Young to act as a sort of Aide on this particular thing that I am trying to do and it is going to be his job to see that each fellow turns

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this stuff in and I think, being statistical, the statistical setup should be done by Haas so that we have one kind of statistics. Then, as soon as it is finished he gives it to me and when you walk in here with a copy and I take a look at it and we sign, and so-and-so ought to have a copy of it, you see -- other departments. Collins has here -- and afterwards he can go back and sit down with Haas -- he had an accumulation of information which has been given to him by the Allied Foreign Purchasing Mission.....

Capt. Collins: Yes, sir.

H.M.Jr:which has not been put together for me. See? He gets this once a week or once in ten days.

Capt. Collins: And sometimes every three weeks but it's dated back.

H.M.Jr: And incidentally I have some stuff which has to do with steel which I got this last week.

Now, George, what I want from the Allies once a month -- I don't need it more than once a month, or if you want to do it on a weekly basis, but once a month will be enough -- what they bought during the month. Well, let's start with the month of April. What were the total orders they placed since -- whatever the back date; could be the first of September or last of July -- total orders placed, orders delivered, orders still on the books, the back-log, you see? And each month we would get a sheet from them which would show new orders and orders delivered and net orders, or back-log. You see?

George Haas: Yes, sir.

H.M.Jr: What you have to do is work out a regular kind of form. I don't think what they have given Collins will give you that.

Capt. Collins: It will not. We tried to correlate it on that basis.

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H.M.Jr: It is very difficult because you
(Collins) have no statistical setup.

Capt. Collins: Not at all.

H.M.Jr: And Haas has not worked at night for me
for a long time, not at least for a month. All this stuff
we ought to get at. And I notice you (Collins) get certain
things from Sweden.

Capt. Collins: Yes, sir.

H.M.Jr: There may be an overlapping between
what you get and what Joe Cotton gets, after all what the
Export-Import finances, what they buy -- may be munitions,
may be something else -- but what things go in there.
I don't know what your contacts are with the purchasing
of Sweden.

Capt. Collins: Mr. Wollmar is the only one
of the mission left over here.

H.M.Jr: But you could go through this thing with
Mr. Haas on the purchasing so we get the picture. After
all, if we know what deliveries they have taken, what
orders they place, it gives us a pretty accurate picture
of the forward orders. Not what they are thinking of buy-
ing because that might be four months or might never
materialize. Is that right?

Capt. Collins: That's true.

H.M.Jr: But I want a statistical setup, George,
on that.

Now who else. That has to do with the purchasing.

Now, on the security end. Those statistics go
to White, don't they? Who has the statistics on that?

Dr. White: The English stuff, statistics of what
they sold, but we get the reports on that from SEC.

H.M.Jr: Who has those?

Dr. White: We do.

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H.M.Jr.: I want to divide it up as to actual purchases, which is what they buy, and then the money they raise. That side would go to you, Harry. Now we get the accounts of the Federal Reserve, the lump sums that they have spent and then you get securities. George will be running -- I am dividing it this way, Norman, and after you hear it if you can improve on it in any way it is all right. My thought was, these various agencies that do this buying all that goes to George. He would set it up and give it to Phil Young and he would bring it in to me.

When it comes to the Federal Reserve account, now that plus the amount of securities they sell each day for their own account and their citizens, plus the gold, all of that should flow to White, which it does now I take it.

Dr. White: I don't receive it -- they are available -- the figures of government purchases if there is a separate account of government sales of securities, except insofar as they are reported in the total.

Mr. Cochran: I give you each week a summary of daily reports of official sales.

H.M.Jr.: That's what I am talking about. But you (Cochran) under this new setup, see that White gets it.

Mr. Cochran: Sure.

H.M.Jr.: White ought to have everything on how they raise money.

Dr. White: How much they are spending, how much they have left, and also I suppose it would be a monthly report that might well go as to how much we anticipate the resources they have left and how much of them they are using up.

H.M.Jr.: Right. And Haas gets the stuff which they actually spend it on. And then we can have a meeting when these figures come in once a month. You people could prepare the thing and if I had it once a month I think that's enough.

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Mr. Cochran: I have been passing those figures on to Mr. Young. Should they go to White now?

H.M.Jr.: Yes. No use cluttering Young up or holding him up, and they could go direct to White, and Collins' stuff go directly to Haas. Then when they are finished, the figures are finished, they will flow to me through Young and Young will bring them in and say, "This should go back to Collins. Give him three copies: one for himself, one for the Quartermaster General and one for the Paymaster General." Something else to State Department. Something might want to go to Commerce. If we, so to speak, "service" these other departments they are going to stay happy. If we don't they will do what Phil Young picked up -- something goes to State and State to War and they put it on Purvis. So the thing to do is to service these other departments -- the things we think they are entitled to -- and we keep them happy, and service the President.

Dr. White: Other departments are very anxious to get this.

H.M.Jr.: I think I have kept some of this too close to my chest.

Mr. Cotton: Do you want this to include non-belligerents?

Dr. White: You want to complete the picture. Secondly, do you want to include in this general approach to other problems which you are taking up or keep them separate? One, the question of goods that are going to Japan and Russia, etc., and secondly, the question of certain strategic materials and what can be done about them.

H.M.Jr.: You will have to expand further.

Dr. White: We also follow two things you are interested in.

H.M.Jr.: Very much in this room, we get what Amtorg does every week. Who gets that? Herbert Gaston gets secretly what Amtorg buys but they ought to be put into the figures to go to George Haas.

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Dr. White: We pick it up at the point where it goes on the boat but we will turn that over.

Now, the other two questions, one is the question of special strategic materials on which we have made studies from time to time as to the question of how they may be withheld, directed, used up, etc.

H.M.Jr: I have not been able to think that thing through yet on strategic materials. I just don't know for the time being. As Purvis brings them up to me and I want to make an economic analysis, I have been tossing them back at you (White).

Dr. White: And we have a group ready now.

H.M.Jr: Well, for the time being I don't know just what I will want to do with them. I don't know.

Dr. White: And the second is related to that of tracing the shipments of various commodities to Russia, Italy, Japan.

H.M.Jr: On that I found -- I left it home and I have sent for it -- a very, very interesting document given to me showing how the English -- I don't know what they call it, Intelligence Service, I guess -- traces these various commodities which they have been driving me about. It's a six or seven-page document. And what I was going to do, I was going to give it to Puleston and let him walk it over to Army and Navy intelligence and say, "Here's a copy of this showing what's going into Russia. We are giving you this. What have you got in return?" I am going to give this document to you (Puleston) when it comes down -- very interesting -- and White ought to have a copy of it and it shows where they got all that stuff about soy beans. It shows how the British Intelligence Service collects all this stuff on the economic front, all gotten together, and shows what department it goes to and I am going to give it to you (Puleston) and you can walk it over to military and naval intelligence and they will be tickled to death and then say to them, "Have you any information showing that you can handle anything like this out of Vladivostok?"

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Dr. White: Want to mention now about Vladivostok? I haven't spoken about it.

H.M.Jr: I thought I would do it with this document and then Merle might ask the State Department what do they know. Could they give us a similar setup on Vladivostok as they have on Rangoon.

Mr. Cochran: They have no representative at Vladivostok.

H.M.Jr: Remember you didn't want me to send that letter on Narvik? I wrote the letter and you thought it was a mistake and would attract too much attention. The United States Government should have somebody at Vladivostok.

Mr. Cochran: The Russian Government won't permit any Consular authorities outside of the capitol.

H.M.Jr: Then I would like to tell it to the United States. Let's kick their representatives out of this country.

Mr. Cochran: They have all their representatives here, plus Amtorg. We used to have representatives out in a number of places.

Dr. White: Did they object?

H.M.Jr: This brings out we have nobody. What can the Army and Navy Intelligence do? They are going to be tickled to death to get this document. But you see if we meet here until we get this thing started; maybe we will meet once a week until we get this thing flowing, and everybody put their old bean on it and see how we can improve this information. Now, of course, Commerce has people all over.

Mr. Cotton: On your general picture you are including Russia. How about Italy and other naval non-belligerents? How does that fit in?

H.M.Jr: As to buying, we have no way of telling what they buy.

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Dr. White: Give us a little time.

H.M.Jr.: I'll give you a week on this but the stuff that flows back on this I want it to flow through Phil Young, but we will have a meeting and I will re-distribute the stuff but this is quite a bit -- you see?

Dr. White: Do we have a Consul at Dairen?

Mr. Cochran: Yes, we do.

Dr. White: He might be used.

Mr. Haas: There is another picture to this. Those figures you get from Pelley on movement of freight to port for export, which gives the over-all picture.

H.M.Jr.: So far they have handled their own thing so beautifully there has been no problem.

Dr. White: How about the shipping angle. Isn't there something in there that would shed some light on this?

H.M.Jr.: Pelley, and we have the New York port. We get every single day the number of cars that arrive, number of stuff in storage, number of stuff on lighterage, and the number of stuff loaded. I get that every single day, but they handled the thing so beautifully the best thing to do is to leave it alone.

Dr. White: I was thinking of ships and shipping.

H.M.Jr.: Well, Basil Harris gives me a report once a week on the shipping thing and I had Admiral Land over here and after you hear all the sea-going lawyers they tie you up like a knot and they have 11 $\frac{1}{2}$ ships and can't do anything with them and don't do it, and every time you ask anything they have the answer, "Why you can't do it." Every suggestion you make to the Maritime Commission they give you an answer why you shouldn't do it.

Now on this thing, I don't know how important right now is the Danish and Norwegian money but that's there too.

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But let's get this thing started. Does anybody want to raise any questions? Does anybody not understand what I like? Harry, do you understand it?

Capt. Collins: Yes, sir.

H.W.Jr: Merle?

Mr. Cochran: I will continue to pass the telegrams on to White of the Allies' resources that Matthews or Butterworth send in.

H.W.Jr: Yes.

Mr. Young: Is the Purchasing Board sending their reports here?

H.W.Jr: Collins has them and will continue to go from the Allies Purchasing Mission to Collins. As he gets them he will route them to George Haas.

Capt. Collins: You know the monthly reports we get up on airplanes and engines, that's on a monthly basis only. I will pass that along to George too.

H.W.Jr: That came in this morning. Did you get the one I had in the safe?

Mr. Haas: Yes.

H.W.Jr: Let me tell you what George Haas is doing so we don't duplicate. Haas will give me once a month the number of people who work in the airplane factories. Right?

Mr. Haas: That's right.

H.W.Jr: And in the engine factories once a month, and through General Arnold we will get once a month the number of engines over 1,000 H.P. they turn out.

Mr. Haas: And planes.

H.W.Jr: Which the Army and Navy will have,

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so no use giving them that, but what Arnold hasn't got and I will give him the number of employees.

Mr. Haas: I have those this morning.

H.M.Jr.: You are ready on that chart?

Mr. Haas: Yes.

H.M.Jr.: Let me see it.

Can I give that to Arnold and Towers?

Mr. Haas: Just mark it confidential.

H.M.Jr.: No reason why this should not go direct from me to Arnold and Towers.

Capt. Puleston: Many good reasons why it should. That's the only kind of information they are interested in.

H.M.Jr.: Your (Puleston) contact is Intelligence. Not these fellows.

Capt. Puleston: I will give it to Intelligence and they will give it to them.

H.M.Jr.: This I think I will give them direct but the stuff that comes from English Intelligence I will give to you.

Capt. Puleston: To give to them?

Collins: While you are on that, I have these reports on an entirely different basis.

(Handed the Secretary a report)

H.M.Jr.: That goes to George Haas.

(At this point the Secretary dictated attached letter to the President.)

Dr. White: Probably George would be able to estimate on the basis of orders unfilled what they mean on the terms of employment per month. Certain types of unfilled orders may take a year to fill, not a month.

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H.M.Jr: Kind of hard.

Dr. White: One question, is it your understanding that all the expenditures that are made that flow through Collins and other sources of specific commodities come out of these special accounts?

H.M.Jr: That's what I am trying to find out. I don't think so -- I still don't think, for instance, that they are buying food. You (Collins) don't get anything on food?

Capt. Collins: I have not in the last few months.

H.M.Jr: I found a 30,000-ton steel order that Mr. Purvis did not know about which was placed by the French in London. I don't think there is anything in there on ships. There is a lot of stuff -- and this is one of the purposes -- which the English are buying and we don't know about and when you get this stuff and when you and George and some of the people sit down and put two and two together you will find we don't know. What does it all lead up to? We are talking confidentially. They are already starting this propaganda. They can't last, but so far we don't believe it but the time will come when the President will say, "Well, Henry, how long do you think they will last?" "Well, Mr. President, here are the cold facts." And it's terribly important to the Army and Navy to know how long they will last and out of this meeting will come, ought to come, the best figures that can be furnished to this Administration and that's what I would like to do, and they are not going to fool me -- at least with my eyes open. I don't mind having them kid me but at least I want them to know I am being kidded. That's all. But we will get it and I am to blame to this extent. I have been carrying it all in my head but it's too big and too important and I can't carry it, but we will get started and keep after it.

Dr. White: You spoke of food. Was there anybody here supposed to know about it. Does anybody here know through whom they buy their food?

H.M.Jr: No, all I can tell you is the story about Governor Towers of Canada who went to America

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trying to arrange to sell Canadian food to the English Government and after he was there a month he found out who had to do with the buying of food. He said, "I found out who does the buying but I haven't sold any." So if the Governor of the Bank of Canada can't find out -- we will gradually pick up the strings. We ought to be smart.

Capt. Pelestone: I think in this room you have got people who can pool the information to get what we ought to know.

H.W.Jr: Well, we will pool it together. We have enough people here who can do this thing and if anybody needs any extra help Norman Thompson is the fountain for help so just go to him. He is very generous.

Mr. Thompson: We will get Miss Lonigan.

Mr. East: I think you will get some satisfaction from looking at what the engine people did do as a result of your labors. Terrific percentage of increase. That was the bottleneck you were working on.

H.W.Jr: Wonderful! What does your figure on the side mean? 500,000 what?

Mr. East: Employees.

H.W.Jr: Employees.

Joe, anything?

Mr. Cotton: I was just wondering if Collins has contact with other official missions here.

H.W.Jr: He has.

Mr. Cotton: I think that would be a part of this.

H.W.Jr: It's up to him. We can send for any of these people.

Capt. Collins: I have contacts with all of them.

H.W.Jr: I think it will be very interesting and very worth while.

-- ooOoo --

April 22, 1940
3:30 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur
Purvis: Hello, Mr. Secretary.

H.M.Jr: How are you?

P: Very well, thank you. And you?

H.M.Jr: I'm pretty well, thank you. Mr. Purvis.....

P: Yes.

H.M.Jr:if you gentlemen should decide that you want to buy the Consolidated B-24.....

P: Yes.

H.M.Jr:60 of them, the Army would like to have for future development six hundred thousand dollars.

P: Future development -- sixty -- yes, six hundred thousand.

H.M.Jr: Yes.

P: All right, sir. Then that pretty well clears us, doesn't it?

H.M.Jr: No, no, no, no. I'm sorry. They say sixty on the Consolidated because they're informed that you've not been talking to Boeing.

P: No. I don't think -- I think our people wanted to start on the basis of Consolidated.

H.M.Jr: Well, if you want all sixty -- I don't know, they sort of stressed the sixty.....

P: Yes.

H.M.Jr:it would be six hundred thousand.

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P: Yes.

H.M.Jr: Now, you remember I said that they were going to say something about engines and propellers.

P: Yes.

H.M.Jr: Now, on the Allison engine -- hello?

P: Yes.

H.M.Jr: One million dollars.

P: My!

H.M.Jr: Yeah.

P: Now we've already placed the contract for that.

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

P: That means we've advised -- you see we placed the contract for that about two weeks ago and advised the people on the other side that it was placed at that figure.

H.M.Jr: Well, I don't know. I think you'll find that they must -- the Army must have made some provision with Allison.

P: All right. Well now we'll check on that.

H.M.Jr: Because I've got on my list that they're going to come back so they can't be -- they're talking with Allison, Curtiss-Wright Engine, Pratt and Whitney Engine, Hamilton Propeller and Curtiss-Wright Propeller. They have those all on the list.

P: Well, that is a bit of a surprise because, as I say, on the engine side we completed the contract and commitment and exchanged our letters, and that embodies the price.

H.M.Jr: Well, you do remember that I said there would be something on engines and propellers.

P: Yes, that was just after we had had our -- after we had closed those original engine contracts. I

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remember last week; I've got a note of it.

H.W.Jr: But this all still is within the seven million.

P: Yes.

H.W.Jr: And I'm only an errand boy. Not a very happy one, but.....

P: Yes.

H.W.Jr: And this money does go to change-overs and future development of new engines.

P: Yes.

H.W.Jr: I mean, it has nothing to do with past engines.

P: No.

H.W.Jr: It's to improve the engines and develop new engines for the Army.

P: Yes, I see.

H.W.Jr: So you better -- you better.....

P: Well now we must -- what we'll have to do then -- I'll have to tell the Air Mission to check with Allison and make sure that -- as to whether -- as to how they stand with them.

H.W.Jr: Well, you -- and then you'd better put a question mark -- I've got this thing here. On Curtiss-Wright and Pratt and Whitney.....

P: Yes.

H.W.Jr:Hamilton Propellor and Curtiss-Wright Propellor.

P: Yes.

H.W.Jr: And then they had some idea which -- that you were going to have some planes built with North American. Some of the P-40's.

P: Yes.

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H.W.Jr: If you do, they want a new plane out of North American.

P: Oh-ho!

H.W.Jr: As I understand it. Something quite new.

P: Oh.

H.W.Jr: I mean, they -- if you buy from North American they are going to give an order to North American to do something quite new.

P: Yes. Would that involve any payment for us, you mean?

H.W.Jr: Yes, if you did business with North American.

P: If we do no business with North American, then we're all right.

H.W.Jr: If you do no business then -- I told them that they couldn't ask you.

P: Yes.

H.W.Jr: But if you did place an order with North American they have down a sort of a tentative figure.

P: Yes, would you like to -- would you mind telling me what it is?

H.W.Jr: (Laughs) You want my back pocketbook and everything, don't you?

P: (Laughs) No, I'm trying to hold onto ours.

H.W.Jr: Well, 300 thousand.

P: Yes. Well, again -- you see the reason I asked you, Mr. Secretary, was that if the sum isn't too important we -- it might not hold up the game, you see?

H.W.Jr: No.

P: And -- I mean, you and I understand each other thoroughly on this but I have a crowd to carry, you see?

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H.M.Jr: I understand, but fortunately we have a top figure on this thing, you see.

P: Yes, that's right.

H.M.Jr: And it will not go above that and I'm still hoping it will go below that.

P: Yes.

H.M.Jr: But that's the way it is as of tonight and now if -- I want to say this.

P: Yes.

H.M.Jr: And you take it -- for instance, General Arnold is going on the Hill tomorrow I believe.....

P: Yes.

H.M.Jr:to testify before the Naval Affairs Committee on how and why the Army released all of this, you see?

P: Yes.

H.M.Jr: Now, right now General Arnold, they tell me, is in a very favorable frame of mind, and I think one of the reasons he is is because he feels in this way he is going to be able to stay ahead of the world.

P: Yes, exactly.

H.M.Jr: And he can explain, and he believes in it, that he's going to be able, with this money, to get advanced engineering and advanced models and just stay one jump ahead of the rest of the world.

P: Yes.

H.M.Jr: And that's what his job is.

P: Yes, quite. Quite.

H.M.Jr: Now, true you're paying for it and -- but I wanted to explain to you that he is in a good frame of mind and that's worth a lot.

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P: Yes, well I think -- I think we understand each other because after all things like this are better dealt with in -- with a rather human angle, but as I say I have a -- I have some little cattle(?) to manage, you see?

E.V.J.: I appreciate it, but I just -- citing this because they were over here.

P: Yes.

E.V.J.: And they were -- asked my advice about General Arnold going up tomorrow.

P: Yes.

E.V.J.: And they've gone away again very happy.

P: Yes.

E.V.J.: They just left here. And -- but they're not going to charge you with any more planes, I can assure you of that.

P: No, no. All right, thank you, Mr. Secretary. You got my memoranda on the I'm sorry not to be able to give you the second enclosure but it hadn't come in.

E.V.J.: No, I haven't anything today.

P: Oh. Well then, I imagine probably Young has it because I put out as shortly as I could the whole exposed picture as it stands today.

E.V.J.: Well, Young hasn't given me anything up until now.

P: Well, he may -- there may be some but I've sent it down and I'll just -- I'll just check on that because I did it on Saturday and got it off on Saturday to Washington.

E.V.J.: Well.....

P: I want to make sure. It may not have reached you.

E.V.J.: It hasn't come yet.

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P: All right. Well, anyway they are all
and I'll make sure that gets to you in the very
early future.

H.M.Jr: Thank you.

P: Thank you.

H.M.Jr: Goodbye.

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Note:

Secretary gave Louis Johnson his own reading copy when Louis Johnson was in the Secretary's office at 3 p.m. today.

April 22, 1940

My dear Mr. Secretary:

I am sending you herewith a very confidential report which we have made on the aviation industry and which I think will be of considerable interest to General Arnold.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of the Navy.

APR 11 22, 1940

My dear Mr. President:

I am sending you herewith a very confidential report which we have made on the aviation industry. I have sent copies of this to General Arnold and Admiral Towers.

Yours sincerely,

(Signed) H. Montgomery, Jr.

**The President,
Warm Springs, Georgia.**

April 22, 1940

My dear Mr. President:

I am sending you herewith a very confidential report which we have made on the aviation industry. I have sent copies of this to General Arnold and Admiral Towers.

Yours sincerely,

(Signed) H. McGuffee, Jr.

The President,
Warm Springs, Georgia.

April 22, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
Warm Springs, Georgia.

April 22, 1940

My dear Captain Collins:

I am sending you herewith, for the information of yourself and the other two members of the President's Liaison Committee, three copies of a very confidential report which we have made on the aviation industry.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Captain Harry E. Collins,
Director of Procurement,
Treasury Department,
Washington, D. C.

April 22, 1940

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Captain Harry E. Collins,
Director of Procurement,
Treasury Department,
Washington, D. C.

TREASURY DEPARTMENT

CONFIDENTIAL

INTER-OFFICE COMMUNICATION

DATE April 22, 1940

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Haas

Subject: Employment in the Aviation Manufacturing Industry

1. Employment in the aviation manufacturing industry aggregated more than 75,000 in March. Of the total, approximately 59,000 were employed in the manufacture of aircraft and 16,000 in the manufacture of motors.

2. During the first quarter of 1940, employment in the industry increased by about 10,000, as compared with an increase of about 15,000 in the last quarter of 1939.

3. Employment in the manufacture of airplane motors increased relatively more in the March quarter than employment in the manufacture of aircraft.

4. Since December, Douglas Aircraft has become first in the number of employees, increasing from about 10,000 to 13,000 during the quarter. The Glenn L. Martin Co., which in December had the largest number of employees, has had a decrease of 2,000 in employment in the first three months of this year.

5. Except for the Lycoming Division of Aviation Manufacturing Corp., the manufacturers of airplane motors had significant increases in employment in the March quarter. Pratt & Whitney Aircraft Division of United Aircraft Corp. showed the largest increase with 2,100 persons. Allison Engineering Co. showed the largest percentage increase, however, with an increase during the quarter of almost 80 percent.

6. The attached chart shows total employment in the aviation manufacturing industry and the employment of selected companies since January 1937. The attached tables give the figures plotted in the chart. The figures used for total employment cover almost all of the industry, but do not include the employment of some of the smaller companies for which complete data were not available.

(Attachments

**Employment in Aviation Manufacturing Industry
(Aircraft and Motors)**

1937-1940

	: 1937 :	: 1938 :	: 1939 :	: 1940 :
<u>Aircraft Manufacturing</u>				
Jan.	22,100	23,700	25,000	56,800
Feb.				57,200
Mar.	24,100	24,200	27,400	58,700
June	25,200	22,800	36,500	
Sept.	23,400	21,700	41,100	
Dec.	23,800	24,100	52,800	
 <u>Airplane Motors</u>				
Jan.	5,403	6,318	6,769	13,036
Feb.				14,873
Mar.	5,905	6,347	7,555	16,320
June	6,485	6,517	8,365	
Sept.	6,290	6,610	8,909	
Dec.	6,406	6,688	11,996	
 <u>Total Industry -- Aircraft and Motors</u>				
Jan.	27,503	30,018	31,769	69,836
Feb.				72,073
Mar.	30,005	30,547	34,955	75,020
June	31,685	29,317	44,865	
Sept.	29,690	28,310	50,009	
Dec.	30,206	30,788	64,796	

Treasury Department, Division of Research and Statistics.
April 20, 1940

**Employment of Selected Aircraft Manufacturing Corporations
1937 - 1940**

	:	:	:	:
	1937	1938	1939	1940
	:	:	:	:

Glenn L. Martin Co.

Jan.	1,364	1,814	2,905	10,984
Feb.				9,407
Mar.	1,716	1,892	4,092	9,133
June	2,044	2,134	6,029	
Sept.	2,032	2,341	10,070	
Dec.	1,818	2,777	11,174	

Curtiss-Wright Corporation
(excluding Wright Aeronautical Corp.)

Jan.	1,241	2,211	3,802	4,380
Feb.				4,744
Mar.	1,500	2,347	2,939	5,016
June	1,933	2,310	2,848	
Sept.	2,202	2,736	1,562	
Dec.	2,007	3,491	3,447	

Lockheed Aircraft Corp.

Jan.	910	1,577	2,305	5,157
Feb.				4,768
Mar.	1,094	1,594	3,509	4,362
June	1,338	1,797	5,699	
Sept.	1,383	1,997	5,324	
Dec.	1,428	2,123	5,156	

Employment of Selected Aircraft Manufacturing Corporations
1937-1940
(continued)

	:	1937	:	1938	:	1939	:	1940
--	---	------	---	------	---	------	---	------

Consolidated Aircraft Corp.

Jan.	3,169	2,540	968	2,837
Feb.				3,477
Mar.	3,246	2,518	819	3,807
June	3,099	2,104	832	
Sept.	2,617	989	1,408	
Dec.	2,580	981	2,540	

Douglas Aircraft Co., Inc.

Jan.	5,591	6,328	4,334	11,952
Feb.				12,077
Mar.	5,961	6,173	4,177	13,119
June	6,653	4,672	5,445	
Sept.	5,532	4,028	6,318	
Dec.	6,771	4,110	10,362	

United Aircraft Corp.
(excluding Pratt & Whitney)

Jan.	2,350	2,245	1,826	2,757
Feb.				3,051
Mar.	2,444	2,168	1,766	3,468
June	2,497	1,972	1,952	
Sept.	2,439	1,880	2,123	
Dec.	2,338	1,774	2,588	

Employment of Selected Aircraft Manufacturing Corporations
1937-1940
(continued)

	1937	1938	1939	1940
--	------	------	------	------

Boeing Airplane Co.

Jan.	1,534	1,493	2,666	5,557
Feb.				5,605
Mar.	1,726	1,742	3,016	5,319
June	1,249	1,636	3,374	
Sept.	1,109	1,243	4,468	
Dec.	1,380	2,485	5,175	

Vultee Aircraft, Inc.
(Subsidiary of Aviation Manufacturing Corp.)

Jan.			364	742
Feb.				536
Mar.			440	959
June		560	533	
Sept.		430	288	
Dec.		374	662	

North American Aviation, Inc.

Jan.	829	1,713	2,223	4,049
Feb.				4,324
Mar.	869	1,935	2,457	4,154
June	841	2,400	3,125	
Sept.	1,272	2,685	2,992	
Dec.	566	2,530	3,795	

Employment of Selected Aircraft Manufacturing Corporations
1937-1940
(continued)

	:	:	:	:
	1937	1938	1939	1940
<u>Bell Aircraft Corp.</u>				
Jan.	615	222	654	859
Feb.				865
Mar.	850	290	912	896
June	308	440	1,410	
Sept.	718	235	703	
Dec.	213	606	799	

Treasury Department, Division of Research and Statistics.
April 20, 1940

Employment of Selected Airplane Motor Corporations
1937-1940

	1937	1938	1939	1940
--	------	------	------	------

Pratt & Whitney Aircraft Division
of United Aircraft Corp.

Jan.	1,931	2,567	2,254	5,642
Feb.				5,549
Mar.	2,119	2,489	2,655	7,158
June	2,384	2,555	3,080	
Sept.	2,471	2,384	3,000	
Dec.	2,618	2,227	2,080	

Wright Aeronautical Corp.
(Subsidiary of Curtiss-Wright Corp.)

Jan.	2,254	2,607	3,338	5,411
Feb.				5,061
Mar.	2,515	2,705	3,771	6,527
June	2,800	2,930	3,887	
Sept.	2,690	3,184	4,032	
Dec.	2,608	3,374	3,741	

Allison Engineering Co.
(Subsidiary of General Motors Corp.)

Jan.	218	262	451	1,114
Feb.				1,261
Mar.	229	297	488	1,610
June	238	339	540	
Sept.	238	382	540	
Dec.	266	439	541	

**Employment of Selected Airplane Motor Corporations
1937-1940
(continued)**

	1937	1938	1939	1940
--	------	------	------	------

Continental Division of Aviation Manufacturing Corp.

Jan.	849	729	519	721
Feb.				658
Mar.	889	704	521	657
June	901	549	573	
Sept.	756	514	644	
Dec.	762	506	689	

**Continental Motors
(Airplane Engine Division)**

Jan.	151	153	154	154
Feb.				154
Mar.	153	152	154	154
June	162	144	171	
Sept.	135	146	203	
Dec.	152	142	243	

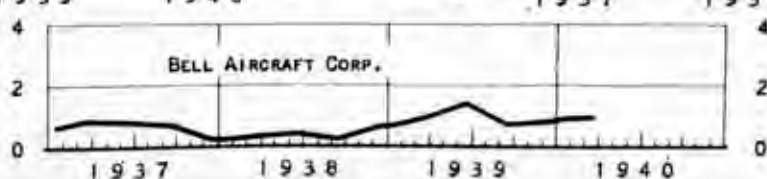
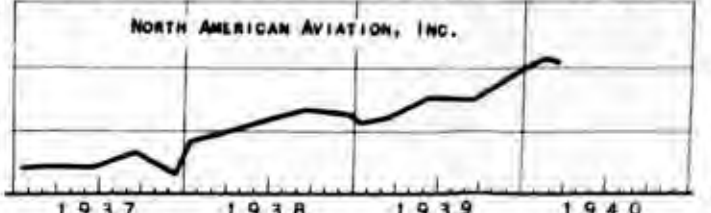
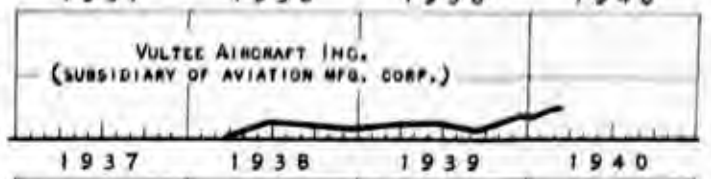
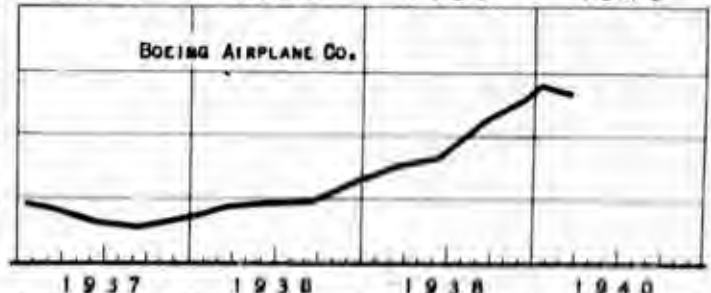
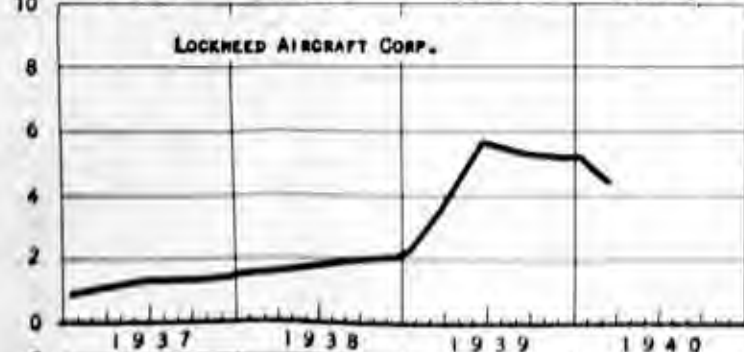
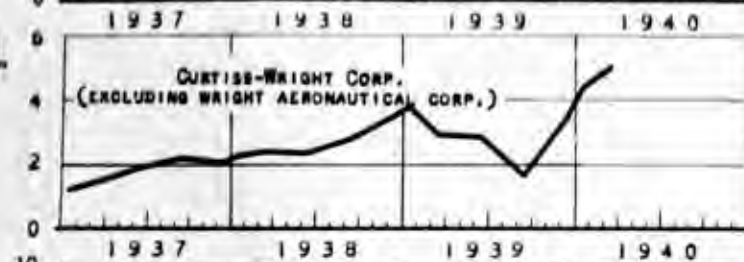
Warrenton Department, Division of Research and Statistics
April 21, 1940

EMPLOYMENT IN AVIATION MANUFACTURING INDUSTRY

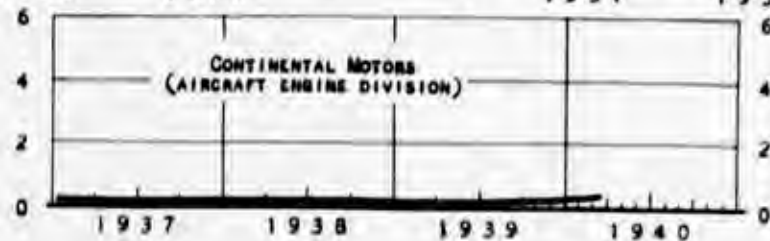
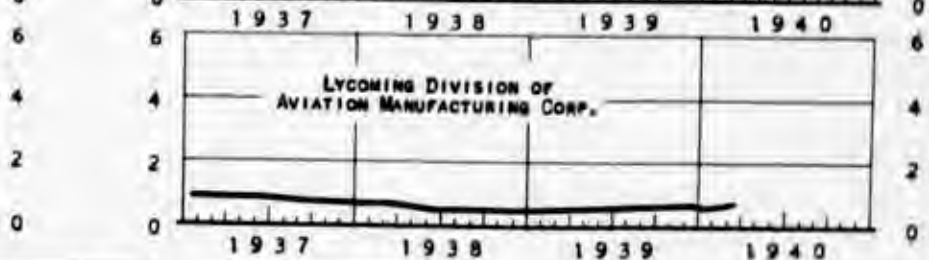
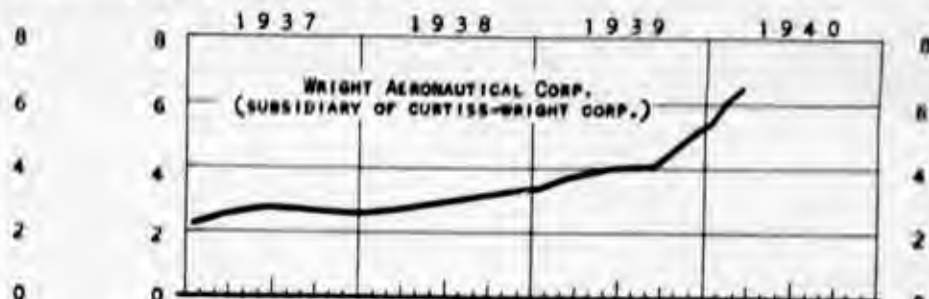
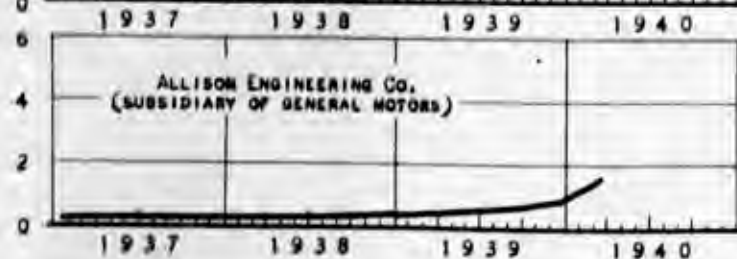
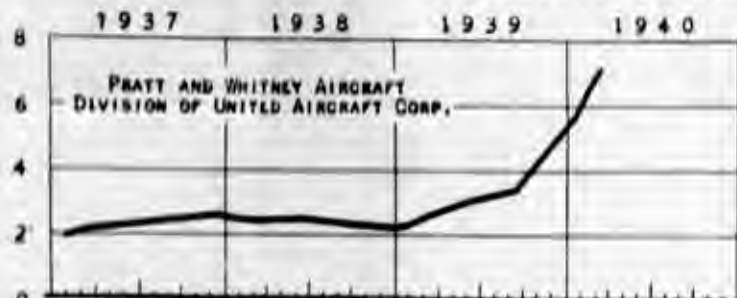
Factory Wage Earners



Selected Aircraft Manufacturing Companies



Selected Airplane Engine Companies



128-C

CONFIDENTIAL

CONFIDENTIAL

April 22, 1940.

Memorandum re Douglas Aircraft Co. and Lockheed
Aircraft Corporation

Number of Planes Contracted for:

1. a. 180 Douglas A-20
(in addition to 180 already
on order)
- b. 500 Douglas DB-7E
2. a. 800 Lockheed P-38
- b. 400 Lockheed 37

C.T.B.

APR 24 1940 AM
4:15 PM

JA

PLAIN

London

Dated April 22, 1940

Rec'd 1:50 p.m.

Secretary of State,
Washington.

1024, April 22.

FOR THE SECRETARY OF THE TREASURY.

On the eve of the budget Sir Robert Kindersley, the President of the quasi Governmental National Savings Committee made a speech in which he unrestrainedly criticized Keynes' compulsory savings plan. He maintained that, "If you were to introduce compulsory saving and hope to get anything approaching real justice, you would have to have a sort of glorified means test on an enormous scale; if you did less you would cause endless injustice." He predicted that its adoption would not come to pass and concluded: "Our country will suffer severe rationing, controls, and taxation of a kind that they can meet by rigid self-discipline and self-denial, according to their circumstances, but it is a mistake to imagine that a number of rather bare-faced bribes will entice them to accept something which they know to be alien to their whole conception of freedom in the organization of their home and family". Kindersley announced that at the end of last week pounds 128,000,000 had been subscribed in bonds and savings certificates and 72,000 savings groups had been created.

KENNEDY

NPL

CORRECTED COPY

1P

GREAT

PARIS

Dated April 22, 1940

Rec'd 2:40 p. m.

Secretary of State,
Washington

511, April 22, 5 p. m. (SECTION ONE)
FOR THE TREASURY FROM MATTHEWS.

Frederic Jenny devoted a further article in last evening's LE TEMPS to the drop in sterling on the free markets which sets forth so clearly the point of view of at least a number of French financial authorities that it appears worth summarizing. (Rueff tells me that in general it represents his views "though there are divergent opinions in France") After a resume of Sir John Simons' declaration in the House of Commons and recalling that the supply of sterling on the free markets is derived essentially (a) from foreign exporters to Great Britain paid in pounds and (b) from other foreigners withdrawing their sterling assets invested in London, he says:

SUBMIT

WEC

REB

GRAY

Paris

Dated April 22, 1940

Rec'd 2:40 p. m.

Secretary of State,
Washington.

511, April 22, 5 p. m. (SECTION ONE)

FOR THE TREASURY FROM MATTHEWS.

Frederic Janny devoted a further article in last evening's LE TEMPS, Sir John Simons' declaration in the House of Commons and recalling that the supply of sterling on the free markets is derived essentially (a) from foreign exporters to Great Britain paid in pounds to the drop in sterling on the free markets which sets forth so clearly the point of view of at least a number of French financial authorities that it appears worth summarizing. (Rueff tells me that in general it represents his views "though there are divergent opinions in France"). After a resume of (*) and (b) from other foreigners withdrawing their sterling assets invested in London he says:

BULLITT

WGC

(*) Apparent omission

JT

GRAY

PARIS

Dated April 22, 1940

Rec'd 3:48 p.m.

Secretary of State,
Washington.

511, April 22, 5 p.m. (SECTION TWO)

: let us recall (1) that according to Sir John Simon the drop in the external rate for sterling should have no influence on the cost of living in Great Britain; (2) that the Government wishes in requiring payment in foreign exchange for a portion of British exports to increase British holdings of dollars and other 'strong' foreign currencies; (3) that it insists on the necessity of permitting foreigners who have placed their funds in London the opportunity to dispose of those funds and to export them if they so desire; (4) that in tolerating a foreign free market where in spite of everything quantities of pounds which are not negligible are exchanged the authorities at London have obviously been moved by the desire to maintain as far as possible in spite of the war and exchange control the possibility of utilizing the pound as the currency of international trade.

BULLITT

WIC

JT

GRAY

PARIS

Dated April 22, 1940

Rec'd 3:30 p.m.

Secretary of State,
Washington.

511, April 22, 5 p.m. (SECTION THREE)

As to the first point, the drop in the pound at New York will fail to have repercussions on British authorities internal prices only if the purchases of products in countries other than those included in the "sterling area" are paid by British importers in foreign exchange obtained in London at the official rate. But up to the present time these imports have been paid in pounds; it is clear that if this practice continues foreign exporters, faced with the drop abroad of sterling, will be obliged to increase their sales prices. Dearer costs in pounds of imported products will then have a certain influence on the internal price level.

(END SECTION THREE)

BULLITT

PEG

JR

GRAY

Paris

Dated April 22, 1940

Rec'd 2:40 p.m.

Secretary of State,
Washington.

511, April 22, 5 p.m. (SECTION FOUR)

In reality and in spite of the anxiety of British trade to preserve the pound as an international currency, importers will doubtless not continue to use sterling as the currency of payment for their purchase if they are obliged to pay a quantity in pounds considerable greater than they would if requesting the Bank of England to give them at the more advantageous official rates the necessary foreign exchange. It is clear then that insofar as the supply of sterling of commercial origin is concerned the drop in the free market quotation automatically results in a corrective which would not fail to restore equilibrium (between supply and demand) if these supplies were the only ones in question.

BULLITT

WFC

REB

GRAY

Paris

Dated April 22, 1940

Rec'd 3:30 p. m.

Secretary of State,
Washington.

511, April 22, 5 p. m. (SECTION FIVE)

However, one will easily understand that from the moment a more or less important portion of purchases abroad hitherto paid in pounds is paid in foreign exchange, the London authorities will have to deliver a larger quantity of such foreign exchange; that consequently the Treasury's holdings of foreign exchange will be that much reduced and that this reduction will equal -- perhaps even exceed -- the increase obtained thanks to the payment in foreign currencies required for certain exports. This is why the English press observes that in restricting unilaterally demands for pounds in order to increase the quantity in foreign exchange derived from exports the authorities have not from the point of view of the provisioning of Great Britain with foreign exchange obtained any appreciable profit to counter-balance the inconveniences which the drop in the free market quotation of sterling presents. It, the press, does not seem to be entirely wrong.

SMALLITT

WVC

JL

GRAY

PARIS

Dated April 22, 1940

Rec'd 3:22 p.m.

Secretary of State,
Washington.

511, April 22, 5 p.m. (SECTION SIX)

Passing to the third point, that is the problem posed by the repatriation of foreign holdings, the Chancellor of the Exchequer is certainly right when he refuses to block these holdings. However, we should not lose sight of the fact that the owners of these funds when they wish to export them cannot obtain as in France foreign exchange at the official rates. They are only authorized to sell their pounds sterling abroad which makes them turn to the free market." He adds that if the drop is further accentuated, for example, by an extension of the "unilateral regulations preventing utilization of the pound as means of payment for certain British exports" the opportunity offered foreign holders of sterling balances of disposing freely thereof "risks becoming if not illusory, at least very burdensome".

BULLITT

ELP

JT

GRAY

PARIS

Dated April 22, 1940

Rec'd 3:53 p.m.

Secretary of State,
Washington.

511, April 22, 5 p.m. (SECTION SEVEN)

"As to the fourth point, it is clear that if the instability of the pound is accentuated and the depreciation thereof aggravated - which depends solely on the will of the competent authorities to prevent it - the utilization of the pound by countries outside the 'sterling area' will become extremely difficult and the existence of French markets will thus lose the principal advantage which they have in English eyes. Consequently the remarks made especially by the FINANCIAL NEWS emphasizing that there exists a certain contradiction between one on the one hand the indifference expressed as to the fluctuations of the free market quotations and on the other hand the double anxiety of not blocking foreign holdings and of preserving for the pound its role as international currency do not seem to be entirely without foundation."

BULLITT

YLP

JT

GRAY

PARIS

Dated April 22, 1940

Rec'd 3:53 p.m.

Secretary of State,
Washington.

511, April 22, 5 p.m. (SECTION EIGHT)

It says in conclusion "There is obviously an interest that the stability of sterling - which carries with it that of the franc - be restored on foreign markets and at a level closer to the official rates than present quotations. In order that this result be obtained it is absolutely necessary that the balance between supply and demand be restored on these markets. That can only be in two ways: by reducing the supply or by increasing the demand.

BULLITT

CSB

JT

GRAY

PARIS

Dated April 22, 1940

Rec'd 3:48 p.m.

Secretary of State,
Washington.

511, April 22, 5 p.m. (SECTION NINE)

"As the Government has commenced to tighten exchange control it would doubtless be more logical to employ the first means - that is to say to prevent the pound from being utilized any longer as the currency of payment for imports and to permit the foreign holders of sterling balances kept at London to withdraw their capital as desired, under conditions to be determined, through the channel of the official market. When a currency must be defended it is always necessary to be careful that it does not circulate on the international market in large quantities readily exchangeable against other currencies. If this line of conduct were adopted the policy consisting of progressively preventing British exporters from accepting pounds (sterling) in settlement of their sales would no longer present inconveniences.

BULLITT

CSB

JT

GRAY

PARIS

Dated April 22, 1940

Rec'd 5:05 p.m.

Secretary of State,
Washington.

511, April 22, 5 p.m. (SECTION TEN)

If on the contrary the responsible authorities judge it inopportune energetically to restrict the supply of sterling for example because they consider that it would be extremely prejudicial to the international role of the English currency they could not in the long run fail to be convinced that to compensate and absorb these supplies it is indispensable under penalty of provoking a progressive depreciation of the exchange to permit the existence of a sufficient volume of demands emanating from persons or concerns having payments to effect in Great Britain in particular those who have purchased products there!!

With reference to your recent decision regarding conversion of the pound sterling at the official rate for customs purposes there is some curiosity here as to why the franc was not included and some anxiety as to when and if similar measures may be taken with regard to it.

BULLITT

EMB

JT

GRAY

PARIS

Dated April 22, 1940

Rec'd 6:14 p.m.

Secretary of State,
Washington.

511, April 22, 5 p.m. (SECTION ELEVEN)

LA SITUATION ECONOMIQUE ET FINANCIERE remarks "In American financial circles it is observed that as far as the franc is concerned an adjustment of the rate is not necessary, at least for the moment, for France's export possibilities are limited".

A decree appearing in Saturday's JOURNAL OFFICIEL adds mineral lubricating oils in customs warehouses and factories in operation to the list of stocks which may be insured against risks of war..

The securities market was more cheerful today and most issues advanced from 1% to 2%. Rentes were up from twenty centimes to one franc.

(END OF MESSAGE)

BULLITT

LMS:GBB

JT

GRAY

PARIS

Dated April 22, 1940

Rec'd 4 p.m.

Secretary of State,
Washington.

512, April 22, 6 p.m.

FOR THE TREASURY FROM MATTHEWS.

State Department's telegram No. 293, April 20, 2 p.m.
I plan to leave either by clipper early next week if passage is available or by the REX sailing Genoa April 30.

Is there any particular question which you wish me especially to look into for reporting on my arrival?

BULLITT

CSB

JT

PLAIN

STOCKHOLM

Dated April 22, 1940

Rec'd 9:34 p.m.

Secretary of State,

Washington.

343, twenty-second.

Riksbank's preliminary estimate balance of payments 1939 shows deficit of approximately 300,000,000 crowns. Government has expropriated linseed oil stocks and arrivals and instituted rationing. Customs receipts March 10,600,000 crowns. Comparing price indices August March general 111 and 140, imports 110 and 174, exports 114 and 152. Government loaning at 5% to individuals for bombproofs.

Inform Commerce this and also our 337, twenty-first.

STEELE.

DMB

Denver, Colo. 145

April 22, 1940.

Dear Mr. Morgenthau:

I want to intrude on your time for just a moment to tell you of my appreciation of the opportunity you have given me to get myself into better physical condition. It has, I am sure, been a successful effort and

I am now feeling better than at any time since my illness.

Your fairness and sense of justice are, of course, known throughout the Treasury Department and service, but it is the good fortune of only those who are privileged to have personal contact

with you to know of your constant
acts of kindness and thoughtfulness.
Never have I looked for a man
more considerate than you have
consistently been. It is not easy
for me to express to you my
deep feelings, but I am sure you
know that I am sincerely
grateful.

It is my purpose to be at
the office by April 29th but I
did want to say this to you
before then.

With very sincere regards,
I am, Very truly yours,

Therese

April 22, 1948.

MEMORANDUM FOR:

Secretary Morgenthau

SUBJECT: The Income Certificate Plan: Recent Developments.

The hearings on the Income Certificate Plan before the House Committee on Agriculture were suspended after three days but have not been concluded, and at this date it is not known whether any further action will be taken.

In the meanwhile, on April 8, Mr. Pierce of Oregon, a member of the House Committee on Agriculture, introduced a bill, H. R. 9273, providing for a Marketing Certificate Plan. To date no hearings have been set.

We have analyzed the Pierce bill and conclude that:

The basic fiscal and economic features of the plan presented in this bill are the same as those of previous certificate plans, although there are some important differences;

The objections raised in connection with the earlier plans generally apply with equal force to the present plan; and

In some fiscal respects the present plan is even less desirable than its antecedents.

The New York Times for April 16 reported that Mr. Wallace was likely to ask the Democratic National Convention to write the certificate plan into the party's platform if Congress adjourns without enacting it.

Roy Blough

JR

GRAY

Milan

Dated April 22, 1940

Rec'd 1:37 p.m.

Secretary of State,
Washington.

10, April 22, 5 p.m.

FOR TREASURY DEPARTMENT.

Saturday stock exchange volume 79,275, today's
trading reduced prices weaker.

SHOLES

HPD

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 22, 1940

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

In an exceedingly quiet foreign exchange market, the sterling rate moved within a narrow range. After opening at 3.53-1/4, it moved upward to a high of 3.53-7/8 in the early afternoon. The closing quotation was 3.53-3/8.

Sales of spot sterling by the six reporting banks totaled £421,000, from the following sources:

By commercial concerns.....	£ 135,000
By foreign banks (Far East, Europe and South America).....	£ 286,000
Total.....	£ 421,000

Purchases of spot sterling amounted to £335,000, as indicated below:

By commercial concerns.....	£ 82,000
By foreign banks (Far East, Europe and South America).....	£ 253,000
Total.....	£ 335,000

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 National City Bank	
2,000 by the Guaranty Trust Company	
£ 5,000 Total	

The other important currencies closed as follows:

French francs	.0200-1/4
Guilders	.5309-1/2
Swiss francs	.2242-1/2
Belgas	.1678
Canadian dollars	15-1/4 % discount

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

\$23,800,000 from the Bank of England	
1,000,000 from the Netherlands Bank	
\$24,800,000 Total	

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

- \$6,322,000 from Switzerland, shipped by the Swiss Bank Corporation, Zurich, to its New York agency, for sale to the U. S. Assay Office.
 - \$4,564,000 from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank, to be earmarked for the account of the Bank of Sweden.
 - \$3,308,000 from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank, for sale to the U. S. Assay Office.
 - \$1,530,000 from England, shipped by the Chase National Bank, London, to the Federal Reserve Bank, for account of the Central Bank of Bolivia. While the exact disposition of this shipment is unknown at the present time, we understand that part of the gold will be placed under earmark for the Bolivian Bank's account.
- \$15,724,000 Total

The State Department forwarded to us a cable stating that the Netherlands Trading Society, Calcutta, shipped \$150,000 in gold from India to the Wells Fargo Bank, San Francisco, for sale to the U. S. Mint there.

In a report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by New York agencies of Japanese banks on April 17, such deposits totaled \$44,899,000, a decrease of \$9,932,000 since the last report as of April 10. Included in this total were \$28,849,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, and deposits of \$3,661,000 made by the head office and Japanese branches. The last-mentioned item experienced a reduction of \$10,265,000 during the week ended April 17. The overdraft of the head office and Japanese branches on the books of Yokohama's New York agency was \$83,202,000, a decrease of \$13,132,000 since April 10.

The Bombay spot silver quotation advanced to the equivalent of 40.96¢, up 3/8¢.

The price fixed for spot silver in London rose 3/8d to 21-1/4d. The forward quotation moved up 5/16d to 21-1/8d. The U. S. equivalents were 33.90¢ and 33.46¢ respectively. The improvement in the price was reported to have been due to buying by Indian operators in a thin market.

Gundy 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 six purchases of silver totaling 433,500 ounces under the Silver Purchase Act. Of this amount, 140,000 ounces represented a sale from inventory, and the remaining 293,500 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

- 3 -

We also purchased 115,000 ounces of silver from the Bank of Canada. So far this month, we have made purchases totaling 885,000 ounces from that source, under our regular monthly agreement to buy up to 1,200,000 ounces.

JA

CONFIDENTIAL

TREASURY DEPARTMENT

151

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE April 22, 1940

TO Secretary Morgenthau
FROM Mr. Egan
Subject: The Business Situation,
Week ending April 20, 1940.

Conclusions

(1) The foundation appears to have been laid for an extended rise in industrial activity, after the turn has been made, rather than for merely a temporary improvement with a decline later in the year, as envisaged by some economists.

(a) The enlargement of purchasing power created by the recent business rise has raised the general level of demand for manufactured goods.

(b) Whereas the 1939 rise was largely concentrated in the capital goods industries, the next upturn will have the additional support of a strong consumer-goods position, already evident in the active demand for automobiles, housing, and textile products.

(c) The successively higher levels at which the FRB index has met resistance to further declines during the past two years provides some evidence of a rising business base.

(d) No business maladjustment of sufficient importance to halt the recovery trend has yet appeared.

(2) The business news last week was featured by an extended rise in basic commodity prices, which carried sensitive price indices to the highest levels since mid-January. The more active warfare, rather than increased industrial demand, was the primary price factor, with food prices as a group rising much more than prices of industrial materials.

(3) The response of steel buyers to the recent reduction in steel prices has so far been disappointing, except for increased buying by the automobile companies. Heavy retail demand has brought a further step-up in automobile production.

- - - - -

Secretary Morgenthau - 2

Extended recovery expected to follow business turn

Recent developments have led to a rather general agreement among economists that business activity is due for some sort of upturn by mid-summer. Opinion is divided, however, as to whether this will be a sustained improvement, or whether it will be followed by a further recession during the latter part of the year. As we view the situation, the evidence now available points rather clearly to a more extended business rise, for the reasons indicated in the following paragraphs.

The FRB index for March stands at 103, the same figure as that for last August, immediately preceding the outbreak of the war. Those bearishly inclined toward the business outlook take this to mean that the "war boom" has been completely wiped out; that our economy, in effect, is back on a pre-war basis; and that the failure of industrial production to make greater gains under the stimulus of war demand is evidence of underlying weakness in the business structure.

Our analysis, on the other hand, indicates that the national economy has derived additional strength from the enlargement of purchasing power generated by the 1939 business rise, and that the level of demand for manufactured goods has consequently been stepped up to an appreciably higher plateau. This would indicate that the next upturn in the FRB index will have the advantage of starting from a stronger base.

In other words, while the 1939 rise was concentrated largely in the capital goods industries, the next upturn will have the additional support of a broadened consumer purchasing power, which should strongly influence the levels of production in the consumer goods industries. The effect of this added support is already evident in the present high level of automobile sales, in the well-sustained activity in the textile industry, and in the rising trend of residential building. In earlier periods of sustained business advances -- notably from 1921 to 1929 and from 1933 to 1937 -- the increased purchasing power generated by each business upturn helped in exactly this manner to carry industrial production to new high levels in succeeding upturns, until this progressive improvement was eventually halted by serious maladjustments which resulted in real business depressions.

Secretary Morgenthau - 3

Graphic evidence of the improved business background is shown in Chart 1, in which the FBS index (shown in red) is compared with three different measures of demand: (1) our index of "basic demand", (2) our index of sales, and (3) our index of the purchasing power of national income. While these three independent indices follow somewhat different movements, they all point to a substantially higher production base than that of last August. All three indices in February were even higher than the high levels of early 1937. The figures for March, which will be available next week, are expected to show no more than a moderate decline.

The successively higher figures at which declines in the FBS index have halted during the past several years (as shown on Chart 1) provides additional evidence of a rising basic trend. The 1938 decline stopped at 76, the 1939 decline at 92, and this year's decline shows evidence of halting above 100. Since no important maladjustment has yet developed to bring these successive advances to an end, and since industrial production is now substantially below the apparent level of demand, the weight of evidence would indicate an extended recovery in 1940, rather than a temporary improvement followed by a decline later in the year.

Commodity prices rise sharply

The business picture has been further improved by a continued advance in commodity prices last week, accompanied by heavy buying, which has carried the Dow-Jones and Moody's sensitive price indices to the highest levels since mid-January. Prices of foodstuffs have increased much more than prices of industrial raw materials, indicating that the upturn, so far, has been due more to war influences rather than to industrial buying. (See Chart 2)

Prices of individual commodities have shown divergent movements. Wheat was one of the commodities that went up sharply, and farmers were able to liquidate more loan wheat at a net profit. On Thursday, wheat futures rose to a level not equalled since September 1937. In consequence, mills booked heavy orders for flour. A strong price influence was the unfavorable crop reports from a large part of Europe, due to the unusually severe winter. They include reports that about 25 per cent of the acreage seeded in Rumania may be abandoned, and that the crop in that country as well as in neighboring countries will be unusually short.

Secretary Morgenthau - 4

Lard and cottonseed oil also rose strongly, a continuation of the previous week's trend. The trade apparently does not anticipate greatly increased export buying of either product, but believes that increased demand for other oils, and irregular imports of vegetable oils from the East Indies, may raise the domestic demand for cottonseed oil and lard.

Cotton futures did not join the general upward movement, but held relatively steady and so helped to hold down the rise in industrial material prices. Exports of cotton in March showed a considerable decline compared with preceding months, and reports from the United Kingdom indicated that sufficient supplies of United States cotton are held in that country to satisfy requirements for more than 8 months at the current rate of consumption.

Although industrial materials as a group showed a relatively small price rise, rubber prices were strongly up on reports of political uncertainty in the East Indies, fear of increased shipping costs, and rumors that when the restriction committee meets May 21 the quota for the third quarter will be cut.

An increasing speculative participation in the commodity markets is indicated by a rise in the "open interest" in futures contracts on domestic commodity exchanges to 78,051 contracts last Thursday, as compared with 75,337 contracts a week earlier.

The steel situation

The recent reduction in finished steel prices has not yet brought any marked improvement in steel buying except in the Chicago district, where fair-sized orders are reported to have been placed by automobile companies. A general belief that the reduction will continue in effect for some time, and a feeling of confidence on the part of buyers that they will be allowed to "get in under the wire" in case prices should be raised, have apparently contributed to the delay in placing orders. In some districts the price reduction is said to have led to more cautious buying. New orders reported by the United States Steel Corporation for the week ended April 11 (before the price announcement) were reduced to about 43 per cent of capacity from 50 per cent the previous week. Steel activity continues to sag slowly. The rate of steel operations is scheduled this week at 60.0 per cent of capacity, down .9 point from last week.

The potential demand for steel from the automobile industry, the largest outlet for steel products, is strengthened by a further improvement in retail automobile sales. General Motors' sales during the first 10-day period of April showed less decline from the seasonally high sales of the previous period than in either of the past two years. Retail deliveries of 14 makes of cars produced in the Detroit area increased to 109,907 units during the first 10 days of April, as compared with 89,635 units in the same period of March.

As a consequence of the large retail sales, automobile production last week was stepped up to 103,725 units from 101,940 units in the previous week, while no change would have been the seasonal expectation.

Total construction awards under last year

Despite the relatively favorable showing of residential construction activity, contract awards for all types of construction, as reported by the F. W. Dodge Corporation, have been running under the previous year's levels ever since last September. This less favorable position has been maintained through March, according to F. W. Dodge data recently released, and the seasonal increase in that month was somewhat less marked than in either of the two previous years. (See Chart 3)

The principal factor in this unfavorable trend, as the chart indicates, is the decrease which has occurred in publicly-owned construction projects. Thus, if the figures for construction awards are cumulated beginning with October 1939, it will be found that total awards for the period October 1939-March 1940 show a decline of nearly \$237,000,000 or 13 per cent from the previous year; while awards of privately-owned projects during the same time actually show a gain of more than \$82,000,000 or more than 10.6 per cent over year earlier figures.

The trend of privately-owned awards in recent months, however, has been somewhat less favorable. The figures for March show the gain reduced to 2.5 per cent over the previous year, as compared with a gain of 3.6 per cent during the first quarter as a whole.

Secretary Morgenthau - 6

Exports gain in March

A further rise in exports of industrial materials and products during March, especially in the machinery group, gives emphasis to the position played by the export market in supporting industrial activity in this country. (See Chart 4) Non-agricultural exports rose in that month to a new high for recent years. On the other hand, a declining trend in exports of agricultural products, particularly cotton, may react unfavorably on agricultural purchasing power.

As will be noted in Chart 4, exports of machinery continued to rise and were the most important single factor in keeping exports in March above the previous month's figure. Metal working machinery and tractors showed the largest gains within the machinery group.

A gain of nearly \$4,800,000, or 53 per cent, occurred in exports of motor trucks and busses, more than accounting for an increase of about \$3,600,000 for all automotive products. Chemicals and petroleum products also showed gains over February, while aircraft exports amounting to \$20,500,000 were practically unchanged from the previous month.

The most important single decline occurred in exports of raw cotton, which dropped nearly \$17,700,000, or about 41 per cent, below the previous month but were still about \$9,000,000 above March 1939.

Total exports to France, continuing the trend of recent months, rose to over \$41,000,000, and as a result that country shows by far the largest gain over a year ago of any important market. Exports to Canada and Latin America rose approximately 13 per cent and 10 per cent, while exports to the United Kingdom declined about 11 per cent. It is of interest that exports of domestic merchandise in March to the Scandinavian countries (including Finland) approximated \$20,000,000, or somewhat less than 6 per cent of the total.

Current business news

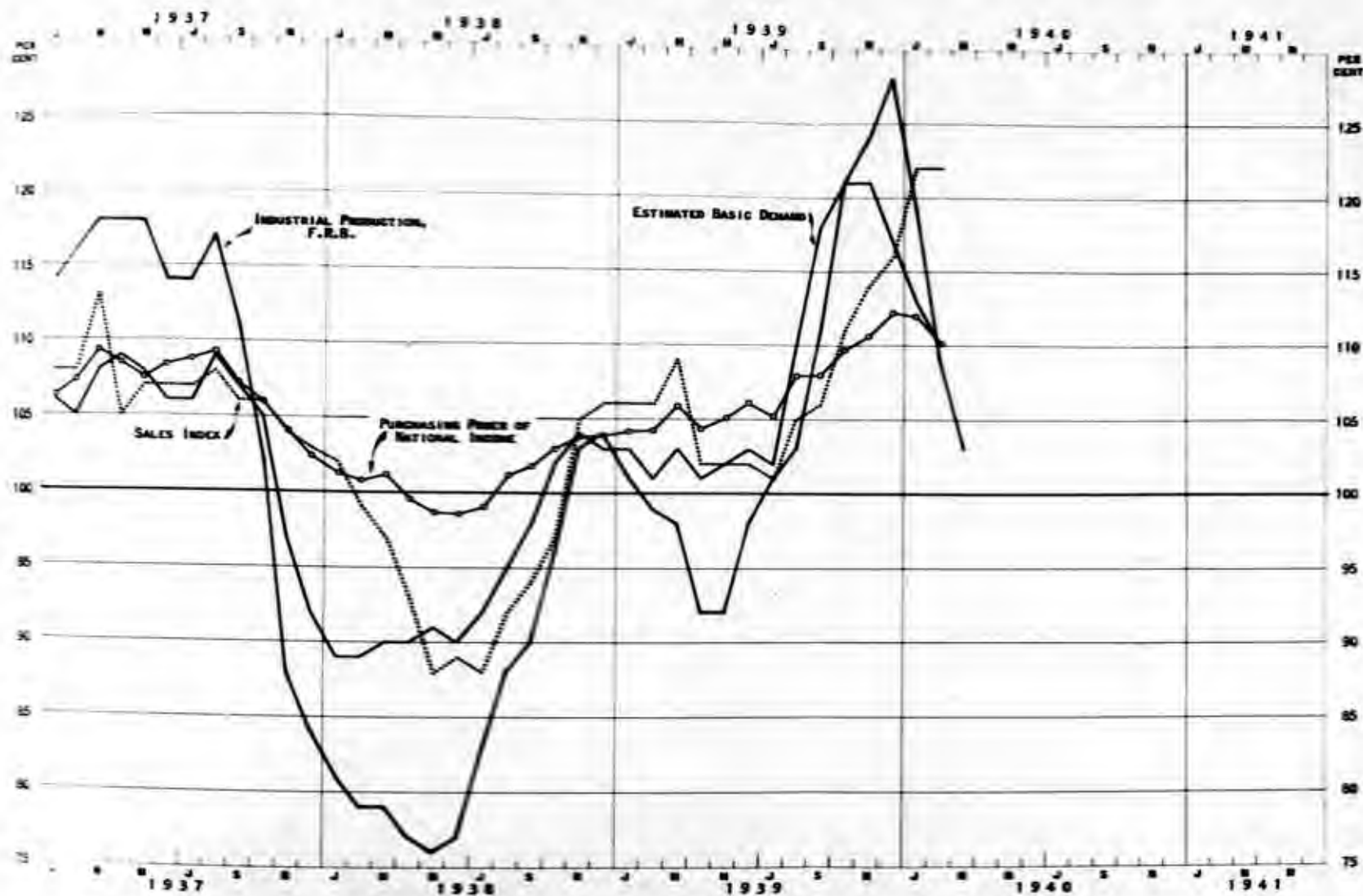
Our weekly index of new orders for the second week of April declined moderately from the previous week's figure, largely because of a downturn in steel orders. (See Chart 5) Orders for products other than steel and textiles, the most important component shown on the chart, have maintained their recent extensive gains.

Secretary Morgenthau - 7

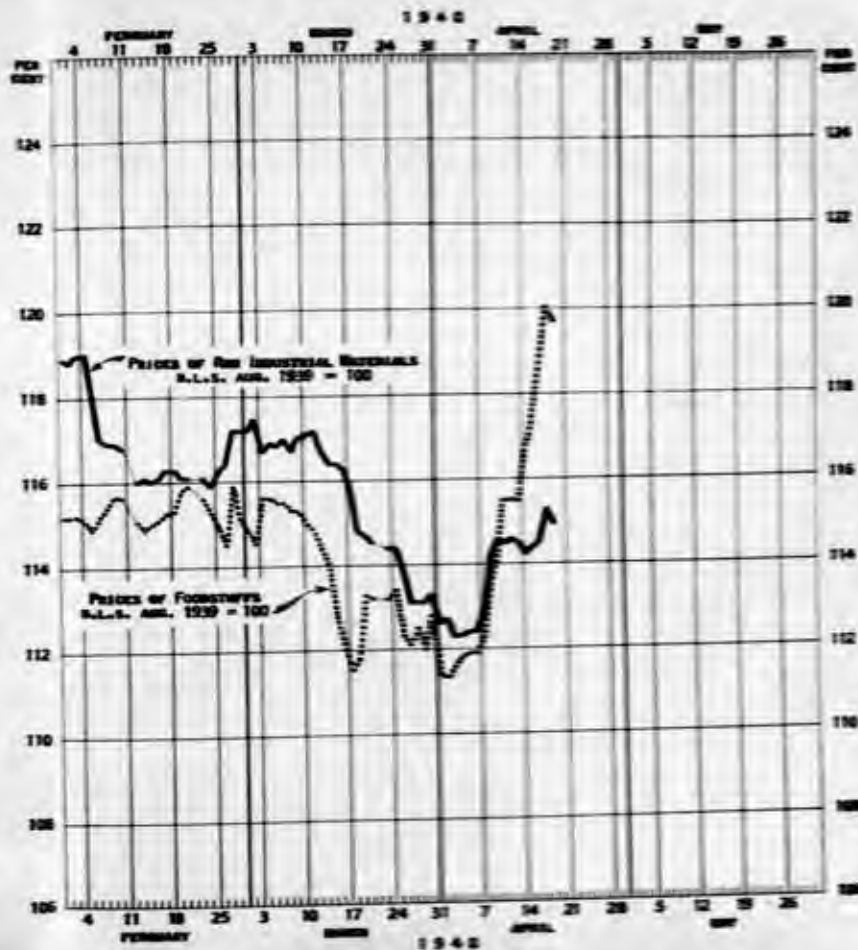
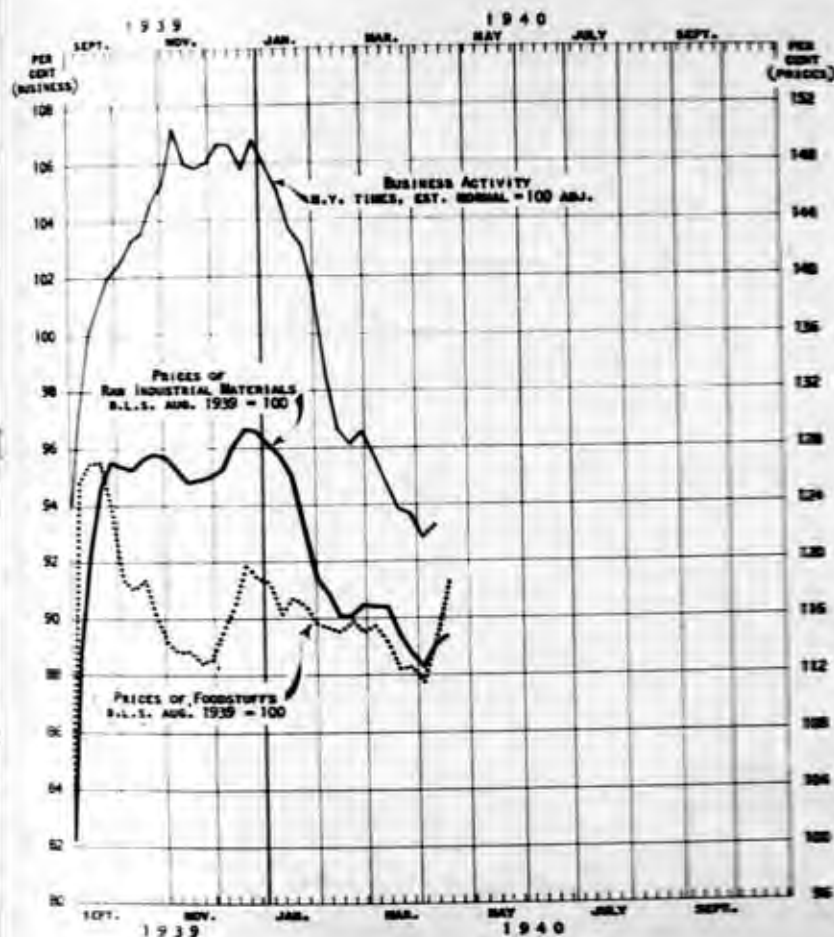
The New York Times index for the week ended April 13 rose .5 point to 93.3, due to a further increase in the index of cotton mill production and to upturns in the indices of electric power production and "all other" carloadings. All other components were slightly lower. Barron's index for that week, on the other hand, declined .5 point to 100.0.

INDUSTRIAL PRODUCTION AND INDICES OF BASIC BUSINESS TRENDS

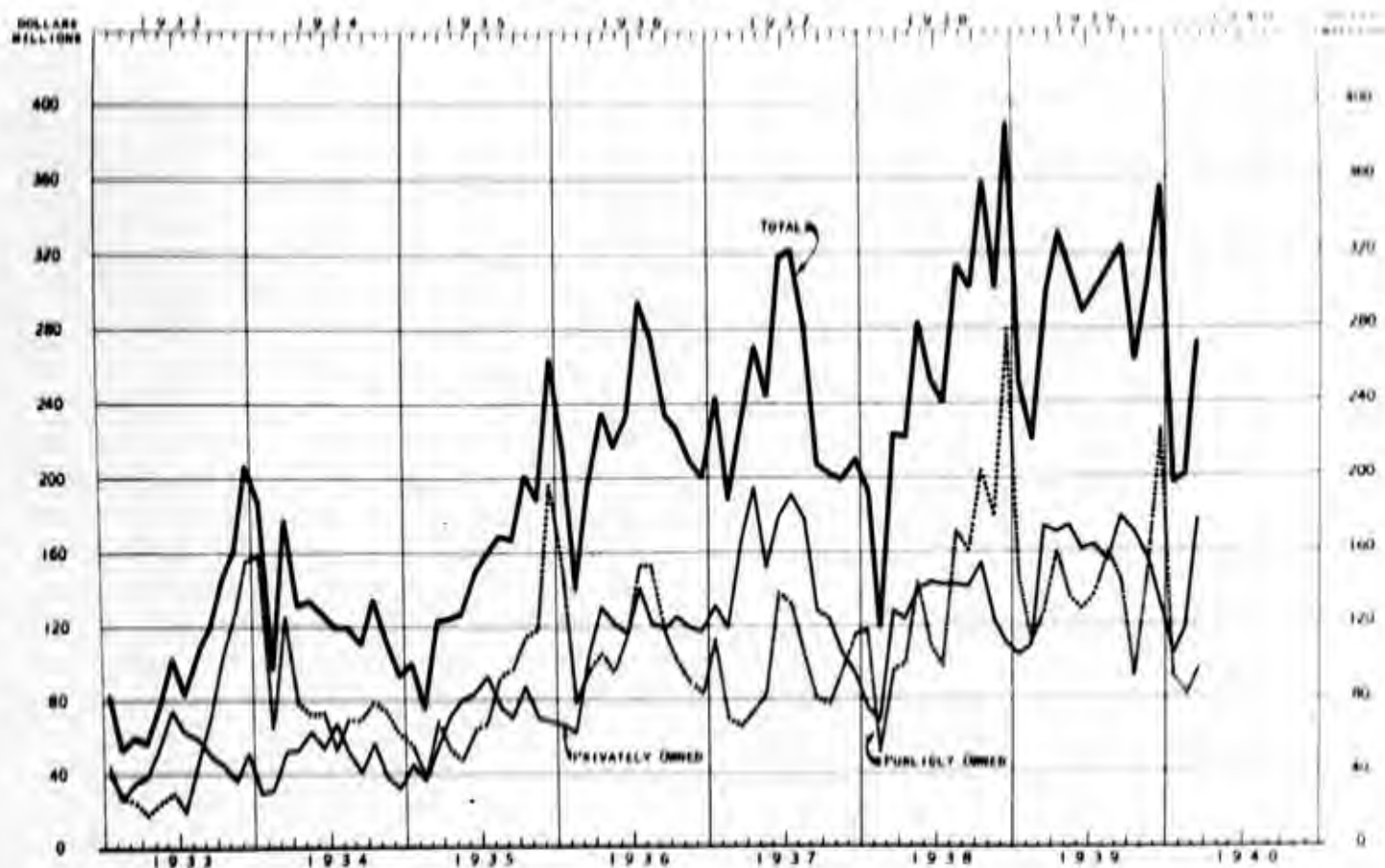
1923 = '25 = 100, SEASONALLY ADJUSTED



BUSINESS ACTIVITY AND PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS



CONSTRUCTION CONTRACT AWARDS CLASSIFIED BY OWNERSHIP OF PROPERTY
Monthly Totals, F. W. Dodge Corporation

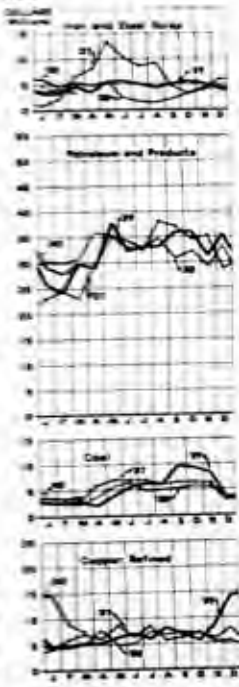
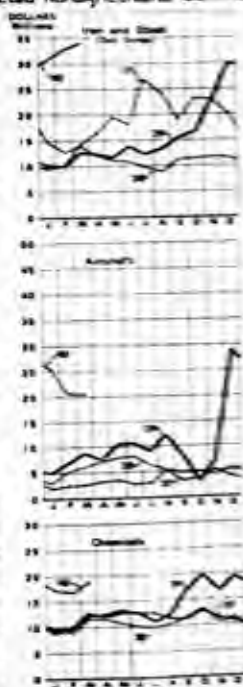
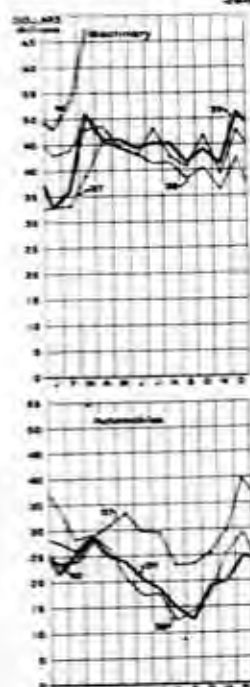
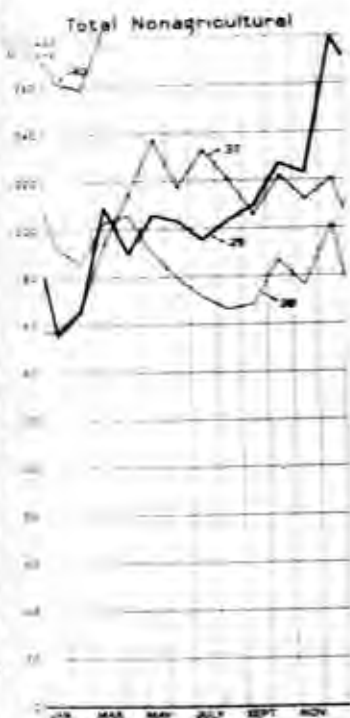


U.S. TOTAL TRADE AND EXPORTS BY COMMODITIES

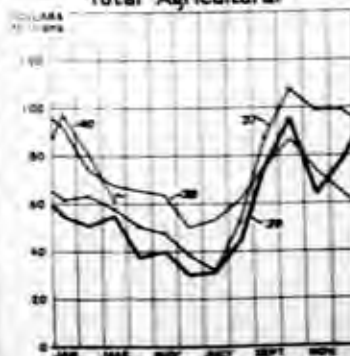


EXPORTS OF U.S. MERCHANDISE

Selected Nonagricultural Commodities



Total Agricultural



Selected Agricultural Commodities

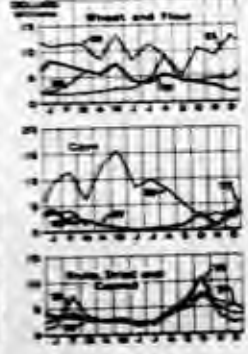
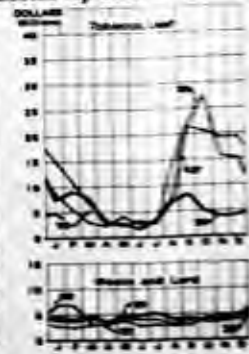
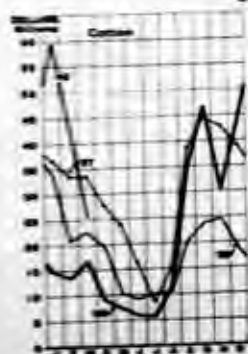


Chart 5
CONSTANT DOLLARS



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 22, 1940.

TO Secretary Morgenthau
FROM Mr. Haas *HA*

The attached tables and chart show a decline of 42,000 persons in the number employed by the Work Projects Administration, from 2,204,000 persons during the week ended April 3, 1940 to 2,162,000 persons during the week ended April 10, 1940.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week Ending	Number of Workers (In thousands)
1939-40	
September 6	1,662
September 13	1,696
September 20	1,735
September 27	1,790
October 4	1,834
October 11	1,875
October 18	1,898
October 25	1,901
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,190
January 17	2,222
January 24	2,244
January 31	2,265
February 7	2,268
February 14	2,306
February 21	2,319
February 28	2,326
March 6	2,323
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

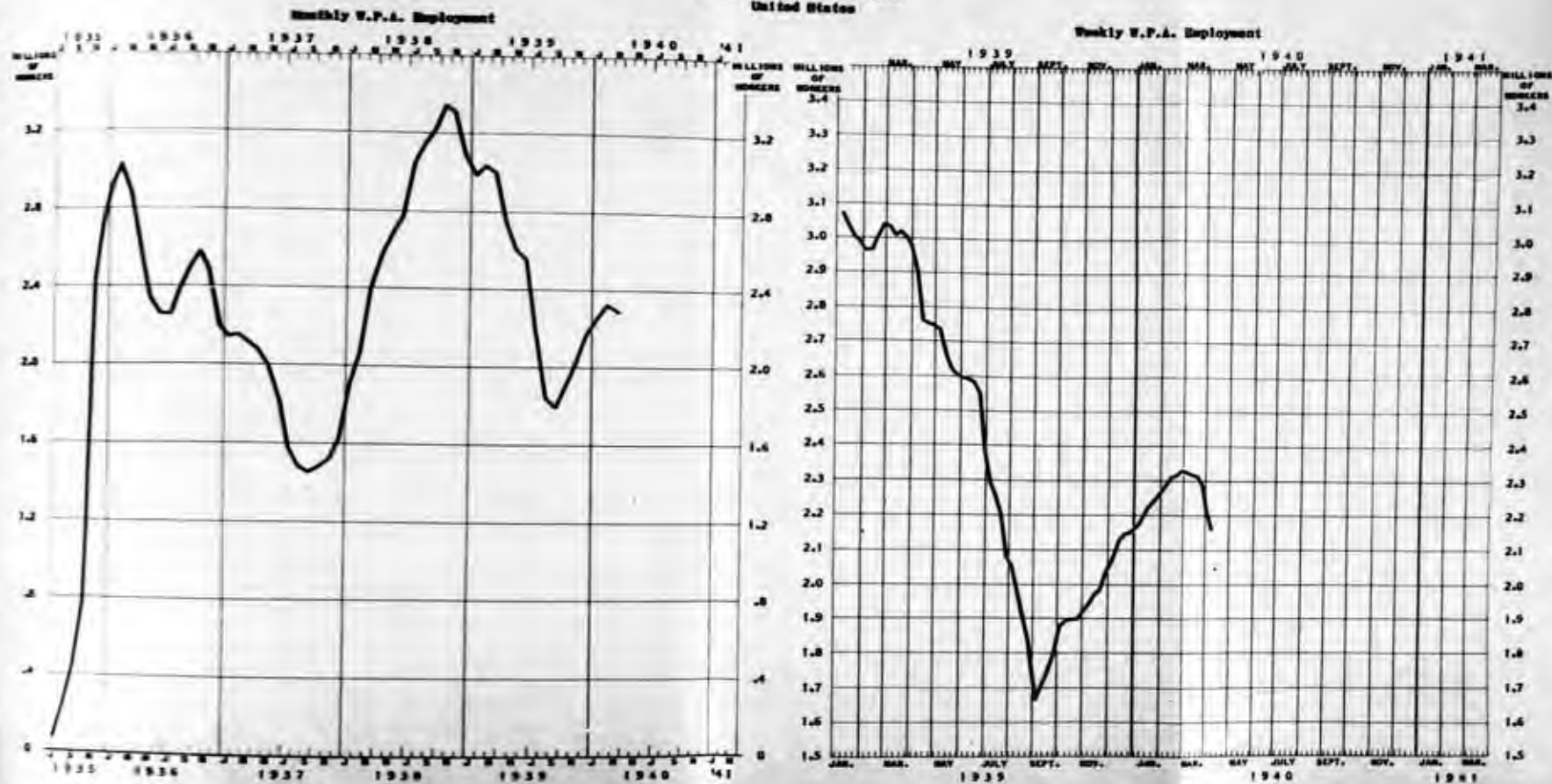
	Number of Workers (In thousands)
1937	
July	1,569
August	1,480
September	1,448
October	1,476
November	1,520
December	1,671
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,901
November	2,024
December	2,152
1940	
January	2,265
February	2,326
March	2,288

Source: Work Projects Administration.

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

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORK PROJECTS ADMINISTRATION

Excerpt from Despatch no. 297 of April 22, 1940, from
American Legation, Ottawa.

Dr. Skelton then outlined the Canadian proposal which was as follows: The Canadian Government would be prepared to grant an exemption from the requisitioning of foreign assets of United States nationals resident in Canada, to the extent that such residents can show that the foreign assets have not been acquired as a result of Canadian activity while the American nationals concerned were residing in Canada. At the same time, Dr. Skelton suggested that the exemption be made on a reciprocal basis: that in return for the exemption mentioned above the American Government should undertake to give a similar exemption to Canadian nationals resident in the United States if, as and when exchange control measures might be placed into effect in the United States. As to the form of the reciprocal exemption, Dr. Skelton suggested that it should be embodied in an exchange of notes. Alternatively, it could be covered in an agreement between Canada and the United States.

April 23, 1940

11:00 a.m.

Present:

Mr. Sullivan
Mr. Young
Mrs. Klotz

EM, Jr: (Reading from the attached note from Purvis, dated April 22nd.)

"Mr. Purvis asked that the forwarded memorandum be forwarded to Mr. Morgenthau in advance of their Wednesday talk so that he may have prompt information on the questions asked."

What they have done here -- I have read this thing through -- did you have a chance to read it?

Mr. Young: No, I brought it right in to you.

EM, Jr: In this thing they give us -- there's apparently nothing for us to do in preparation for the meeting tomorrow. I have read it very, very carefully and of course the interesting thing is -- what they say here is, "February 1, 1940 - Atlas Powder Company - \$667,000 - new unit with a capacity of 4500 tons per annum at Atlas, Missouri; Atlas Powder February 23, 1940 - \$760,000, new unit with a capacity of 4500 tons per annum at Atlas, Missouri. Then April 3rd - Hercules Powder Company," -- this is what I want you (Sullivan) to know. They say, "April 3rd - Hercules Powder Company - \$5,780,000 for enlargement of Kenil, New Jersey plant. (Capital assistance item includes some \$435,000 for you as income tax thereon, due to refusal of supplier to accept U. S. loan procedure.)"

Did you know they had closed that?

Mr. Sullivan: No. I knew of the first and I last heard they had completely suspended negotiations.

- 2 -

HM, Jr: I thought this was news.

Mr. Sullivan: They have thrown away a half a million dollars.

HM, Jr: Why?

Mr. Sullivan: Putting a 125 per cent of the price to the factory.

HM, Jr: How much?

Mr. Sullivan: 125 per cent. \$435,000 for income taxes?

HM, Jr: Yes.

Mr. Sullivan: Which is avoided by the device that Atlas used.

HM, Jr: Well, they have evidently paid it.

Mr. Young: That is definitely closed.

HM, Jr: Yes. It involves 3600 tons.

Mr. Sullivan: What was the price they gave in addition to the \$435,000?

HM, Jr: Total of \$2,175,800 of which \$435,000 is for use of income tax thereon.

Mr. Sullivan: That's it, 25 per cent.

HM, Jr: Well, it's none of my business.

Mr. Sullivan: Not a bit.

HM, Jr: But you didn't know it?

Mr. Sullivan: No, sir. They tell me definitely they would not do it.

HM, Jr: Just wanted to see. They are waiting to hear from Canada?

- 3 -

Mr. Young: That's in the covering letter.

HM, Jr: (Quoting) "The statement of the exact information desired by the British Supply Board in Canada has not yet been received, but will be sent out immediately it reaches us." But rather than calling up Purvis I wish you would call up Ballantyne and say I am very glad to have this information, but there is nothing in here --- you can read it -- for me to prepare myself for tomorrow. You read the thing, and say I questioned whether he wants to come down. I will be delighted to see him tomorrow, but there is nothing for me to do there.

Mr. Young: I am going to have Ballantyne come over this morning.

HM, Jr: Well, you read it. I read it very carefully last night, but I went to bed -- before I went to bed, and after you get through -- read it. I haven't the faintest idea what he expects me to do. It is so typical.

Mr. Young: I have one question on the Munitions Control Board. Are there any minutes of those meetings or does anybody go?

HM, Jr: What happens, Mr. Green calls up once a year, calls up Mrs. Klotz, and is very disagreeable and insists that I should sign in fifteen minutes.

Mr. Young: That's the annual report.

HM, Jr: But as to minutes, we raised that question once.

Mr. Young: Does anybody go to that meeting?

HM, Jr: I think Cairns goes. Ask Ed Foley.

Mr. Young: They have complete jurisdiction over strategic materials.

HM, Jr: That's right, because the question came up in helium gas on what was my authority. Mr. Oliphant went into it very thoroughly and he decided Congress vested authority where it should be run with the State Department and I was just thought of as ex officio member, but authority is with the State Department.

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AMERICAN RED CROSS
NATIONAL HEADQUARTERS

SI-44

171

To: Staff Members

Date: April 23, 1940

From: The Chairman

Subject: American Red Cross
Foreign War Relief

GENERAL STATEMENT

The great disaster of war has now involved a large part of the world's population in a wave of constantly increasing hardship, in the disruption and exhaustion of the facilities for normal life, and in a mounting burden of distress.

Noncombatants have suffered the indiscriminate destruction of invading military forces. Thousands of civilians, including old men and women, and children, have been killed and injured, hundreds of thousands are refugees dependent upon relief, and millions have been required to leave their homes to seek aid and shelter wherever sanctuary could be found. In such circumstances, men, women and children are suffering not only great hardship but a mental anguish which intensifies distress. Hostilities have been increased and the care of the sick and wounded of military forces presents a growing need.

Recent developments have not only increased the area of active warfare and destruction, but have more clearly indicated the trend of events. The volume of distress reliably reported is constantly increasing and will assume much greater proportions as the essential resources of normal life are exhausted or destroyed. In the presence of such distress and need the Red Cross has a traditional obligation to assist wherever possible and to serve as the medium through which the generosity of the American people may be expressed.

Since the beginning of hostilities, the American Red Cross has undertaken to provide supplemental emergency assistance wherever help could be extended, utilizing for the purpose funds appropriated by the National Organization, voluntary contributions from the general public and special groups, and supplies produced by chapter volunteers. It is apparent that these activities should not only be continued but expanded to permit the continuation and expansion of present relief measures to meet the ever increasing need. A statement of the program and policies which have governed and will govern the activities of the American Red Cross in foreign war relief is, therefore, appropriate at this time.

PROGRAM

The American Red Cross will participate in international Red Cross effort to maintain the traditional and distinctive Red Cross functions in time of war, including:

1. The provision of emergency assistance in cooperation with governmental agencies for the repatriation of American citizens in danger or distress in Europe because of war.

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3. The maintenance of organization for the handling of inquiries submitted by Americans concerning the welfare of friends and relatives in belligerent or occupied countries which cannot be transmitted or answered through normal means of communication.
4. The maintenance of organization through which communications and relief may be transmitted by Americans to prisoners of war.
5. The provision of assistance, to the extent of resources available, to the Red Cross societies of belligerent or neutral nations in their efforts to render Red Cross services to the sick and wounded of military forces or civilians in distress resulting from war. Such assistance will be in the form of:
- (a) Medical and hospital supplies, including clothing, equipment, and special foods for the care of the sick and wounded of military forces or civilian populations.
 - (b) Sanitary supplies and equipment for the prevention of disease and epidemics threatened by the destruction of normal resources and facilities, or the concentration of refugees and evacuees.
 - (c) Clothing and food for emergency distribution to civilian populations in great distress because of the need of these essentials of life. The American Red Cross does not contemplate the assumption, through its own funds or voluntary private contributions, of responsibility for a long time and comprehensive housing, feeding, or clothing program for large populations whose normal means of sustenance have been disrupted or destroyed by war. Such extensive operations and expenditures in connection with the mass relief of refugees, particularly where there is a movement of large populations involving political considerations, are beyond the scope of normal Red Cross responsibility and can be maintained only through governmental aid as distinguished from voluntary private efforts.
6. The personal services of doctors, nurses, and other technicians and trained workers to supplement the resources of national Red Cross societies and existing governmental or private resources for the relief of suffering and the preservation of the public health.

POLICIES

The conduct of these services for war relief in Europe will be governed by certain basic Red Cross policies and will be:

1. Consistent with the Treaty of Geneva, subsequent International Conventions, and the Congressional Charter of the American Red Cross.

2. Extended impartially to all countries as far as practicable, and without discrimination as to nationality, race, or creed.
3. Extended through the International Red Cross Committee, the League of Red Cross Societies, and the national Red Cross societies of the nations concerned insofar as practicable.
4. Based upon need with due regard for the responsibilities which should be assumed by governments or existing private agencies in nations where need exists.
5. Designed to encourage cooperative and coordinated activity on the part of other interested agencies.
6. Within the ability of the American Red Cross to finance either from resources that are available or that may be provided in response to war relief appeals.

ORGANIZATION

All large emergency operations require the coordination of all resources of the National Organization and its Chapters. This is especially true of Foreign War Relief which embraces activities and responsibilities within the fields of all three Vice Chairmen. Foreign War Relief will be planned to maintain such coordination and to assure the maximum use in its direction of experienced members of the regular National staff.

Under the general direction of the Chairman, the three Vice Chairmen will be responsible for activities pertaining to Foreign War Relief within their respective fields, and shall also, acting as a committee under the leadership of the Chairman, effect the necessary coordination within the operation as a whole.

The American Red Cross does not contemplate the creation of an extensive organization of American personnel for the direction of relief abroad. Insofar as possible, the resources of existing international Red Cross organizations, the national Red Cross societies, and other agencies will be utilized in the distribution of relief made available through the American Red Cross. It has been necessary, however, to maintain a limited American delegation in Europe to provide the necessary liaison with Red Cross societies and other agencies abroad, to survey and confirm needs reported, and to maintain a general supervision of the distribution of American Red Cross funds and supplies.

Norman H. Davis
Chairman

TELEGRAM SENT

174

JT

GRAY

April 23, 1940

5 p.m.

AMERICAN EMBASSY

ANKARA

25

Your 39, April 13, 4 p.m.

Treasury Department advises that in view of the circumstances a license will be issued to the Central Hanover Bank, New York, to pay the check upon its arrival in New York. It is presumed that upon receipt of this information it should be possible for the Danish Charge d'Affaires to cash the check in Ankara.

HULL
(ST)

EA:FL:EB

EU

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Shanghai

NO.: 347

DATE: April 23, 1940

One of the clerks in this office is the closest friend of the principal Chinese employee of the Italian Bank for China in Shanghai. On April 18 our clerk was informed by his friend that on April 17 orders from Rome had been received by the Bank to the effect that all outstanding forward contracts should be liquidated as quickly as possible and that no more forward contracts should be entered into. Upon making discreet inquiries, this office has been informed by American bankers that the Italian Bank liquidated a number of forward contracts during the latter part of last week and that on Saturday morning a call loan of 1,000,000 yuan dollars (which had been put out the first part of the week) was called, presumably to be transferred into American dollars; we were also informed that last week a large sterling account in a local American bank was opened by the Italian Bank. It has come to the attention of American bankers this morning that since last Wednesday there have been large withdrawals of Italian accounts from belligerent banks.

It

-2-

It is considered by American bankers that it is quite possible that non-political factors are responsible for the liquidation of forward contracts but they believe that such extensive withdrawals of Italian commercial and private accounts from belligerent banks must have been occasioned by some official instruction or warning. The American bankers are watching with interest to see if the boats of the Lloyd Triestino Line will make any sudden variation in their regular shipping schedules. Unless the above-mentioned actions are corroborated by similar occurrences in other centers of activity, the bankers say they are reluctant to attach important political significance to them since all important Italian enterprise here is subject to Government participation or control and since the Italian Bank for China has a capital of only \$1,000,000 (U.S. currency).

One of the members of my staff found yesterday afternoon that rumors which the British Embassy Commercial and Chinese Counselors had just heard through the British Consul General were obviously causing them some concern. The rumors were that during the past few days the Italian Consul General had warned Italian nationals that they should as quickly as possible liquidate their real estate and other holdings in Shanghai and that they should

-3-

should hold the proceeds of the liquidation in a form which would enable them to evacuate Shanghai in a hurry without incurring any loss in case that should be necessary. Today this office has been informed by the British Commercial Counselor and the British Consul General that British bankers do not admit that withdrawals of Italian accounts from British Banks are yet large enough to have any political significance and that British bankers have stated that they do not consider the recent activities on the part of the Italian Bank as having any political significance. However, they are noticeably noncommittal with reference to the approximate total of the withdrawals. Although the significance of the actions of the Italian Bank are minimized by British officials here in Shanghai, they say that they are keeping closely in touch with the Bank's current activities and have given instructions to their shipping agencies to watch the movements of Italian liners.

(END OF MESSAGE)

BUTRICK

EA:EB

CONFIDENTIAL

April 22, 1940

To: The Secretary ✓
Mr. Haas
Mr. White

From: Mr. Young

Attached herewith is a memorandum, received from Mr. C. T. Ballantyne, giving the number of Douglas and Lockheed planes contracted for by the Anglo-American Purchasing Board, as of April 22, 1940.

April 22, 1940.

Memorandum re Douglas Aircraft Co. and Lockheed
Aircraft Corporation

Number of Planes Contracted for:

1. a. 180 Douglas A-20
(in addition to 180 already
on order)
- b. 530 Douglas DB-7B
2. a. 800 Lockheed P-38
- b. 400 Lockheed 37

C.T.R.

Received 10:35 AM.

4-23-40

BJ

CONFIDENTIAL

ANGLO-FRENCH PURCHASING BOARD

180

NEW YORK:
15 BROAD STREET

WASHINGTON:
725 15th ST., N. W.

This letter from Washington, D.C.

April 22, 1940.

Philip Young, Esq.
Treasury Department
Washington, D.C.

Dear Mr. Young,

Mr. Purvis asked that the enclosed memorandum be forwarded to Mr. Morgenthau in advance of their Wednesday talk so that he may have prompt information on the question raised.

The statement of the exact information desired by the British Supply Board in Canada has not yet been received, but will be sent on immediately it reaches us.

Yours sincerely,

C. T. Ballantyne

Charles T. Ballantyne,
Secretary-General.

*received 4:10 P.M.
4/22/40
TR.*

CONFIDENTIAL

EXPLOSIVES

Trinitrotoluol and smokeless powder orders totalling 19,000 tons have already been placed in the United States by the Allied Governments (acting jointly) in accordance with the attached sheet.

Additional orders have been placed in Canada for the erection of plants having an annual capacity of:

12,000 tons per annum of Trinitrotoluol

15,000 " " " " Cordite (the British propellant powder corresponding to the "smokeless" powder used in the United States).

The balance of the Anglo-French programme requires North American plants with a capacity of:

12,000 tons per annum of Trinitrotoluol

32,400 " " " " Smokeless Cannon Powder

The latter figure is understood to be a minimum: the capacity required may be as high as 48,000 tons per annum.

Negotiations have been proceeding during the last three months to ascertain what is the cheapest (from a construction and operating viewpoint) and the most effective means (from a delivery viewpoint) of establishing new plants in Canada and/or the United States for these further quantities. No capacity at present exists in either country to take care of this demand.

The Anglo-French Purchasing Board is not yet able to make a final decision in regard to the 12,000 additional tons per annum of Trinitrotoluol: quotations have been received from United States producers (Atlas and DuPont) but we are still awaiting quotations from the British Supply Board, Ottawa, for Canadian production.

/Quotations...

Regraded Uclassified

Quotations have been received from United States producers for plants with a capacity of 30,000 tons per annum of Smokeless Cannon Powder. At the moment the most promising immediate offer would seem to be that made recently by DuPont to build a new Smokeless Powder plant, but an alternative has been considered whereby the Hercules Powder Company would erect two plants to manufacture the nitrocellulose (gun cotton), and DuPont would fabricate the same into Smokeless Cannon Powder. 181

An expenditure for plant construction of some \$20,000,000 would be required for either method of procedure.

It would be helpful to the Allies, however, if a portion (say at least 12,000 tons) of this Smokeless Powder could be made in Canada, since, amongst other reasons, it would tend to spread the risks. Before a Canadian contractor can quote, it is necessary, if deliveries are to be brought into the realm of practicality, for plant designs, which DuPont or Hercules could supply, to be made available for such a Canadian plant, and possibly technical assistance also. It is the application for this which last week got into the wrong channels. The exact information desired is shown in the attached memorandum made up by the Ministry of Munitions in Canada and endorsed by the British Supply Board. (The British Supply Board at Ottawa, working through the Canadian Ministry of Munitions, do the buying for the British in Canada, and also act as buying agents for the French Purchasing Commission in that country).

It should....

-3-

It should be noted that at this juncture it is only contemplated that about one half of our present requirements of Sackless Cannon Powder would be met from the proposed Canadian factory. The balance would be made in the United States and the DuPont proposal at the moment appears to be the most favourable.

Any assistance which can be given in securing promptly the required design and technical information for Canada will be greatly appreciated.

asb.

A.B.P.

Washington

April 19, 1940

EXPLOSIVES ORDERS PLACED IN THE UNITED STATES.

<u>Product</u>	<u>Date</u>	<u>Contractor</u>	<u>Quantity</u>	<u>Approximate Value</u>	<u>Deliveries</u>	<u>Capital Assistance</u>	<u>Remarks</u>
TNT	Jan. 12, 1940	Atlas Powder Co.	1,000 tons	\$ 400,000	March 1940 to January 1941	\$11	Deliveries from an existing plant at Atlas, Mo. with a capacity of 4500 tons per annum.
TNT	Jan. 12, 1940	Atlas Powder Co.	1,000 tons	\$ 320,000	Starting on completion of previous order	\$11	Allied option in connection with the January 12, 1940 contract.
TNT	Feb. 1, 1940	Atlas Powder Co.	6,250 tons	\$2,000,000	August 1, 1940 to January 31, 1942	\$ 667,000	New unit with a capacity of 4500 tons per annum at Atlas, Mo.
TNT	Feb. 23, 1940	Atlas Powder Co.	6,250 tons	\$2,000,000	October 20, 1940 to April 20, 1942	\$ 760,000	New unit with a capacity of 4500 tons per annum at Atlas, Missouri.
Smokeless Cannon Powder	Mar. 26, 1940	Hercules Powder Co.	600 tons	\$ 612,000	May to August, 1940	\$11	U.S. Army release of part of output of Kenvil, N.J. plant with a capacity of 2700 tons per annum.
Smokeless Cannon Powder	Apr. 8, 1940	E.I. du Pont de Nemour & Co.	300 tons	\$ 288,000	Before September 30, 1940	\$11	U.S. Navy release of part of output of Carney's Point, N.J. plant with a capacity of 4200 tons per annum.
Smokeless Rifle Powder	Apr. 3, 1940	Hercules Powder Co.	3,600 tons	\$5,780,000	300 tons monthly November 1940 to November 1941	\$2,175,800	Enlargement of Kenvil, N.J. plant. (Capital assistance item includes some \$435,000 for U.S. income tax thereon, due to refusal of supplier to accept U.S. loan procedure.)
			<u>19,000 tons</u>				

April 19, 1940

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4-23-40

FROM: MR. GASTON'S OFFICE

TO: The Secretary

1. Attached is a late report on the Lockheed 18.
2. The cutter Campbell (Commander Greenspun) is fueled, provisioned and awaiting orders at Staten Island pier.

A handwritten signature, possibly "Wet", is enclosed within a hand-drawn oval.



THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

23 April 1940.

MEMORANDUM FOR - Assistant Secretary Gaston

Subject: New Lockheed plane for the Coast Guard.

1. The latest word received from the Inspector of Naval Aircraft at the plant of the Lockheed Aircraft Corporation, regarding the Lockheed plane being built for the Coast Guard, is that this plane will be ready for factory delivery on 10 May. Mr. Herber, Donald Lockheed representative, confirms this estimated date.

2. Upon delivery of this plane at the factory, it will be flown by factory representatives to the Naval Air Station, Anacostia, D.C. and, after satisfactorily completing all acceptance tests, etc., will be delivered to the Coast Guard. The ferrying of the plane East, and time for tests, etc., will require about ten days - depending on weather.

R. E. WAESCHE
Rear Admiral, U.S. Coast Guard,
Commandant.

Copy to:
Operations
Materiel

GROUP MEETING

April 23, 1940
9:30 a.m.

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

H.M.Jr: Dan, I saw a note about the Danish and Norwegian default on bonding issues.

Bell: We passed money to special accounts to pay the coupons.

H.M.Jr: Well, I just gave it to you for what it is worth. Under this system of buying which we started yesterday, about what the English and French are spending their money for, I have two clippings here. "Allies Buy Most of Their Ships in the United States" and "Eighteen U. S. Yachts Sold to Canada."

Basil, would you take it on yourself to find out what the English - any shipping that we sell, could you go back to the first of July or first of September? Which would be a good date?

Harris: For what purpose?

H.M.Jr: I want to know what countries we have sold ships for and how much money.

Harris: Yes. I have an idea that is in the morning Journal of Commerce.

H.M.Jr: Could we go back, say, to July first?

Harris: Yes.

H.M.Jr: Bring me up to date on a monthly basis.

- 2 -

Harris: All right.

H.M.Jr: And then from now on, once a month.

Harris: Who you sold them to and what we got.

H.M.Jr: Any ships that we sold, who sold them - I mean, if you could bring it up to date to say the first of April and then from now on on a monthly basis and what they paid for it.

Harris: I can get that very quickly.

H.M.Jr: Say from July first to April first, how many ships we have sold to what countries and how many dollars we got for them.

Harris: Yes.

H.M.Jr: And on a monthly basis.

Harris: Of course, that won't show change of flags. We are only talking of sales.

H.M.Jr: I am only interested in dollar transactions. I am trying to get a picture of dollars, see.

Harris: Yes.

H.M.Jr: I mean, none of these funny things like transfers to Belgium or anything like that with no money passing.

Harris: I see.

H.M.Jr: Who was it the other day - oh yes, Count van der Straten-Ponthoz said, "We have got eight Belgian ships and up to noon we haven't lost one." And they have made three trips. All right?

Harris: Yes.

Thompson: If I could have half a minute with you on these things.

H.M.Jr: Sure.

- 3 -

Dan? Have you paid the expenses of the Associated Press man in Denmark yet?

Bell: No, we haven't yet, why?

H.M.Jr: They asked me at the press conference. The AP said they had gotten some money out of it.

Dietrich: We passed an application day before yesterday for 2500 Danish kronins.

H.M.Jr: AP?

Dietrich: Yes. They came running downstairs in much haste and New York phoned the application down and we took care of it in our usual fast way in about half an hour.

H.M.Jr: What else?

Bell: I have nothing.

H.M.Jr: Harold? You have got an appointment for Thursday at 3:00 o'clock.

Graves: Yes.

H.M.Jr: Harry?

White: Something new has developed in the Trade Agreements Committee that I think may interest you, because it may presage the beginning of a new type of trade agreement which they are trying to consummate. They want to examine the possibilities of special limited wartime trade agreements, first with Belgium and if they can work something of that nature out, they want to try it with the other countries. So far it is merely in the experimental stage. There is that Chinese matter that we ought to have a few minutes on today, the Chinese stabilization loan.

H.M.Jr: Where is Foley? When do I go on the Hill?

Foley: 11:00 o'clock. Is that all right?

H.M.Jr: Yes. Well, put Harry down for 3:00 this afternoon. Harry, when you come in tell me what

- 4 -

you have been doing with my friend Slobolowsky. Tell the Stenotypist how to spell it.

White: It doesn't ring the bell with me.

H.M.Jr: The State Department, White Russia.

White: Oh, Paswolsky.

H.M.Jr: 3:00 o'clock.

White: I have got so many "sky" friends I didn't know which one you meant.

H.M.Jr: Basil?

Harris: I have nothing.

H.M.Jr: George? You are going bullish in a big way, I see.

Haas: After a fashion, yes. (Handing report to Secretary).

H.M.Jr: Yes, but you haven't given me the whole business. Oh, I see what this is.

Schwartz: I will bring up again this request for you to meet with the Cooperative Committee.

H.M.Jr: All right, do it again next week.

Schwartz: And here is the transcript of the talk yesterday.

H.M.Jr: Let Harry read this thing first and then he can give it to me. This is Coughlin's talk on gold.

White: I read the newspaper account.

H.M.Jr: But this is the actual talk. Bring it in at 3:00, will you?

White: Chick called it to my attention.

H.M.Jr: Now, will you get the talk I am going to give Thursday night over to Ned Bruce, please, this morning?

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Schwarz: What we sent last night, was that approved?

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

Schwarz: That is all right. I have a copy of that which I will send to Bruce right away.

H.M.Jr: Right. What else?

Schwarz: That is all.

H.M.Jr: Arthur Krock skips us today.

Schwarz: He talks about journalism.

H.M.Jr: I mean the fact that we gave this to Krock and the Associated Press, et cetera, kind of leaves us out of the picture.

Schwarz: It saved us.

H.M.Jr: Joe?

I will see Thompson and then I want to see you (Young) afterwards.

Dietrich: You may be interested in the number of applications we have received downstairs. In New York they have received; up until last night, 2,409. We have received down here 1,571 and we have passed 1,511, disapproved three and are holding downstairs, pending, 57.

H.M.Jr: New York is behind.

Dietrich: Well, they pass on the - about 1,460 and 2,409 - out of 2,409 is what New York has passed on themselves, under the authority they have from us.

Ball: A thousand dollars and under and in cases where we give them license to go ahead or authority to go ahead and pass them without sending them down here.

H.M.Jr: Then they are current.

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Dietrich: Yes, sir.

H.M.Jr: Now, I know the two you didn't pass on were fellows that wanted so much money twice a month. Was the third one like that?

Dietrich: I think that was the same sort, Mr. Secretary, because they want them over too long a period and we asked them to apply each time they want the money.

H.M.Jr: Anything else?

Frank, this cable that comes in from Milan, who gets that?

Dietrich: That comes inside.

H.M.Jr: When does it come in?

Dietrich: Probably in the afternoon.

H.M.Jr: Who does this job for me on the European stock market?

White: Chevrax. We give him --

H.M.Jr: It is a daily now.

White: Chevrax does it and I guess he gets some of the data from George's office.

Haas: Chevrax keeps them up and gets some of the data from us and some from Harry.

H.M.Jr: Who is he?

White: He is in George's section.

H.M.Jr: Then as soon as that Milan thing comes in, get it down immediately to George. It ought to come in in the morning. And then George, at night, send me up to the house, until further notice, a daily sheet on the Milan stock market, will you?

Haas: Yes.

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H.M.Jr: I ought to get it each night as of the previous day.

Haas: Before, we only had a weekly figure.

H.M.Jr: But it is coming daily.

Haas: Yes.

Dietrich: Yes, sir. Yesterday's cable came in at 3:58.

H.M.Jr: That gives George time to get it. You might call up Peis' office and tell him that we are particularly anxious to get that each day. Most likely it hangs around over there half a day.

Dietrich: All right, sir.

H.M.Jr: Who is going up with us on the Hill, you and Dan?

Foley: You said Dan and I the other day.

H.M.Jr: Who is going to be at the meeting?

Foley: If it is agreeable to Sam Rayburn, it will be in Colonel Halsey's office at 11:00 o'clock. I suggested that we have Steagall and Wagner and Rayburn himself. He said he couldn't get Wagner until today, because Wagner didn't come down yesterday.

H.M.Jr: 11:00 o'clock?

Foley: 11:00 o'clock in Colonel Halsey's office.

H.M.Jr: Are you fellows all ready?

Foley: Yes.

You asked for a memorandum on the Walter-Logan bill.

H.M.Jr: Not now. Take it with you and then maybe we can talk on the way up.

- 8 -

- Foley: All right. I think we can get an exception, a general exception for the Treasury if we ask for it. We reported adversely on the bill to both committees. The Senate committee never held any hearings.
- H.M.Jr: If they give us time, why don't you go to the mat on this thing this morning? Is that agreeable to you, Dan?
- Bell: Yes.
- H.M.Jr: I will just go along with you fellows and look intelligent.
- Bell: I think we might write a letter to the Senate committee and ask for exception.
- Foley: Well, we wrote a 20-page letter to both Committees, Dan, in which we condemned the bill and that was used by Brookings in their report condemning the bill. They made reference to our reports to the two committees. I have gone along on the theory that the bill was so bad for the entire Government that we ought not to be just looking out for ourselves, but --
- Bell: Well, us first.
- H.M.Jr: Listen, would you and Dan get together? Whatever you two guys agree on, I think would be a good chance. They might be very glad to have the Treasury --
- Foley: There is no doubt about the way Barkley feels. He made the statement yesterday that if he had any influence whatever with the President when this bill finally passed, he was going to ask the President to veto it.
- H.M.Jr: Talking just about the Treasury and nobody else, we might give him some ammunition. My hunch is to confine it to the Treasury, our objections.
- Bell: I agree at this stage, because we have reported on the bill adversely. Now, at this point we are interested in Treasury.

- 9 -

H.M.Jr: O. K.

What else, Ed?

Foley: Nothing.

Gaston: I have nothing.

H.M.Jr: John, if you will stay with Phil, I want to show you what I have got on powder. There is stuff that has happened that I didn't know about and I don't think you did. They have made some deals. I will show them to you.

CONFIDENTIAL

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 23, 1940.

TO Secretary Morgenthau

FROM Mr. Dietrich

Sterling had a weak tone today. After opening at 3.53-1/8, the rate moved off to a low of 3.51-7/8 in the mid-afternoon. The final quotation was 3.52-1/4.

The reported turnover figures below indicate that the volume of trading was not large. It was reported that some selling of sterling by the New York agencies of Japanese banks took place, and this contributed toward the decline in the rate.

Sales of spot sterling by the six reporting banks totaled \$91,000, from the following sources:

By commercial concerns.....	\$ 135,000
By foreign banks (Europe, Far East and South America) ..	\$ 256,000
Total.....	\$ 391,000

Purchases of spot sterling amount to \$42,000, as indicated below:

By commercial concerns.....	\$ 150,000
By foreign banks (Europe and Far East).....	\$ 342,000
Total.....	\$ 492,000

The following reporting banks sold cotton bills totaling \$ 36,000 to the British Control on the basis of the official rate of 4.02-1/2:

\$ 30,000 by the Bank of Manhattan
4,000 by the Guaranty Trust Company
4,000 by the National City Bank
<u>\$ 38,000 Total</u>

The other important currencies closed as follows:

French francs	.0199-3/4
Guilders	.5309
Swiss francs	.22 1/2-1/2
Belgians	.1682
Canadian dollars	15-3/4% discount

- 2 -

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

\$ 10,000,000 from the Bank of France
 2,500,000 from the Netherlands Bank
\$ 12,500,000 Total

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

\$ 9,117,000 from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank, for sale to the U. S. Assay Office.
 5,327,000 from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank, to be earmarked for account of the Netherlands Bank.
 4,795,000 from Japan, shipped by the Yokohama Specie Bank, Osaka, to the Yokohama Specie Bank, San Francisco, for sale to the U. S. Mint.
\$ 19,239,000 Total

On the report of April 17 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 \$18,475,000, an increase of \$1,262,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION APRIL 10	SHORT POSITION APRIL 17	INCREASE IN SHORT POSITION
England	\$ 4,883,000	\$ 5,723,000	\$ 840,000
Europe	8,543,000	8,691,000	148,000
Canada	580,000 (Long)	337,000 (Long)	243,000 (Decrease in Long Position)
Latin America	495,000	551,000	56,000
Japan	3,070,000	3,350,000	280,000
Other Asia	755,000	505,000	250,000 (Decrease)
All Others	47,000	8,000 (Long)	55,000 (Increase in Long Position)
Total	\$17,213,000	\$18,475,000	\$1,262,000

The Bombay spot silver equivalent was unchanged at 40.96¢.

A decline in the London silver prices today almost completely cancelled yesterday's improvement. Spot silver was fixed at 20-15/16d, off 5/16d, and the forward price was 20-7/8d, off 1/4d. The U. S. equivalents were 33.39¢ and 33.05¢ respectively. The reaction in the prices was attributed to reselling by Indian and local speculative interests.

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

CONFIDENTIAL

- 3 -

We made two purchases of silver totaling 100,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.

We also purchased 34,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

**CONFIDENTIAL**

Prepared by: Mr. Murphy
Mr. Tickton
Mr. Turner
Mr. Haas

URY DEPARTMENT
OFFICE COMMUNICATION

CONFIDENTIAL

DATE April 23, 1940

TO Secretary Morgenthau
FROM Mr. Haas

Subject: Current Developments in the High-grade Securities Markets

SUMMARY

- (1) Prices of United States Government securities moved downward last week, reaching new lows for the decline which commenced with the break of April 9 (Chart I). There were slight increases yesterday in the prices of bonds and longer notes.
- (2) High-grade corporate securities recovered a little after a sharp break last Tuesday (Chart II). Municipal securities declined in price last week.
- (3) An important consideration at the next Treasury financing will be the fact that the cash balances of the large life insurance companies are at an all-time peak. An analysis of the companies' investment operations during the past three years would seem to indicate that their swollen cash position can be traced to the decline in their net acquisitions of United States securities (Chart III). This decline has been due to technical factors rather than to a reduction in the desire for such issues.

In recent years insurance companies have been depending upon three types of investment opportunities -- Treasury cash offerings, bank selling of Governments, and private placements of corporate securities -- for the bulk of their security purchases. The appearance of one of these types of investment opportunities has accounted for practically all of the important monthly declines in insurance company cash holdings (Chart IV).

Last year insurance companies bought long- and medium-term Government securities for their portfolios, but avoided short issues. Their acquisitions were principally in those maturity classes in which the Treasury placed new issues, because large-scale acquisitions could not be made in the other classes without the rapid bidding up of prices.

- (4) British 2-1/2 percent consols have recovered their losses of the past two weeks; but French 3 percent rentes have continued weak. The dollar securities of Scandinavian and neutral countries reached new lows for 1940 last week.

Secretary Morgenthau - 2

I. United States Government Securities

The week just ended has seen further declines in the prices of United States Government securities. Prices of all maturity classes reached new lows last week for the downward movement which began with the extension of war to Scandinavia on April 9 (Chart I). Bonds and the longer notes rose slightly yesterday.

Selling was in moderate amounts and came from scattered banks and other investors throughout the country. Buying by large institutions occurred when prices were declining, but there appeared to be no inclination to follow prices up when the market firmed. Weekly reporting member banks in New York City increased their holdings of Treasury bonds by \$36 millions, and their holdings of Treasury notes by \$19 millions, in the statement week ended April 17.

The average yield of long-term Treasury bonds was 2.29 percent at the close on Monday, April 22, as compared with 2.24 percent a week earlier (Chart II).

A bearish note was introduced into the market for long-term Governments last week by Colonel Leonard Ayres, of the Cleveland Trust Company. Speaking at the Ohio Bond Portfolio Conference, Colonel Ayres advised banks to dispose of their high-grade long-term bonds and to invest in Governments with not over twelve years to maturity. He explained that the likelihood of open warfare in Europe made it probable that there would be an increase in industrial activity in this country and an accompanying increase in commercial loans. Should this occur, bond prices would be unlikely to go higher or even to remain long at their present levels.

II. Other Domestic High-grade Securities

Corporate bonds declined sharply on Tuesday, April 16, but recovered part of their losses in the latter half of the week. Our average yield of high-grade corporate bonds was 2.77 percent yesterday as compared with 2.73 percent on April 15 (Chart II).

Municipal bonds last week continued the decline commenced the previous week. The Dow-Jones average yield of twenty 20-year bonds was 2.62 percent at the end of the week as compared with 2.58 percent the previous Saturday.

New bond offerings to the public last week in the New York market amounted to \$27 millions, about half the total of the preceding week. Of the sum of last week's offerings, \$23 millions were corporate offerings. All issues appear to have been well received.

The sum of \$4 millions of 4-1/4 percent, 30-year revenue bonds of the Niagara Falls Bridge Commission was sold privately on April 17, at 101. The issue is unusual in that, unlike other public revenue obligations, interest on the bonds is subject to the Federal income tax.

Discussion of the question of competitive bidding was an interesting feature of the annual meeting of the American Telephone and Telegraph Company, last Wednesday. Mr. W. S. Gifford, president of the company, pointed out that the company had done between \$400 millions and \$500 millions of financing in the last five years, on a non-competitive basis, and had received close to the highest prices possible. The average offering price of the securities in question was 101.56, the average price the following day was 102.21, and in the fourth week after issuance the average price was 102.18. Mr. Gifford furthermore maintained that potential savings on the underwriting spread would likewise be negligible.

III. Life Insurance Companies as a Factor in the Government Bond Market

Cash balances at all-time peak

An important consideration at the next Treasury financing will be the fact that the cash balances of the large life insurance companies* are at an all-time peak. At the end of February, these balances stood at \$921 millions, and at the present time -- after making allowance for transactions affecting insurance company cash which have taken place since February 29 -- they probably stand between this figure and a billion dollars. At this level, they are over \$200 millions above the lowest of the balances carried last year -- those held on June 30, 1939. Those balances, it might be noted, were roughly equivalent to the average of the balances maintained since the beginning of 1936.

An analysis of insurance company investment operations during the past three years would seem to indicate that the companies' swollen cash position can be traced to the decline in their acquisition (net) of United States securities. The companies appear to have been placing the customary proportion of their funds available for investment in corporate, municipal, and foreign securities (Chart III). Their investments in Governments, however, have been declining, and the funds that might otherwise have been used for such purchases were used to swell existing cash balances.

*Data referred to in this section are for 37 life insurance companies reporting monthly to the Association of Life Insurance Presidents. These companies hold about 75 percent of the Government securities owned by all the insurance companies -- life, fire and casualty -- operating in the United States.

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The decline in insurance company purchases of Government securities seems to have been due to technical factors rather than to a reduction in the insurance company desire for such issues. Insurance companies are able to purchase large quantities of Government securities without bidding prices up too rapidly, however, only (1) when the Treasury is making large cash offerings of long- or medium-term securities, or (2) when the banking system, the largest class of holder of Government securities, is liquidating them in quantity. Neither of these conditions was met, it will be recalled, in the year ended February 1940. With regard to the first, the privately held marketable supply of medium- and long-term United States securities (those not callable for five years or more) declined by about a billion dollars. With regard to the second, the banks took on, rather than disposed of, medium- and long-term securities.

As a result of these conditions in the market, insurance companies have found their operations in Government securities hampered somewhat. They have not been able to expand investments in other fields to compensate for the reduction in Government security acquisitions, moreover, and accordingly some of the funds that flow in regularly have had to be held uninvested.

Investment opportunities limited

The necessity of holding cash instead of United States securities must have been disappointing to insurance company investment managers. They have already been hard-put to earn a sufficient return on their new investments, for even on the longest-term, high-grade securities they cannot earn, on the average, the rate of 3 percent set in the computation of their policy reserves. They must continue their search for acceptable investments, however, for the monthly inflow of funds is large — amounting to nearly \$100 millions every month in the case of the 37 companies.

For the bulk of their security purchases, it is interesting to note, the insurance companies have been depending upon the appearance of three types of investment opportunities in recent years. Two of these — Treasury cash offerings and bank selling of Government securities — were cited above. The third — private placements of corporate securities — is becoming increasingly important as a source of insurance company investments. By this means, insurance companies are often able to acquire the full amount of a refunding issue for their own portfolios and in so doing, they freeze other investors out of the issue. In this way, and by large purchases of publicly offered refunding issues, insurance companies have been able to add substantially to their holdings of corporate securities during the past few years despite the fact that there has been no increase in the total supply of such securities.

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The appearance of one of these three types of investment opportunities has accounted for practically all of the important monthly declines in insurance company cash holdings in the past few years. This is brought out in Chart IV, which shows the movement of cash balances since October 1936. The opportunity most frequently availed of to reduce cash balances, it can be seen, has been a Treasury cash offering.

Favored long-term issues

The cash balance figures cited above establish the insurance companies as an important market, at the present time, for a new issue of Treasury securities. Data on the companies' recent trading operations become of interest, therefore, as an indication of the maturities which recently have been attractive to them. We have prepared such data -- for the calendar year 1939 -- from the figures in the annual condition reports of the large companies which are filed each year with the Superintendent of Insurance of the District of Columbia. These data show the net acquisition or net disposal of the individual issues of Government securities during the year and are summarized by maturity classes (taken to earliest call date) in the table below. They are compared in the table with changes in the outstanding privately held marketable supply of Government securities (both direct and guaranteed).

Maturity class	: Net acquisitions : : by 37 large life : : insurance : : companies :	: Net change in : privately held : marketable : supply
(Millions of dollars)		
Treasury bills	+ 62	+ 149
Bonds and notes callable:		
Before 1948	- 185	- 1,090
1948-51	+ 243	+ 1,549
1952-59	+ 89	- 74
1960	+ 186	+ 768

The insurance companies, it is apparent, bought long- and medium-term Governments for their portfolios during the year. Their acquisitions were confined principally to those maturity classes in which the Treasury placed new issues, however -- the second and fourth classes of bonds and notes shown above -- because large-scale acquisitions could not be made in the other classes without the rapid bidding up of prices.

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With respect to short issues, the companies appear to have avoided them. They disposed of some of the short issues held, and, on net balance, they acquired practically none of the Treasury notes offered in note-for-note exchanges or of the short-term guaranteed issues offered for cash during the year. They also made a particularly rapid liquidation of their position in the issue of HOLC bonds called last summer, presumptively because the new issue (1-1/2's of 1945-47) was too short for their requirements. At the beginning of 1939 the companies held \$109 millions of the old issue. By the end of the year, they held only \$39 millions of the issue offered in exchange.

IV. Foreign Government Securities

British Government securities rose steadily during the week just ended and are now back to about the levels which obtained prior to the break two weeks ago. Consols closed yesterday, April 22, at 72-5/8, equivalent to a yield of 3.46 percent, a rise of 3/4 of a point for the week. French 3 percent rentes, on the other hand, have fallen on balance since last Tuesday and closed yesterday at 74.05, to yield 4.07 percent, as compared with 74.45 last Monday.

Scandinavian and neutral dollar securities registered new lows during the past week, but all had recovered slightly by yesterday's close. The recent movements of these securities are indicated in the following table which shows their high and low prices for 1940, and their prices on April 15 and April 22.

	: 1940 : : High :	: 1940 : : Low :	: Monday : : April 15 :	: Monday : : April 22 :
Norway 4-1/4's of 1965	80-1/2	29-3/4	42	30-1/4
Denmark 4-1/2's of 1962	55-7/8	17-1/8	25	19-3/4
Belgium 6's of 1955	100-1/2	83	83	87-1/2
Italy 7's of 1951	72	48-1/8	54-1/4	53-3/4
Japan 5-1/2's of 1965	65-1/4	57	62	57-1/8

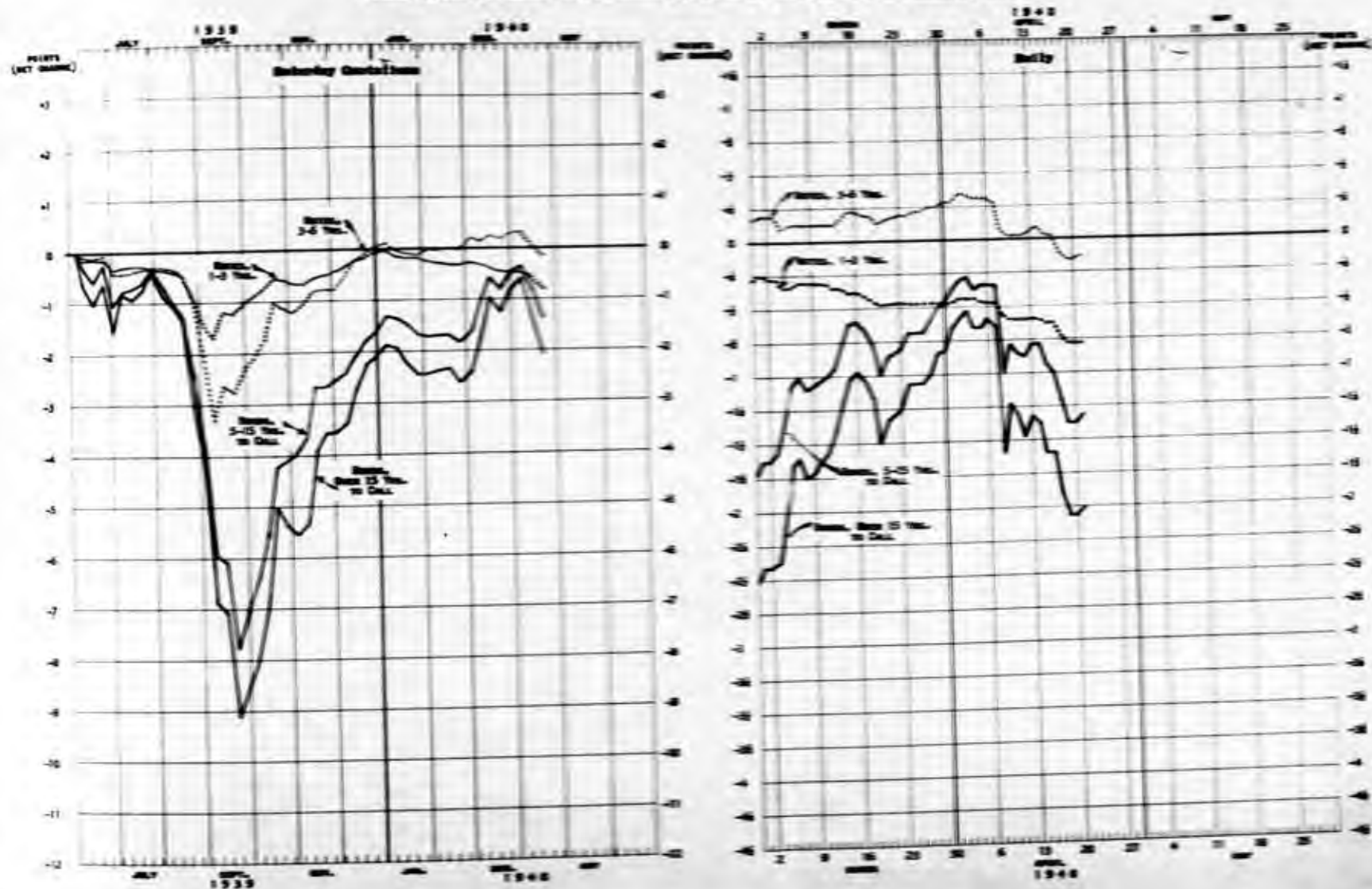
The strength in Belgian securities is attributed in press comment to sinking fund purchases, and to the small proportion of the original issues still outstanding.

Attachments

Chart 1

CHANGES IN THE PRICES OF U.S. SECURITIES

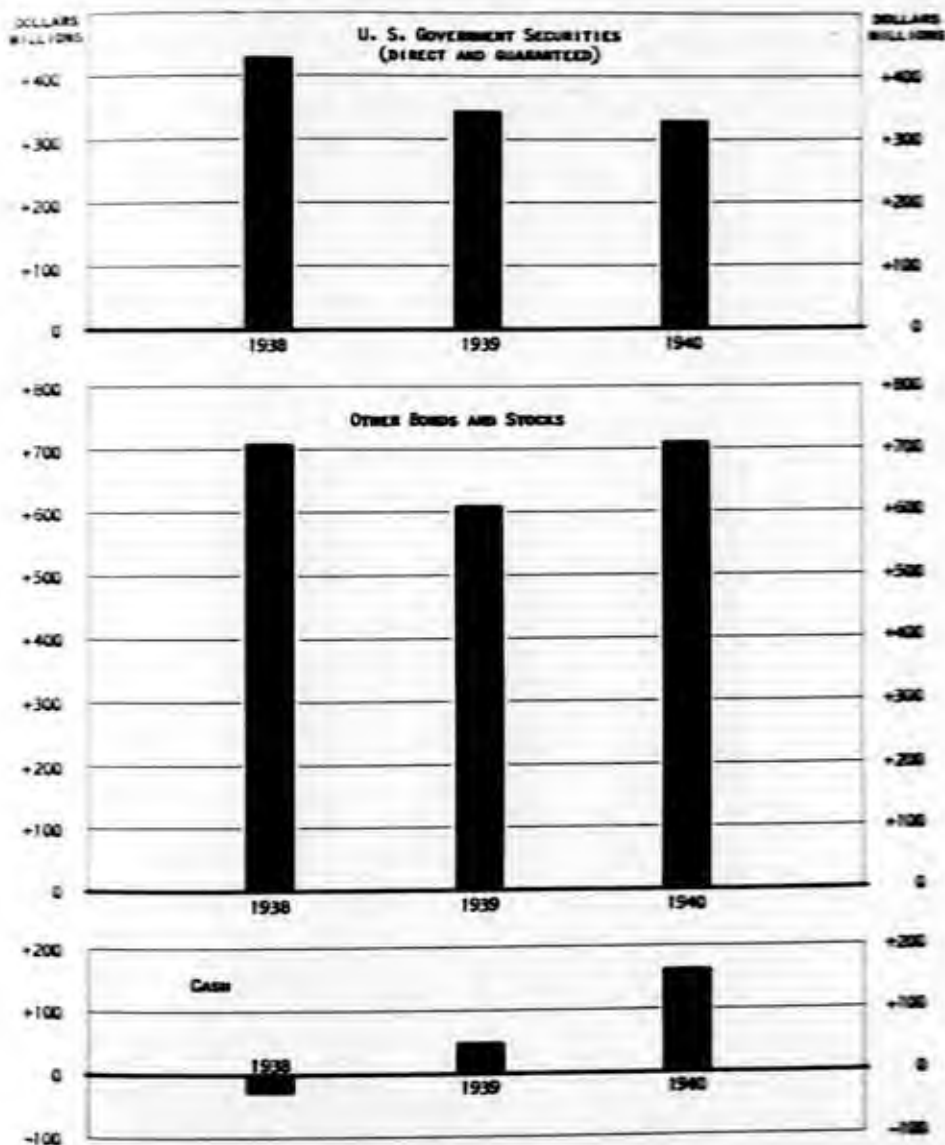
Points Plotted Represent the Difference from June 5, 1939 Price of Each Maturity Class



The figure consists of four line charts arranged in a 2x2 grid, all sharing a common x-axis representing time from January 1939 to May 1940.

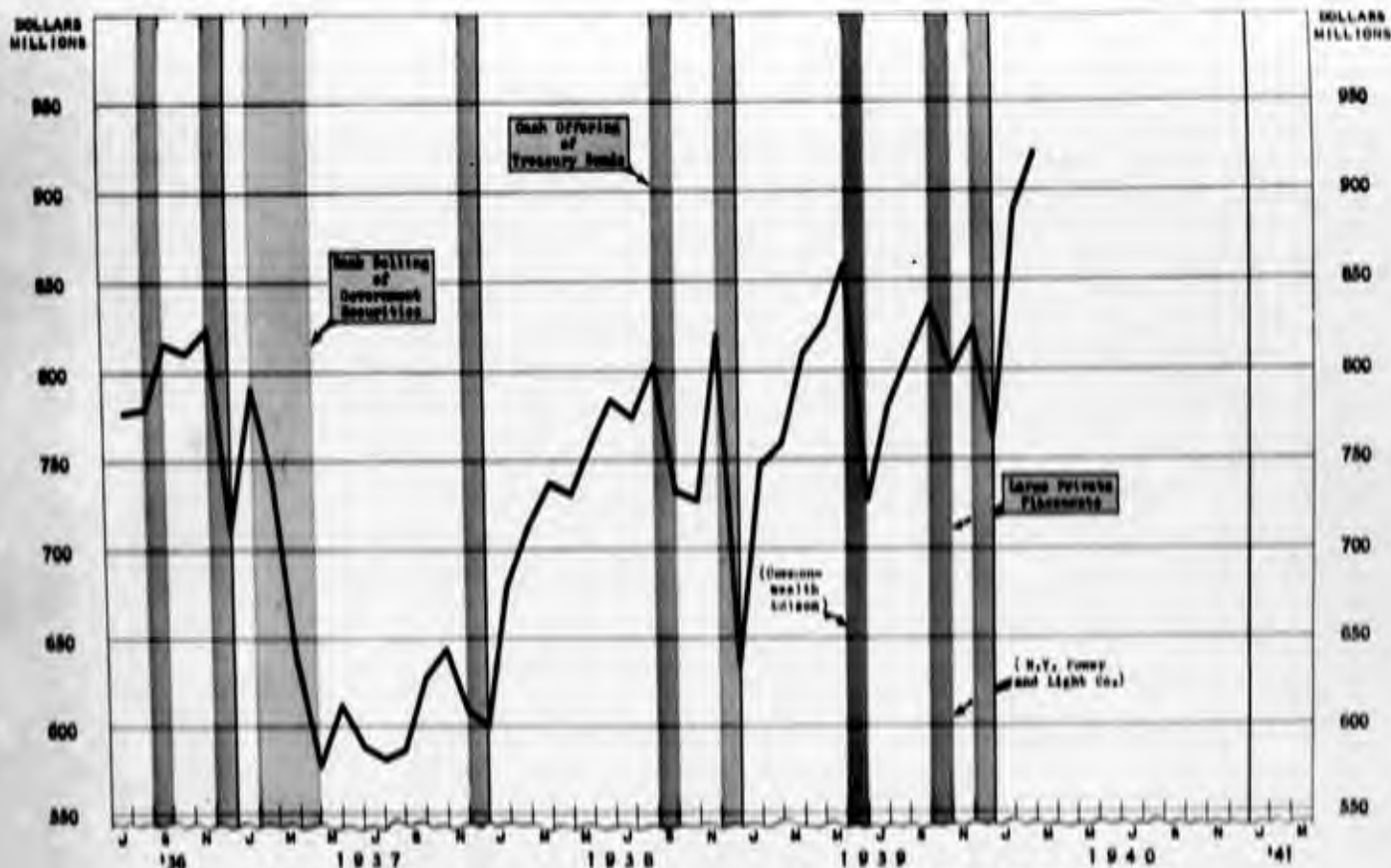
- Top-Left Chart: WEEKLY. Saturday Quotations**
 The y-axis is labeled "Inverted Scale PER CENT" and ranges from 1.0 at the top to 3.8 at the bottom in increments of 0.2. Two lines are plotted: "Long Term Treasury*" (with a note "(all years or more to nearest odd date)") and "Corporate". Both lines show a sharp decline from late 1939 to early 1940, followed by a recovery. The Treasury rate starts around 2.4% and ends near 2.1%, while the Corporate rate starts around 2.9% and ends near 2.7%.
- Top-Right Chart: DAILY**
 The y-axis is labeled "Inverted Scale PER CENT" and ranges from 2.0 at the top to 3.8 at the bottom in increments of 0.2. Two lines are plotted: "Long Term Treasury" and "Corporate". The Treasury rate starts around 2.3% and ends near 2.2%, while the Corporate rate starts around 2.8% and ends near 2.7%.
- Bottom-Left Chart**
 The y-axis is labeled "PER CENT" and ranges from 0 to 120 in increments of 20. A single line is plotted: "Spread Between Long Term Treasury and Corporate*". The spread starts around 50%, peaks near 70% in late 1939, and then fluctuates between 40% and 60% through early 1940.
- Bottom-Right Chart**
 The y-axis is labeled "PER CENT" and ranges from 0 to 100 in increments of 20. A single line is plotted: "Spread". The spread starts around 50%, peaks near 60% in late 1939, and then fluctuates between 40% and 60% through early 1940.

Chart III
**CHANGES IN INSURANCE COMPANY* HOLDINGS
 OF SELECTED CLASSES OF ASSETS**
 12 Months Ended February 28, 1938 to 1940



* DATA ARE FOR 37 LIFE INSURANCE COMPANIES WHICH HOLD APPROXIMATELY 75 PERCENT OF THE GOVERNMENT SECURITIES OWNED BY ALL INSURANCE COMPANIES OPERATING IN THE UNITED STATES.

**INSURANCE COMPANY* CASH BALANCE AND MAJOR FACTORS ACCOUNTING FOR
SHARP DECLINES IN THESE BALANCES, JULY 1936 TO DATE**



*DATA ARE FOR 37 LIFE INSURANCE COMPANIES WHICH HOLD APPROXIMATELY 75 PERCENT OF THE GOVERNMENT SECURITIES OWNED BY ALL INSURANCE COMPANIES OPERATING IN THE UNITED STATES.

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

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April 25, 1940
Pitt man.

Secretary: Go ahead.

E.V.J.: Hello.

John E. Townsend: Hello, Mr. Secretary?

E.V.J.: Talking. How are you?

T: Senator Townsend.

E.V.J.: How are you?

T: I've got a cold. How are you?

E.V.J.: Oh, I'm all right.

T: Why I was just leaving for Delaware for — to attend a convention tomorrow and I just noticed from Bob that you were coming up on an important matter.

E.V.J.: That's right.

T: And I always want to be present when you're there and I thought that you might indicate to me what it was so.....

E.V.J.: Surely.

T:if.....

E.V.J.: It has to do with the.....

T: Right

E.V.J.: It has to do with the executive order that the President got out on the foreign economies of Denmark and Norway.

T: Yes-uh.

E.V.J.: And we've gone along all right. Everybody in the country seems to approve of our freezing their money over here.

T: Yes-uh.

- 2 -

E.W.J.: But one of the New York lawyers advised the Guarantee Trust Company that they didn't think we had sufficient authority when it came to stocks and bonds. Therefore we want to put the thing up to the Committee. We think we have the authority.

T: And if you haven't you think that the Committee ought to give it to you.

E.W.J.: Well, after we've presented the case, yes.

T: Yeah, I agree with you.

E.W.J.: The press, Republican and Democratic, every editorial in the country have approved what we've done so far.

T: Yeah.

E.W.J.: There hasn't been any criticism. We're protecting first, our own interest, and second, making it difficult for anybody who isn't the rightful owner of this money to get it.

T: Yeah.

E.W.J.: And there have been no complaints. And the banks in New York would like to have it cleared up.

T: Yeah.

E.W.J.: Can you see any objection?

T: No, I can't see none.

E.W.J.: And.....

T: I'd like to be there too, Henry, tomorrow but I've promised to go over to this convention and rather felt I had to be there and think I -- I mean, I'll be back on Thursday and the boys can be assured of my cooperation.

E.W.J.: Well that will be fine. It's important that we have your cooperation. We'd like to do it.

T: Part is, I'd make a deal with you.

- 3 -

H.M.Jr: What's that?

T: If you'd be for my silver bill I'd be for this.

H.M.Jr: Oh, go to hell.

T: (Laughs) In fact, I don't think you're so much against it anyhow.

H.M.Jr: Well, I'm always on the merits.

T: (More laughter) All right. Well, I'll cooperate to go along with it, Henry.

H.M.Jr: That's fine. We thought we'd keep it -- we're not going to advertise it and just go up there quietly and if there was any real opposition why I'd rather not.....

T: Well, I think if you haven't got the authority and it's a thing that we ought to do, then you ought to have the authority. That's my opinion about it.

H.M.Jr: Well, as long as somebody has raised the question, we thought we'd go to the proper committees and explain it.

T: Yes.

H.M.Jr: And if they thought we were entitled to it, why we'd like to have it.

T: Yeah. All right. Well, I'm sorry I can't be there but anyhow I'll be back on Thursday.

H.M.Jr: Thank you.

T: Thank you.

H.M.Jr: Goodbye.

April 23, 1940
3:23 p.m.

H.M.Jr: Hello.

Operator: Mr. Berle.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Adolf
Berle: Oh, Henry.

H.M.Jr: Yes.

B: Are you going to be free during the afternoon and could I drop over and see you? The occasion of this is the fact that the Norwegian Minister now has a cabled power of attorney from his government to take over Norwegian funds and I wanted to discuss that situation a little with you if I might.

H.M.Jr: Well, do you mind doing it will Bell who has all of this?

B: I'll do that with pleasure. I think there's one question that will be presented, however, for your determination, and I'll talk to him first. If we could get at you for a couple of minutes I think probably the question could settle itself in about one minute flat.

H.M.Jr: Well -- but anyway as long as he has this all at his fingertips.....

B: Right.

H.M.Jr:supposing you talk to him first, will you?

B: I'll do that with pleasure.

H.M.Jr: Thank you so much.

B: All right. Thank you. Goodbye.

April 23, 1940
3:27 p.m.

H.M.Jr: Hello.

Operator: Senator Wagner's secretary is on the line.

H.M.Jr: Right. Hello.

O: There you are.

H.M.Jr: Hello.

Wagner's
Secretary: Hello.

H.M.Jr: Henry Morgenthau, Jr.

S: Yes, Mr. Secretary.

H.M.Jr: Who is this please?

S: Miss Ruppert.

H.M.Jr: Miss Ruppert, is the Senator in Washington?

R: Yes, he's in Washington but he's not here this afternoon.

H.M.Jr: Ball game or golf?

R: Well now, I don't know which. Is there a ball game this afternoon?

H.M.Jr: (Laughs) I don't know.

R: I don't know whether -- just what he's doing. I think what I should say is that he's down at your office seeing you perhaps.

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

R: Now, Mr. Levy -- if it's something to do with some of the legislation that he's working on maybe Mr. Levy might -- or the meeting tomorrow -- maybe Mr. Levy might.....

H.M.Jr: Well, let me tell you my story and then you give me a decision.

R: All right.

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H.W.Jr: Senator -- Congressman Steagall, you know, we told Mr.....

R: Yes.

H.W.Jr: You know about this meeting tomorrow.

R: Yes.

H.W.Jr: Well, we're to have -- meet with him at ten.

R: Yes.

H.W.Jr: He just called up Ed Foley and said that he didn't have to consult any Republicans . If he made up his mind we should have this he's going to take the bull by the horns and have a print made this afternoon and pass it tomorrow.

R: Well now, I think you'd better talk to Mr. Levy on that because he's been talking to Steagall.....

H.W.Jr: All right.

R:in the Senator's absence and I think maybe he'd be the person you should talk to, Mr. Secretary.

H.W.Jr: Suits me.

R: Hold the phone just a minute.

Operator: Hello.

R: Tell Mr. Levy Secretary Morgenthau is on there and I think he should talk to him about tomorrow's meeting.

G: All right, just a moment.

Levy: Hello.

H.W.Jr: Mr. Levy.

L: Yes, sir.

H.W.Jr: Henry Morgenthau, Jr.

L: Yes, sir.

- 3 -

- H.W.Jr: Steagall has called us up and has been trying to get Senator Wagner about this little change we want in this exchange control.
- L: Yes.
- H.W.Jr: Here's the point, you see Steagall was anxious to get out of town. He's — the best down in Alabama to work for himself.
- L: Yes.
- H.W.Jr: And he has informed us he's going to have a print made of this thing and pass it tomorrow, and I just don't know how Senator Wagner would feel about it. And Steagall wants to sort of get a clearance from Senator Wagner on it.
- L: I see. Well, Mr. Secretary, the Senator — the truth of it is he's gone out driving. He just felt he wanted to get out of the office for the afternoon.
- H.W.Jr: Well he's a sensible man.
- L: And I just don't know where to reach him.
- H.W.Jr: Well, do you want.....
- L: I don't think I could until close to six o'clock. But that might be time enough.
- H.W.Jr: Well let me ask Mr. Foley. He's sitting here. Will you hold on?
- L: Yes, sir.
- (Pause)
- H.W.Jr: How do you think the Senator would feel if Steagall went ahead with this?
- L: I don't know. I don't know enough about the circumstances. Was it expected that the Senate would act first?
- H.W.Jr: No. No, there's no understanding, no agreement.

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- Q: Well, did the Senator contemplate introducing the bill himself tomorrow?
- A: I don't know that.
- Q: Well, he might -- he might have contemplated that as the normal course.
- A: Well I tell you what I think I'll do. The diplomatic language I'll tell Steagall to keep his shirt on until, say seven o'clock tonight.
- Q: All right.
- A: How's that?
- Q: All right.
- A: Now wait a minute -- wait a minute, Foley he shaking his head. (Pause) Could he -- I'll let him talk to you himself. He's bringing up a lot of legal -- something legal. Let him talk to you. Just a minute.
- Q: All right.
- Foley: Well.....
- Q: Yes, sir.
- Q: Could Steagall introduce the bill at six o'clock if the House had adjourned. You see what he wants to do is introduce it and get it printed, so he can have it on the desks of each one of these committee members tomorrow when we go down there, instead of having a conference as to whether or not the Republican members of the committee will go along with our request. He says he's made up his mind and it's -- he wants to do it anyway and he'd like to have an executive session on the legislation tomorrow morning.
- Q: Yeah.
- Q: And when if he's got agreement in his committee he'll ask for a vote and pass it out.

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1: Yeah.

2: And then bring it up on the floor in the afternoon. And he thinks he can pass it perhaps tomorrow afternoon and then he could get away. I'm afraid unless we do it tomorrow he may get out of town on us and then we'll be held up.

1: I see.

2: And the situation abroad is such that it's changing all the time and if the Germans go into Sweden we'll have to act and we need this authority.

1: Yeah. Well, I think he can probably -- he can probably drop a blank in the budget and supply the bill -- I think a committee chairman out to that.

2: Yeah. Now you see, there wasn't any agreement at all that one House would wait on the other or there'd be action -- joint action, after the two banking committees met tomorrow, and this suggestion of taking the matter up first with the Republicans in executive session so that they would be in agreement and there wouldn't be a fight on this, was Rayburn and Starnes' idea. And Senator Warner wasn't there at that time, and the Secretary and Mr. -- Senator Barkley and I walked over to your committee room where the Senator was holding a hearing and talked with him after this arrangement this morning.

1: Well, was the arrangement that they would take it up with the committee to start of -- to smooth the way or.....

2: Yeah, smooth -- to see whether or not -- just a feeler to see whether or not there would be any opposition. If there was going to be opposition he wasn't going to go -- he thought he might not go ahead.

1: Oh, I see.

2: You see? But if there was no opposition, why then they'd move. Now, Senator Townsend called Secretary Morgenthau a little while ago and he said, "What's

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this meeting about tomorrow?" And the Secretary pulled him and he said, "Well, I'm not going to be able to be there but you've got my O.K. I think this is all right."

L: Oh.

F: And I think is one of those things, Phil, that transcends politics, and it's one of those things that absolutely has got to be done. Either we're going to control this property or we're not.

L: I mean, anybody who would be against this would be an accomplice in a robbery.

F: Well, more or less. We even got a favorable editorial from the New York Herald Tribune, you know, and every editorial comment around the country is O. K..

L: Well, I -- I didn't realize that was the arrangement. I should have thought, off-hand, that the Senator would introduce the bill in the Senate at twelve o'clock and then come before his committee at two-thirty and say, "Here's a bill that I've introduced; is it O.K. to report it?"

F: Well, he could do that, couldn't he? No matter what Steagall does. Steagall is meeting ahead of him anyway.

L: Yes.

F: And there wasn't joint action suggested or agreed upon, and I'd like very much to be able to tell Steagall that we've cleared the matter with you and we -- that/it's all right to go ahead.
you think

L: Well, I hate to -- I'd like very much to tell you yes but it really isn't.....

F: Well, I understand, Phil.

L: But Steagall can -- I think he can swing it so that he can drop a blank in the -- he can drop the bill in the hopper and then if there's a question about it why he can pull it out again. He can do anything. The House doesn't have a procedure like

- 7 -

the Senate where you've got to get the floor to introduce a bill.

F: Yeah.

L: All they do is file it.

F: Yeah. Well.....

L: But so without my telling you what to do I think he can save the situation -- that is.....

F: And then.....

L:so not that no time would be lost if the Senator said sure.

F: Yeah. Now, if you should hear from Senator Wagner either by telephone or return to his office would you speak to him right away and then call us or have him call me?

L: All right. Now, if I can't get to him before six can I get you at home?

F: Yeah. Well, I'll be in the office until probably six-thirty or a quarter of seven.

L: Oh, I see.

F: And then you can get me at Emerson 7726 after that.

L: All right.

F: O. K., Phil. Thank you very much.

April 23, 1940
4:11 p.m.

H.V.J.: Hello.

Operator: Congressman Steagall.

H.V.J.: Hello.

Henry B.
Steagall: All right.

H.V.J.: How are you?

B: Good, thank you. How are you?

H.V.J.: Oh, I'm trying to keep ahead of the sheriff, you know.

B: Lord, you're a long way ahead of the sheriff.

H.V.J.: Well, just one jump.

B: I'm the man the sheriff will get.

H.V.J.: I don't believe it.

B: Yes, sir.

H.V.J.: Now, Ed Foley is sitting here with me and we tried to locate the honorable Senator Wagner of New York.

B: Yes, I've been chasing him too but I don't get him.

H.V.J.: Well, what they tell me is he's gone out for a drive and he'll not be back until six o'clock.
Hello?

B: Yes.

H.V.J.: And who am I to question that. Now, we talked to his secretary and he wouldn't say yes and he wouldn't say no, see?

B: They didn't know.

H.V.J.: No, he didn't know but he — he raised this point, something that I — could you drop a blank into

- 2 -

the hopper tonight and then if there was any question tomorrow you could withdraw it. Is that feasible?

S: Just a blank with nothing on it?

E.W.Jr: Well, I don't know what it means.

S: That's what he means but I don't think we can do that in the House. They probably do that over there. You know they legislate most of the time by consent over there. I doubt if we'd better do it. I tell you, it wouldn't make a bit of difference with Bob if I did that, nor anybody else, nor with Berkley, but I'd rather not do it under the circumstances without letting them shoot when I do.

E.W.Jr: Yeah.

S: Because they might think I'm trying to steal the show and I'm not mentioning it to the press or anything else.

E.W.Jr: I see.

S: But I reckon we can -- I don't know anything to do except to get in here tomorrow and get it agreed to. That's the main thing and if we ever get the agreement and get it out of here like we want to why I can hit the road home anyhow. It will go through without a hubble.

E.W.Jr: Without you here?

S: Yes, that wouldn't make any difference.

E.W.Jr: Oh yes, it will.

S: If we get an agreement we could shoot it through without any trouble.

E.W.Jr: Oh, gosh, I wouldn't -- I'd be worried as hell if you weren't here.

S: Well, I think if we get a unanimous report there wouldn't be any trouble in the world, I don't think there would. But I don't think there's much chance to get that in this afternoon.

- 3 -

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

S: Unless I just shot ahead of them and I hesitate to do that.

H.M.Jr: Well, I'm entirely in your hands and whatever you.....

S: I know -- I know it would be all right with them but at the same time it -- I just -- after what was said there this morning go over and do something else, I don't feel free to do it, without speaking to them.

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

S: If I ever get either one of them, Barkley or Bob, then I'll shoot it in and if I don't why I'll just have it ready in the morning and have them authorize me to report it and slap the report in the House with a printed copy and see if we can't get it up anyhow.

H.M.Jr: Well, whatever you do I'll be happy.

S: Well, that's fine and you will be down at ten.

H.M.Jr: Right there on the.....

S: I'm trying to get the boys together for the meeting.

H.M.Jr: Thank you.

S: Thank you and goodbye.

April 23, 1940
4:15 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

George
Harrison: Hello.

H.M.Jr: This is Henry Morgenthau speaking.

H: Hello, Henry. How are you?

H.M.Jr: They said you wanted me.

H: Yes, sir. I was just calling you.

H.M.Jr: Good.

H: Danny Bell got ahold of me and ^{me} gave your message about Logan and me.

H.M.Jr: Yeah.

H: Logan will definitely be there and I wanted to talk to you personally about me.

H.M.Jr: Go ahead.

H: Watson -- Tom Watson is giving a dinner for me tomorrow evening for all my directors and their wives and so on. It will be -- unless you need me and want me terribly it would be awfully important for me not to back out of that dinner.

H.M.Jr: Well, let me be very frank, the way I always try to be, see?

H: Yeah, that's the reason I'm calling you. I told Danny I'd rather talk to you personally if he didn't mind, so he said go ahead.

H.M.Jr: Well, here's what I thought. I look at this thing as a non-partisan thing. It shouldn't be political, see? And I simply felt that if you came down there in your capacity as the President of the Federal Reserve of New York as our fiscal agent and contact with the banks and they had any question that you'd be there to answer them, but unless you are in one

- 2 -

hundred per cent sympathy with what you're doing, frankly I'd rather not have you there.

H: Yes.

H.W.Jr: Now, I can't be any franker than that.

H: Well, no. That's -- well.....

H.W.Jr: And I mean unless you're in a hundred per cent sympathy with what we're trying to do, I think you'd better go to your dinner.

H: (Laughs) Henry, my point only on that is this that I -- I have some question in my own mind as to whether the present executive order -- I mean, the present legislation would include stocks. I have no doubt it includes bonds. If anybody asked me that I would say that I think it's doubtful whether it would include stocks, but the mere fact that you're asking for legislation isn't inconsistent with that; it's to clear up a doubt.

H.W.Jr: That's right.

H: So that that I don't think would be hurtful to me to say that if they asked me.

H.W.Jr: No. I agree with you.

H: Now, as to anything else which might be in the drafted bill, which I don't know about, I think it should ^{not} go any further than securities. In other words, I don't believe it should include property generally.

H.W.Jr: Well, as I remember it I think it does.

H: Does it?

H.W.Jr: Yeah.

H: Uh-huh. You see, the word property was in the original trading with the enemy act and when we drew the bill in '33 we struck it out.

H.W.Jr: Well, it's in now.

- 3 -

H: It is?

H.M.Jr: In our draft.

H: Uh-huh.

H.M.Jr: That dinner looks good to you, huh?

H: (Laughs) Well, I don't think it would hurt anyway to have me say that. I personally would prefer it not to go any further than the credits and securities, cash and all monies in other words. I wouldn't want -- I just don't know where it might lead if you include all sorts of properties.

H.M.Jr: Well, I've heard a lot about those Tom Watson dinners. I hear they're wonderful.

H: Yes, well..... (Hearty laughter) Well, I'll do anything you want me to.

H.M.Jr: Well, I think you'd better eat Tom Watson's dinner.

H: You want it to include property?

H.M.Jr: Yeah, and we've got it drawn that way.

H: Yeah?

H.M.Jr: Yeah, we've got it drawn that way.

H: Uh-huh. Well, I don't -- I haven't of course had a chance to think it out very much but my first reactions are, being perfectly honest with you as you were with me, would be that I would prefer not to see it include property.

H.M.Jr: Yes.

H: If anybody asked me.

H.M.Jr: Well, if you're there, they'll ask you.

H: Uh-huh.

H.M.Jr: Well, I don't think -- I really -- I mean, I don't see why Logan would need to come down neither.

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H: Well, Henry, I -- as I told Danny, I don't think he's going to have the slightest bit of trouble in getting your bill through.

H.M.Jr: No. Well, Senator Townsend called me up. I think he's the ranking Republican leader. He said he couldn't come, what was it all about, and I told him. And he said, "Well, you can count on my vote."

H: Sure. I don't think you'll have the slightest bit of trouble and I don't think anybody is going to object.

H.M.Jr: No, I don't either.

H: But if you want me -- want us to come, of course we will.

H.M.Jr: No. No.

H: I don't think you need us.

H.M.Jr: No. No, I think it's.....

H: And I think you did right in including securities.

H.M.Jr: Well, when you're down there drinking that dinner, drink a drink for me.

H: All right, I will.

H.M.Jr: It's much better to be frank.

H: All right, Henry.

H.M.Jr: All right. See you soon.

H: Goodbye.

H.M.Jr: Tell Logan he needn't come.

H: What's that?

H.M.Jr: We -- I wouldn't bother having Logan come down.

H: All right, I'll tell him.

H.M.Jr: Thank you.

H: First-rate. Goodbye.

H.M.Jr: Goodbye.

April 23, 1940
4:23 p.m.

H.V.Jr: Hello.

Operator: Senator Glass.

H.V.Jr: Hello.

G: Go ahead.

H.V.Jr: Hello.

Carter
Glass: How are you, Mr. Secretary?

H.V.Jr: Fine, how are you?

G: Pretty good thank you, sir.

H.V.Jr: We've asked to have a chance to appear before Banking and Currency tomorrow afternoon.

G: Yes.

H.V.Jr: And before I appeared -- it has to do with this exchange control for Denmark and Norway.

G: Yes.

H.V.Jr: Now, I would like very much to have a chance to explain to you personally what we would like to have if the Senate thinks well of it.

G: Yes.

H.V.Jr: Could you see me either today or tomorrow morning?

G: Yes, either that best suits you -- your convenience.

H.V.Jr: Well, I tell you the only convenient -- Henry Steagall is giving us a hearing at ten tomorrow.

G: Yes.

H.V.Jr: And I think Wagner has called a committee for two-thirty in the afternoon.

G: Yes.

- 2 -

H.M.Jr: Now, I could either come over now or I could come over before ten, whichever suits you.

G: I'd be glad to see you now if you want to come over.

H.M.Jr: Fine. Where are you, sir?

G: I'm at my apartment in the Mayflower.

H.M.Jr: All right. I'll come over there.

G: 575.

H.M.Jr: 5.....

G:75.

H.M.Jr: About a quarter of five. Will that be all right?

G: Yes, sir.

H.M.Jr: Fine,
And I'll bring Mr. Bell with me.

G: All right.

H.M.Jr: And Mr. Foley.

G: All right.

H.M.Jr: Thank you.

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file 4/23
date of receipt

SECRET

April 22, 1940.

Memorandum re Douglas Aircraft Co. and Lockheed
Aircraft Corporation

Number of Planes Contracted for:

1. a. 180 Douglas A-20
(in addition to 180 already
on order)
- b. 530 Douglas DB-7B
2. a. 800 Lockheed P-38
- b. 400 Lockheed 37

C.T.B.

Received 10:35 AM
4-23-40
R.F.

April 23, 1940

My dear General Arnold:

My statistical section has set up in graphic form the information that you were kind enough to furnish me recently and I am sending you herewith a copy of the graphs.

I have also sent a copy of it to the President advising him that the information was furnished to me by yourself.

Yours sincerely,

(signed) H. Morgenthau, Jr.

Major General G. H. Arnold,
Chief of the Air Corps, U.S.A.,
War Department,
Washington, D. C.

By Messenger 2¹⁵ pm

April 23, 1940

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Yours sincerely,

(Signed) H. H. Henshaw, Jr.

Major General G. H. Arnold,
Chief of the Air Corps, U.S.A.,
War Department,
Washington, D. C.

By Messenger 2¹⁵ pm

April 22, 1949

My dear General Arnold:

My statistical section has set up its graphs from the information that you were kind enough to furnish so readily and I am sending you herewith a copy of the graphs.

I have also sent a copy of it to the President advising him that the information was furnished to me by yourself.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Major General G. H. Arnold,
Chief of the Air Corps, U.S.A.,
War Department,
Washington, D. C.

By Message 2¹⁵ pm

April 28, 1948

My dear Mr. President:

I am sending you herewith latest information on the deliveries of airplanes and aircraft engines. This information was furnished me by General Arnold in strictest confidence.

Yours sincerely,

Robert L. Hughes, Jr.

The President,

White Springs, Georgia.

~~IN HAND~~ 2nd for

April 23, 1949

My dear Mr. President:

I am sending you herewith latest information on the deliveries of airplanes and aircraft engines. This information was furnished me by General Arnold in strictest confidence.

Yours sincerely,

(Signed) H. H. Henshaw, Jr.

The President,

Warm Springs, Georgia.

By Manager 2¹⁵ *per*

April 22, 1940

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I am sending you herewith latest information on the deliveries of airplanes and aircraft engines. This information was furnished me by General Arnold in strictest confidence.

Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,

Warm Springs, Georgia.

By Messenger 2¹⁵ pm

CONFIDENTIALConfidentialDeliveries (acceptances) of Airplanes
and Aircraft Engines

	1939			1940		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Airplanes						
Total			227	279	276	350
Foreign	26	56	152	169	157	193
Army	38	41	32	86	75	80
Navy	6	22	16	7	7	23
Commercial			27	17	37	54
Aircraft Engines						
Total			834	884	863	1,349
Foreign	49	117	410	554	394	509
Army	80	126	304	206	166	293
Navy	18	23	53	43	54	99
Commercial			67	81	249	443 ^{1/}

Treasury Department, Division of Research and Statistics.
April 22, 1940.^{1/} Estimated**CONFIDENTIAL**

DELIVERIES (ACCEPTANCES) OF AIRPLANES AND AIRCRAFT ENGINES

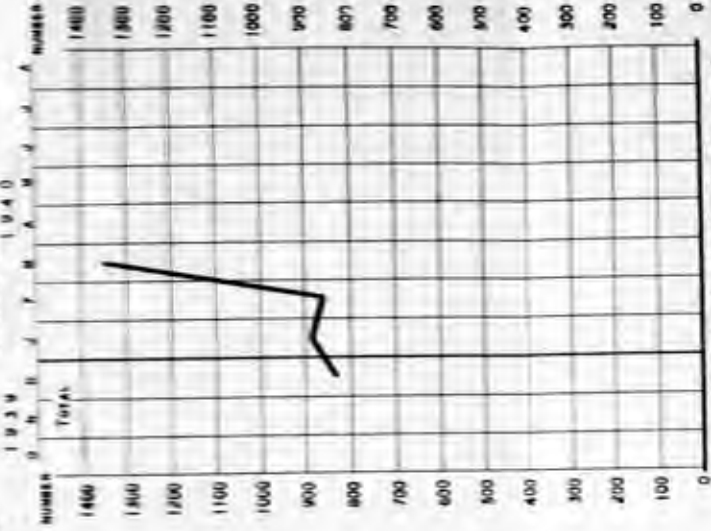
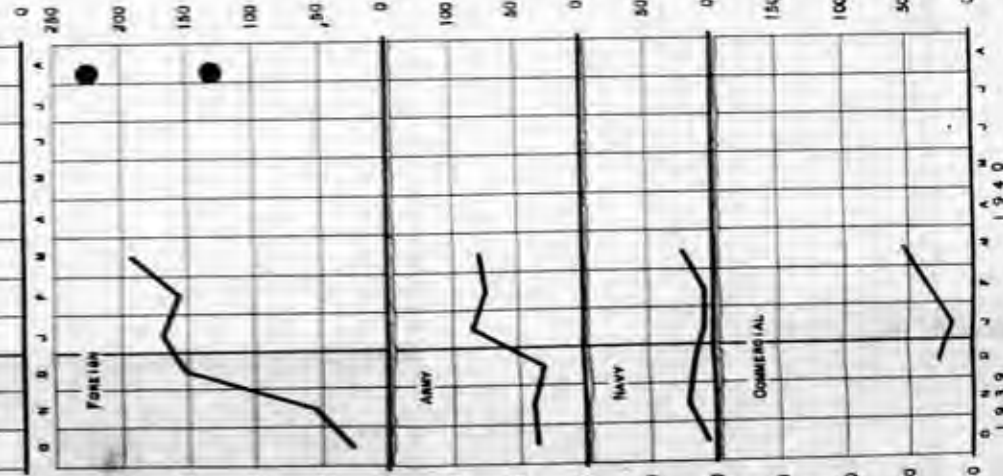
CONFIDENTIAL

Airplanes

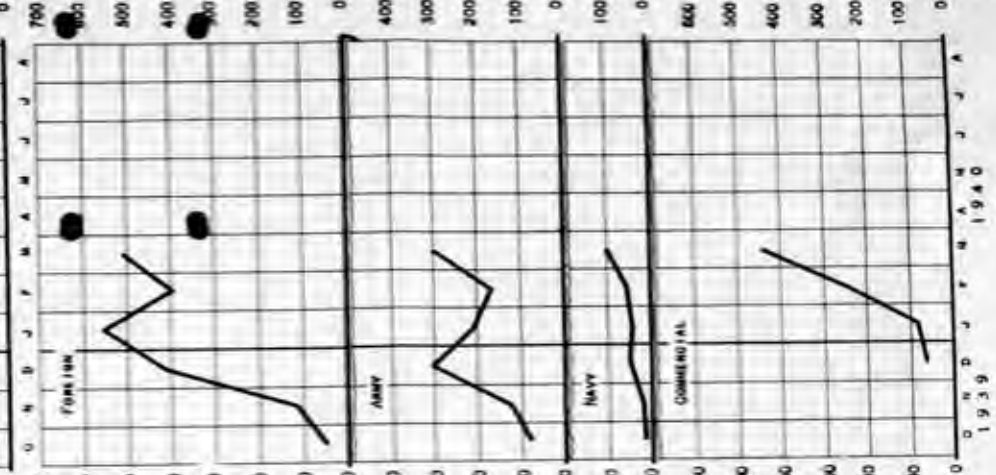
Aircraft Engines



CONFIDENTIAL



CONFIDENTIAL



CONFIDENTIAL

April 23, 1940
10:06 a.m.

Operator: Go ahead.

H.W.Jr: Harry.

Harry
Collins: Good morning, sir.

H.W.Jr: Good morning. I wish that you'd get in touch with both Pratt and Whitney and Wright Aircraft.

C: Yes, sir.

H.W.Jr: And see whether they can give me a statement telling me what improvement they've had in the tool situation from the time I got into that situation, see?

C: Yes, sir.

H.W.Jr: I mean, I'd like to have something for my records.

C: Yes, sir. Well, I'll get some information on that and give you a memorandum, sir.

H.W.Jr: You see, I never -- I never had that.

C: Yes, sir.

H.W.Jr: Now, on the question -- do you remember when we -- I went -- it was the first week in February that I got into it myself.

C: Yes, sir.

H.W.Jr: I mean, how much -- the work that I did -- how much was that work assisted and accelerated. Where are they as of today?

C: Yes, sir. Well, I'll.....

H.W.Jr: Are they still waiting for any tools in those two things.

C: Yes, sir. I can get that.

H.W.Jr: I'd like to have it. I mean, tell them I'd like to have it for myself. How much help was I;

- 2 -

how far along are they; are they ahead of their program or behind.

C: Yes, sir. I'll do that, sir.

E.W.Jr: All right. That's all I have.

C: Yes, sir. Now, by -- with reference to that conversation yesterday concerning -- that Purvis had with you concerning the contract?

E.W.Jr: Yes.

C: Evans called me just a moment ago about another matter. As a matter of fact, was talking about Ward and I told him I knew nothing of the situation, and of course they are very much interested in it.

E.W.Jr: Yeah.

C: And I asked him -- I said, "What is the status"-- I said, "Have you signed a contract," first of all, "with the Allies?" And he said he had not.

E.W.Jr: He had not?

C: He had not. And he said they're still talking on a basis of 35 hundred and that they were also talking with the Army and there had been no conclusions reached, so Purvis was laboring under a misapprehension apparently yesterday.

E.W.Jr: Well, maybe that's a kind way of saying that he misinformed me.

C: Well, that may be.

E.W.Jr: What?

C: (Laughingly) That may be.

E.W.Jr: Well, I think just in passing tomorrow I'll mention that to him.

C: Yes, sir.

E.W.Jr: See?

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C: Yes, sir. Because they have not -- Allison has not made their final -- they have not had any final conclusions yet.

H.W.Jr: Right.

C: All right, sir.

H.W.Jr: Thank you.

C: Thank you, sir.

April 23, 1940
10:11 a.m.

H.M.Jr: Henry Morgenthau, Jr.

William
Hassett: Oh yes, Mr. Secretary. How are you?

H.M.Jr: I'm fine.

W: Good.

H.M.Jr: Look, I see by the papers the President is going to see McKenzie King.

W: Yes, he's coming in this morning.

H.M.Jr: Right. Now, you might give this note to the President, if you would.

W: Yes.

H.M.Jr: The Canadians, since the first of April, have stopped selling nickel to the Japanese.

W: Since the first of April.

H.M.Jr: Yeah, they sold them a very much reduced quantity during January and February and March.

W: Yes, let me make a note of that.

H.M.Jr: During January and February and March they had them on a quota basis.

W: Yes.

H.M.Jr: And since the first of April they've stopped selling entirely.

W: Yes.

H.M.Jr: Now, McKenzie King knows about it because nickel, I suppose, is the biggest export that they have, and I thought if the President would care to say something that was pleasing to him.....

W: Yes.

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H.M.Jr: Because the Canadians feel that they've gone a long way in cooperating with us.....

V: Yes.

H.M.Jr:on these strategic materials.

V: Yes. Well, I'm just going up to the White House and so I'll give that information to the President before he sees Mr. King and he'll be very glad. He'll make good use of it I'm sure, Mr. Secretary.

H.M.Jr: Now, they're not selling any nickel to Russia at all.

V: And selling none to Russia at all. Fine.

H.M.Jr: They've sold none since the first of January.

V: I see.

H.M.Jr: But I understand that they're under great pressure from Japan to sell them nickel and so far they've refused to.

V: I see, yes.

H.M.Jr: And they've made no promises that they wouldn't sell in the future.

V: I see. Um-hm.

H.M.Jr: But they're under great pressure.

V: Yes. Um-hm.

H.M.Jr: And I just thought that the President might like to know it and could make good use of it.

V: Yes, he can. And thanks very much, Mr. Secretary, and I'll turn that right over to him.

H.M.Jr: Goodbye.

V: Goodbye.

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FROM: MR. GASTON'S OFFICE

TO: The Secretary

Lowell's draft is
excellent and I
think you should
use it. Chick is
having a clean copy
made.

(JG)

Secretary Morgenthau:

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apprec 4/23/40

I am afraid Mr. Bruce gives me vastly greater credit than I am entitled to, although I would increase rather than lessen the importance he gives to the establishment of the Section of Fine Arts in the United States Treasury. There is a great man in the picture, of course, but it is not myself. It is Mr. Bruce. There is a great woman, too, and the tribute Mr. Bruce has paid to her I will let stand.

But in the case of everybody concerned I believe it is a matter of having wrought more wisely than they knew. I doubt if anybody actually realized the greatness of the task they had set themselves when the section of Fine Arts was created.

Everybody knows that art is an eternal source of enjoyment and enrichment, that art is a great force in education and a true measure of civilization's progress.

It is one of those things we know historically, yet do not fully understand in our own time. The Romans built their great aqueducts to live throughout the ages, but it is not the aqueducts that have survived; it is the sculptured art of that same period and it tells us more of Roman civilization, perhaps, than all the books then written. Buildings which the Greeks expected to live forever are outlived by Greek masterpieces of art.

- 2 -

So it may be with us and the art being produced in America today.

The importance of the Fine Arts section lies in the fact that it provides the means of fostering and developing creative art in America--an all important element in our lives that was threatened a few short years ago with starvation through the collapse of our material prosperity. The genius of Edward Bruce was revealed when he turned this threat of disaster into a triumph of the ideas he had long held. What might have been, if not the end of American art, at least a long period of stagnation, has become instead the period of its greatest development, the period of recognition of its value by the American people, a period in which an enduring foundation has been laid for all time.

The Treasury's part in this has been a simple and a natural one. For one hundred years the Treasury had built the greater part of our federal buildings. We were coming to appreciate more and more how much the painter and the sculptor could add to the work of the architect and builder. This resulted--and if I have any cause for pride it is that it resulted in my time--in the setting up of the Section of Fine Arts with Mr. Bruce as its chief.

I am one of those benighted persons who sometimes say, "I don't know much about art, but I know what I like." And

I like art that enriches the life of the community. That is the chief purpose of the Section of Fine Arts and I truly believe it is fulfilling its purpose.

-oOo-

April 23, 1940
2:08 p.m.

H.W.Jr: Hello.

Arthur
Purvis: Good afternoon, Mr. Secretary.

H.W.Jr: How are you?

P: Very well, thank you.

H.W.Jr: First, I'm sorry I'm going to have to testify both in the morning and in the afternoon before Banking and Currency tomorrow. I'll be up there all morning and all afternoon.

P: I see.

H.W.Jr: So I'm going to have to postpone our meeting until Thursday.

P: All right, sir. That will be all right.

H.W.Jr: Thursday at eleven?

P: At eleven.

H.W.Jr: And I'm sorry I'm not going to be able to make it for lunch because I've postponed the man once who was coming on Wednesday.....

P: Ah, yes.

H.W.Jr:to Thursday, and I just don't feel like I could postpone him again.

P: Oh, no, no. I understand that fully.

H.W.Jr: I'm sorry.

P: At eleven o'clock then on Thursday morning.

H.W.Jr: That's that. Then I have one other thing.

P: Yes?

- 2 -

H.M.Jr: I think your people must have misinformed you about the Allison contract.

P: Yes.

H.M.Jr: You know you were quite sure that you'd signed it.

P: Yes, we've signed -- we've signed our commitment letter. I signed it myself about two weeks ago.

H.M.Jr: Well, now Mr. Evans, who is the President of Allison.....

P: Yes.

H.M.Jr:told Collins that he has no contract with you.

P: Oh now -- I think probably it's -- this is probably one of those genuine misunderstandings. We have filed a legal letter of commitment which requires the signing of the complete contract within 30 days -- you know the formal document which might be 30 or 40 pages long.

H.M.Jr: Yes.

P: This is -- we did make -- we made all our arrangements with the engine companies on the basis -- in fact we're doing it with all the airplane companies too.

H.M.Jr: I know you.....

P: On the basis of a 2-page or 3-page letter of commitment specifying the price and the general -- no, specifying the capital commitment.

H.M.Jr: Yes.

P: Not perhaps the final price, but specifying the authority -- the capital commitment necessary, the authority to go ahead on that.

H.M.Jr: I see. Well, he called up yesterday to speak to Collins on another matter.

- 3 -

P: Yes.

H.M.Jr: And Collins asked him about whether he had a contract with you and he said no. I suppose he doesn't consider the letter a contract.

P: No, though it is a legal commitment. However, I think it's a perfectly natural -- I think it's one of those cases where both people are correct in what they're saying but they are talking about two slightly different things.

H.M.Jr: Well I can understand that.

P: Yes, and -- as a matter of fact, I will have with me on Thursday a copy of the letter.

H.M.Jr: Good. Now, one other thing while I have you. I read at home last night your letter on powder.

P: Yes, sir.

H.M.Jr: Now, in that there's nothing that I can do to get ready.

P: I have -- I have had, Mr. Secretary, the greatest difficulty I much regret to say in getting from the British supply board at Ottawa the document which would -- which would be the second enclosure to that memorandum. I now have on my desk, however, as I've just come in from another meeting, I have the draft document which they say they are prepared to sign and I fully expected to deliver it to you at ten-thirty tomorrow. However, I shall send it down on the mail and it will be delivered to Mr. Young if that is the proper thing to do before I get there on Thursday.

H.M.Jr: Yes, because if what I have in mind, you see -- if it affects the Army and Navy.....

P: Yes.

H.M.Jr:I could put it up to them before I see you.

P: Yes. Well, I can't tell you how I've been struggling with this. I would just like you to know that

- 4 -

this peculiar set-up through Ottawa creates problems for me in a case of this kind which are really unbelievably silly.

H.M.Jr: Well, sometime when we're alone I'd like to talk to you about the idea of -- if you want me to -- of the possibility of maybe dropping some hints that you should be permitted to work directly with London.

P: It would be invaluable. As a matter of fact, Mr. Secretary, if I could sometime in the early future get about half an hour with you alone there are several questions that I'd like very much to talk over a whiskey and soda or a cup of tea.

H.M.Jr: It will be arranged.

P: Thank you very much, sir.

H.M.Jr: All right.

P: I'm very grateful.

H.M.Jr: Goodbye.

P: Goodbye.



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 23, 1940.

MEMORANDUM FOR THE SECRETARY

This morning I had a talk with Mr. Wilson of Pratt & Whitney and Mr. Gordon of the Wright Aeronautical Corporation concerning the delivery of machine tools. They both stated that since the meetings which you arranged as between the machine tool manufacturers, themselves and representatives of the Treasury there has been a very definite improvement in deliveries of machine tools on outstanding orders and a steady gain against their requirement curves.

In the case of the Pratt & Whitney Company, of a total of 860 machine tools ordered, 766 or 89% have been delivered. In two instances, deliveries of machine tools to them have, with their permission, been diverted to the Bendix Company as they felt that the requirements of Bendix were greater than Pratt & Whitney, Bendix being one of Pratt & Whitney's sub-contractors.

With reference to the Wright Aeronautical Corporation, of a total of 1029 machines ordered, 806 or 78% have been delivered. Mr. Gordon stated that the non-delivery of the remaining 22% was working no hardship on them as a delay on the part of the Anglo-French Purchasing Mission in determining what number of engines were wanted and what plant extensions should be made has resulted in the receipt on their part of machine tools for which no space is available for installation.

Both companies definitely stated that the efforts which you exerted have been of an inestimable benefit, resulting in a much closer cooperation between the machine tool people and the manufacturers, a decided improvement in deliveries and a far greater appreciation of the problems of the manufacturers which the machine tool people did not have prior to the meetings held in Washington.

April 23, 1940

Gordell Hull called on me this morning and started in by telling me that he thought conditions were very bad both at home and abroad. He told me that he thought the Democratic party was losing friends every day and that there are always a certain number of malcontents who feel that if the Administration has been in for two terms it's long enough and a change would be a benefit.

He referred to Senator Norris' statement yesterday.

Then he had a lot to say about Ickes and Bob Jackson and Fommie Corcoran as the great radicals. So I said that I felt that the only thing they were radical or liberal on was spending more money and that I felt that I was just as liberal or more so than they were except when it came to spending. He said that he considered himself much more liberal than they were; that he stood for the things they are talking about now 20 years ago.

He repeated two or three times that things were bad at home.

After he had been going on like this for 10 or 15 minutes, I wondered what he really came over to see me about. And then he asked me had Harry White talked to me about the meetings between himself and Pasvolaky? I said no, he had not; that I had put the two of them in touch with each other, but that possibly White had not had a chance to talk to me.

Well, it seems that Hull is very much interested in developing ideas along the financial and economic front if and when we have a world peace.

He said that he had quite a talk with Professor Rist and emphasized to him the importance of giving the French something to look forward to. He said, "After all, Moses never could have gotten his

-2-

followers to go into the Red Sea if he had not promised them something to look over to over the other side of the mountain." I agreed with him heartily that we all needed something to look forward to, but I did not know what it was.

Hull said he would be glad to drop in any time in the morning as often as necessary to talk with me about this.

I told him that Stewart, Viner and Riefler dropped in every two weeks and I would be glad to mention it to them and he said he knew them all and thought well of them and he thought that would be fine.

c0o-c0o

TREASURY DEPARTMENT
WASHINGTON

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April 23, 1940.

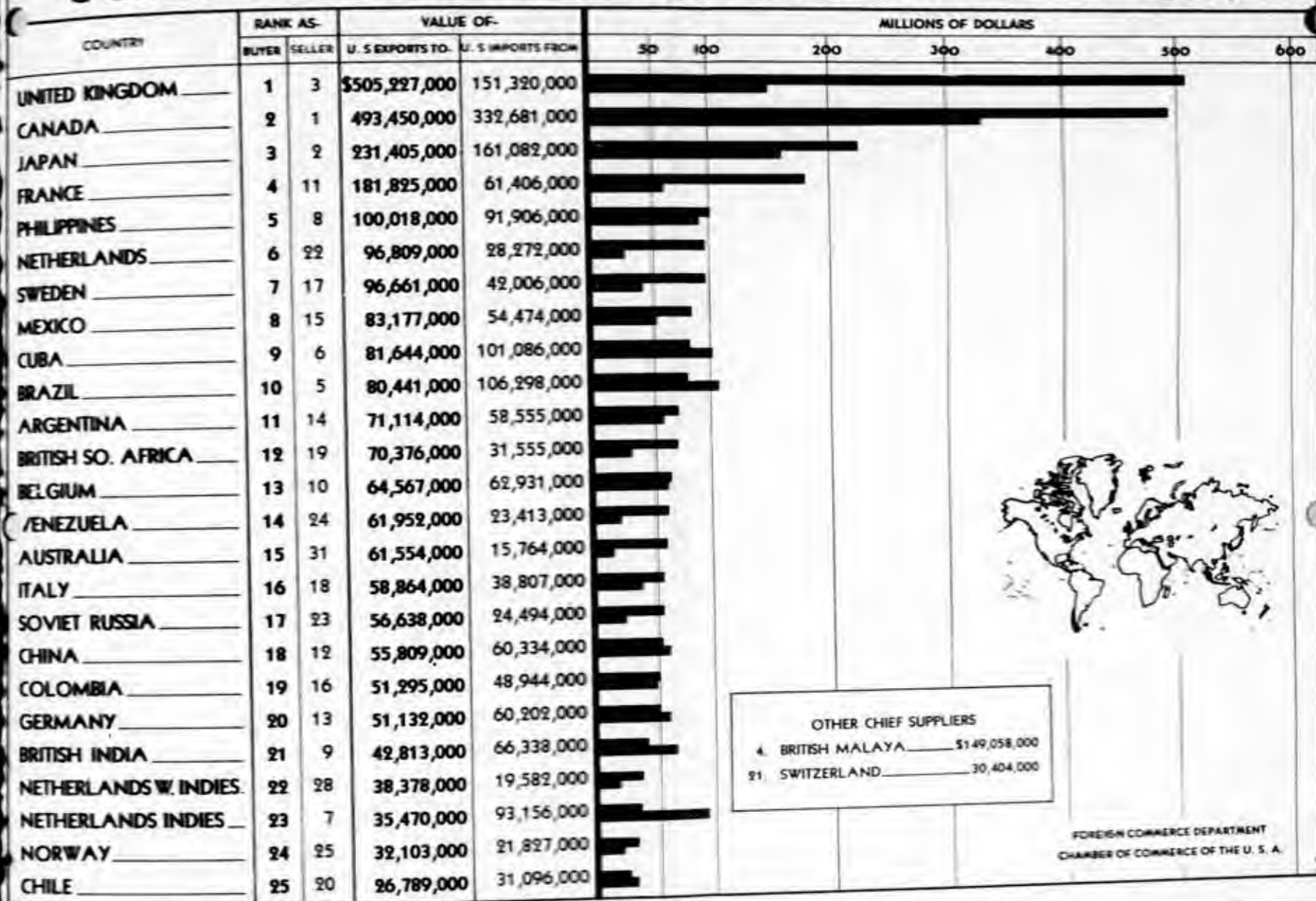
MEMORANDUM FOR THE SECRETARY:

Attached hereto are three charts prepared by the Chamber of Commerce of the U. S. A. showing our chief exports in 1939, our chief imports in 1939 and our chief markets and suppliers in 1939. If you have not seen these charts, they may be of interest to you.

Daniel Harris.

Encl.

OUR CHIEF MARKETS AND SUPPLIERS IN 1939



OUR CHIEF EXPORTS IN 1939

RANK	COMMODITY	VALUE	PERCENT OF TOTAL EXPORTS	MILLIONS OF DOLLARS			
				50	100	150	200
1	AUTOMOBILES, PARTS, ETC.	\$253,722,000	8.1	 TOTAL EXPORTS \$3,177,344,000			
2	UNMANUFACTURED COTTON	243,460,000	7.8				
3	AIRCRAFT, PARTS, ETC.	116,910,000	3.7				
4	METAL-WORKING MACHINERY	112,572,000	3.6				
5	ELECTRICAL MACHINERY, ETC.	105,306,000	3.4				
6	GASOLINE	96,997,000	3.1				
7	CRUDE PETROLEUM	92,790,000	3.0				
8	LUBRICATING OIL	90,959,000	2.9				
9	REFINED COPPER	82,210,000	2.6				
10	LEAF TOBACCO	76,826,000	2.5				
11	AGRICULTURAL MACHINERY	68,507,000	2.2				
12	COAL AND COKE	66,576,000	2.1				
13	IRON AND STEEL SCRAP	54,690,000	1.8				
14	GAS OIL AND FUEL OIL	54,405,000	1.7				
15	IRON AND STEEL PLATES, SHEETS, ETC.	52,033,000	1.7				
16	WELL AND REFINERY MACHINERY	37,162,000	1.2				
17	WHEAT	36,815,000	1.2				
18	COTTON CLOTH	36,549,000	1.2				
19	BOARDS, PLANKS, AND SCANTLINGS	33,695,000	1.1				
20	TIN PLATE, ETC.	33,033,000	1.1				
21	CANNED FRUIT	25,061,000	0.8				
22	WHEAT FLOUR	24,574,000	0.8				
23	CONSTRUC. & CONVEYING MACHINERY	24,304,000	0.8				
24	IRON AND STEEL TUBULAR PRODUCTS	24,059,000	0.8				
25	PIGMENTS, PAINTS, AND VARNISHES	22,761,000	0.7				

FOREIGN COMMERCE DEPARTMENT
CHAMBER OF COMMERCE OF THE U. S. A.

OUR CHIEF IMPORTS IN 1939

RANK	COMMODITY	VALUE	PERCENT OF TOTAL IMPORTS	MILLIONS OF DOLLARS			
				50	100	200	300
1	CRUDE RUBBER	\$178,489,000	7.8				
2	COFFEE	139,574,000	6.1				
3	CANE SUGAR	124,649,000	5.5				
4	RAW SILK	120,852,000	5.3				
5	STANDARD NEWSPRINT PAPER	115,716,000	5.1				
6	WOOD PULP	75,876,000	3.3				
7	TIN BARS, BLOCKS, PIGS	70,591,000	3.1				
8	FURS	52,765,000	2.3				
9	UNMANUFACTURED WOOL	49,667,000	2.2				
10	DISTILLED LIQUORS	48,285,000	2.1				
11	RAW HIDES AND SKINS, EXCEPT FURS	47,056,000	2.1				
12	DIAMONDS	45,099,000	2.0				
13	COPPER ORE, CONCENTRATES, ETC.	42,703,000	1.9				
14	UNMANUFACTURED TOBACCO	36,918,000	1.6				
15	FISH	32,404,000	1.4				
16	BANANAS	29,083,000	1.3				
17	NICKEL AND ALLOYS	28,975,000	1.3				
18	BURLAPS	27,961,000	1.2				
19	COCOA, OR CACAO, BEANS	27,585,000	1.2				
20	CRUDE PETROLEUM	23,289,000	1.0				
21	FERTILIZERS, EXC. NITRATE OF SODA	21,242,000	0.9				
22	CATTLE	21,147,000	0.9				
23	TEA	21,075,000	0.9				
24	SAWED BOARDS, OTHER LUMBER, ETC.	19,729,000	0.9				
25	COAL-TAR PRODUCTS	18,942,000	0.8				

FOREIGN COMMERCE DEPARTMENT
CHAMBER OF COMMERCE OF THE U. S. A.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE April 23, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Main Points from Father Coughlin's Speech on "Gold and the Second World War"

Father Coughlin claims the following:

1. That Britain, France and the United States began to prepare for the present war in 1918, and that one step in this preparation was to restore financial domination through the manipulation of gold. This policy, he adds, did not get under way until 1934 when the price of gold was raised to \$35 an ounce. He points to the establishment of a World Court and the setting up of a World Bank as parts of the same preparation.

2. That since 1934 we have purchased fourteen billion dollars of foreign gold at \$35 an ounce and have thereby made a gift of \$4 1/3 billion to the Treasuries of England and France, while we were paying our own workers less than a living wage.

3. That America now has the gold and unemployment whereas the foreigners have the profit for the conduct of the war.

4. That we haven't used our gold except to give profit to foreigners at the expense of the American taxpayer and to insure Federal bonds representing a debt partly incurred by the purchase of gold.

5. Great Britain used her profits from the sale of gold to acquire United States Government bonds and to secure a hold on American industry, American laborers, American transportation, American groceries, and American life.

6. We are in the war financially in 1940 and have been so since 1934.

7. On Page 11 he claims that the Stabilization Fund was used to hold sterling and the franc at a steady low level detrimental to American farmers, workers and taxpayers, but on Page 14 he accuses the Government of using the Stabilization Fund to keep these currencies up.

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8. He claims — again quoting the same Congressman who reads suspiciously like a Coughlinite — that our Reciprocal Trade Agreement Program assisted every country in the world except Germany at our expense.

9. He advocates that immediate abolition of the Stabilization Fund and the immediate cessation of our gold purchase policy in order to get out of what he calls the economic war.

GOLD AND THE SECOND WORLD WAR

A Radio Lecture
by
Father Coughlin

RADIO ANNOUNCER: Ladies and Gentlemen, Father Coughlin continues his series of lectures on money and its relation to war today, which is the fourth lecture.

Today's lecture is entitled "Gold and the Second World War." In all, this series will extend over seven or eight lectures. Each week in "Social Justice" Father Coughlin will amplify these discussions.

Today Father Coughlin enters upon his summer schedule, contemporaneous with the opening of the baseball season. His lecture will last one half hour only and this, at least, until the end of the baseball season.

It is difficult for me to stress the importance of these lectures which comprise this present series. Rest assured that you are welcome to a copy of today's address simply by writing a letter to Father Coughlin at Royal Oak, Michigan.

May I remind you that the fully paid-for commercial half hour is made possible by the free-will contributions by all the interested persons in this audience. And now, ladies and gentlemen, Father Coughlin.

FATHER COUGHLIN: Ladies and Gentlemen, and Friends: This fourth lecture will concern itself chiefly with the gold hoard buried at Fort Knox, Kentucky, and its relation to peace and war.

At the outset may I recall that in the year 1934 all the commercial or financial gold held by private individuals in the United States was commandeered by the United States Government, the holders thereof being paid in paper money at the rate of \$20.67 an ounce. That was the price of gold in 1934.

Following this recall of gold from American citizens and corporations, the Federal Government, by Presidential edict, raised the price of gold to \$35.00 an ounce. Now, as unromantic and innocent as these facts appear to be they were the first in a series of subsequent events which, for all practical purposes in 1934, wittingly or unwittingly, involved the United States, financially, in the war that began in 1939.

I think this is a serious statement, which it will be my task to substantiate. Therefore, permit me, as a preface to my remarks, to recall for you that in November, 1918, the Central Powers and the Allies were both exhausted financially. A temporary peace treaty was signed at Versailles, a peace treaty more properly described as a forced armistice.

Following the signing of the so-called peace treaty, the victors, that is Britain, France, and the United States, began, as I see it, to prepare for the final chapter of the present economic war. I discover evidences of these preparations in three policies: First, the establishment of a World Court; second, the setting up of a World Bank; and third, the restoration of financial domination through the manipulation of gold. This latter policy, the manipulation of gold, with which this lecture concerns itself, did not get under way until 1934 when, by act of Congress and by Presidential edict, we Americans began purchasing foreign gold at \$35.00 an ounce. Since 1934 we purchased approximately fourteen billion dollars worth of foreign gold at \$35.00 an ounce, foreign gold which cost its producers no more than \$20.67 an ounce, foreign gold produced mostly by Great Britain. Now fourteen billion dollars worth of gold at \$35.00 an ounce represents four hundred million ounces. At \$15.00 an ounce profit, that represents a profit of six billion dollars, which we American taxpayers contributed to foreign nations; six billion dollars of profit, most of which was gained by foreign nations already owing us eleven billion dollars for the last war; six billion dollars of profits, of which approximately four and one-third billion went into the Treasuries of Great Britain

and France. That, in my opinion, was the greatest single known contribution to a war chest in the history of the world, and we American taxpayers made it. We made it when we were less able to pay it; we made it with ten million persons unemployed; we made it when we were paying our laborers less than living wages; we made it with two-thirds of our own families receiving an average of \$69.00 a month upon which to live. Indeed the United States has been involved in the economic war since 1934 on a scale that baffles comprehension. That seeming paradox, one stranger than fiction, explains how to my mind we have been in the 1939 war since 1934.

The Gold Reserve Act of 1934 was responsible for what I consider the most astounding transaction in international finance since the beginning of civilization.

Now America has the gold and the unemployment; now foreigners have the profits for the conduct of the war. Meanwhile there lies buried at Fort Knox, Kentucky, approximately eighteen billion six hundred million dollars worth of gold, fourteen billion of which was purchased from foreigners at \$35.00 an ounce, representing \$15.00 an ounce as a minimum profit. What use is being made of that gold at Fort Knox? It was not used efficiently to solve the problem of unemployment; it was not used efficiently to save the thousands of homes and farms

confiscated while we languished in a depression; it was not used efficiently to solve our problem of distribution. It was used, as I just pointed out, to insure profit for foreigners — six billion dollars worth; it was used to guarantee the redemption of eighteen billion dollars worth of bonds, which I consider were purchased by our bankers at ten cents on the dollar, bonds which represented a debt which we incurred in part for having purchased fourteen billion dollars worth of gold for the profit of foreigners.

A more pertinent question of interest to you taxpayers, to you two-thirds of our families living on \$69.00 a month income, is this: what use did Great Britain make of the profits which your tax money contributed to her and other nations? Great Britain, who produces more gold than any other political unit in the world? In brief, here is the answer: Great Britain used part of her gold profits which you American taxpayers contributed, to purchase stocks and bonds in the United States. She used in part the billions of dollars which you contributed to her, first to purchase some Federal bonds, the debt you owe the Federal Government, and second, to purchase huge blocks of profit making stocks in at least ninety-two corporations in this nation.

Now I have before me an Associated Press dispatch from London, England, dated Monday, April 15, 1940, which verifies this statement, a dispatch printed in full in the pages of this week's Social Justice magazine. According to it the British Government commandeered certain stocks and bonds held by individual English citizens and English corporations, nationalized them. Having commandeered these private holdings from its own citizens, the British Government is now prepared to use these American bonds and stocks, representing billions of dollars, to further Britain's interest in the second war now in progress. What did the Government of Great Britain commandeer? Twenty-five definite issues of the United States industrial bonds. And what stocks did the British Government commandeer? Ninety-two stocks. Some of them are these:

American Car and Foundry
Armour (Illinois)
Baldwin Locomotive
Bethlehem Steel
Borden Company
Chrysler Corporation
General Electric
General Foods
Hanover Bank
Houde Hershey
Jones & Laughlin Steel
Kroger Grocer & Packing
Packard Motor Cars
Philip Morris
United States Rubber
United States Steel

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These are only some of them. The entire list appears in "Social Justice."

Thus, Great Britain, probably the largest manipulator in Wall Street today, used her billions of dollars of profit gained in gold manipulation to secure a hold on American industry, on American labor, on American transportation, on American steel, on American groceries, on American life.

In 1933 when patriotic citizens were advocating a revaluation of gold for the benefit of Americans, to liquidate unemployment, to speed up industry, to save homes and farms, in 1933 they did not think that international manipulators of gold would take advantage of this revaluation for the benefit of Great Britain and other foreigners for war purposes.

The Associated Press dispatch of April 15, 1940, from London, England, to which I referred reads in part as follows:

"The British Government today ordered holders of ninety-two United States stocks and twenty-five bonds to sell them to the Treasury in a new move to increase the supply of dollars with which to buy United States planes and other war materials. This new order requires British holders to transfer their stocks to the Bank of England immediately, payment to be made in pounds

sterling at the official rate of exchange, \$4.03 to the pound. This move greatly increases the holdings of the British Government on Wall Street where the Bank of England probably is the largest single operator."

So the Bank of England is probably the largest single operator in Wall Street, and that statement, mind you, comes from London, England, and was censored by the Government.

As a result primarily of our gold buying policy Great Britain holds billions of dollars worth of stock in our industries which pay handsome profits to the stockholders and in many instances less than living wages to you laborers, laborers now working in part of these low wages for a foreign government which has, practically speaking, repudiated its billions of dollars of debts owed to us.

Let it be observed that our gold buying policy is just an act of today, today as at any time in the past six years.

The Department of Commerce, at Washington, on April 13, 1940, issued a statement to that effect, to the effect that the month of March alone we Americans imported nearly one-third billion dollars worth of British gold. The same Government department also indicated that Great Britain has one billion and a third dollars of gold in the

vaults of the New York Federal Reserve Bank, ready either to sell it to our Government at \$35.00 an ounce or to use it directly in the purchase of war materials. One and a third billion over and above the billions of dollars already sold to our Government. Yes, this will represent approximately another half billion dollars profit for Great Britain, money which you taxpayers will contribute toward her war chest within the next few months.

Now all this tends to substantiate the truth of the paradoxical statement that we have been in the war, financially, since 1934, and that we are in the war, financially, in 1940. One would think that should Great Britain and the other belligerents spend in America the profits made through gold manipulation our nation would profit thereby. Oh, but in the Congressional Record of April 19, 1940, we read the following statement, inserted by Representative (passe) of Michigan, which he took from the Detroit Free-Press, and it says: "We imported enough foreign gold last year to provide foreigners with a dollar for every dollar's worth of American goods they bought." In other words, we Americans paid, through the process of taxation, for everything the foreigners purchased, thereby making no profit on the purchases. One would think that the billions of dollars which we taxpayers contributed to foreign belligerents as a result of gold purchases would

benefit our export trade. Oh, on the contrary; some observers think that it threatens to destroy it. Thus, in the Congressional Record of March 26, we read the following statement, inserted by Representative Anderson of Minnesota, and the Record reads as follows:

"Another important foreign manipulation which automatically shuts off exports from this country is the prevailing depreciation of foreign currencies. Our dollar has become high priced in foreign exchange. We now hold three-fourths of the world's gold supply and foreign nations must secure dollar exchange to pay for war materials purchased in this country. Therefore, they, the foreigners, must sell more of their competitive products in our domestic market in order to secure the necessary dollar exchange and to accomplish this end they have lowered the value of their money which means that our dollar is worth from thirteen to sixty-six per cent more in the various foreign countries of the world, and the final result of this clever manipulation will bring a flood of cheap foreign goods into our own market and a serious curtailment in our exports of American products."

Now the Congressional Record which I have just read indicates that foreigners, including Great Britain and France, who made the most profit from the gold transaction, lowered their nations' currencies, thereby

inviting Americans who use a higher valued dollar to purchase goods abroad. The astonishing fact associated with this statement is that we Americans used two billion dollars of our so-called gold profits, through the agency of a Stabilization Fund to hold British and French currencies at a steady low level, at a level detrimental to the American farmers and laborers and manufacturers and taxpayers. I might also add that the present administration in Washington entered into trade negotiations on a philosophy-favored national policy. These negotiations included Great Britain and France, but excluded Germany. And these trade negotiations operated for the benefit of foreigners, excluding Germans, and not for the benefit of Americans.

That is a serious statement. To corroborate that statement let me read from the Congressional Record of March 26, Representative Anderson again inserting the following:

"Of course every foreign producer knows that the United States provides the best market in the world, and, therefore, all the foreign producers are clamoring to dump their cheaply produced products upon our doorsteps. The reduction in tariff duties made by the President to any foreign country in a trade agreement immediately brought our most favored national policy

into operation, and every nation in the world except Germany..." That is in the Record. "...every nation in the world except Germany was given great concessions without giving any concession to us in return. Our short-sighted foreign trade..." I am still quoting the Record "...Our short-sighted foreign trade policies have hurt American producers in many respects. The much heralded Neutrality Law forced through Congress in the special session last November has brought the United States closer to the European war than most people realize. Instead of opening up a strong foreign market for American farm products, as promised by Administration advocates, these exports have diminished to a vanishing point, and the United States has become the military arsenal for belligerents and other nations in the world." Unquote the Record.

My friends, in the first World War we made profits from having engaged in the blood business. In the second World War these profits will not be forthcoming until the billions of dollars already contributed by you taxpayers to the Allies will have been regained, until the losses sustained by the low-cost imports will have been wiped out, and until exports will increase far beyond their present low level.

On page 327 of the Congressional Record of March 26,

we read, according to Mr. Anderson's insertion, "Secretary Wallace predicts a decrease in our exports of farm commodities." Now these words offer us little consolation, particularly as long as our present gold purchase policy is in operation, a policy that enables Britain, the largest gold producer in the world, to sell us gold at a profit for herself of \$15.00 an ounce, a profit sufficient to pay for all her exports. Meanwhile, Britain holds American dollars which buy at least sixteen per cent more than their equivalent British dollars.

From the statements which I have cited today it is patent that there is a problem of international finance, operated by clever international financiers, and not for the full benefit of Americans.

Again, I reassert that since the passage of the Gold Reserve Act of 1934, which nationalized our gold and which agreed to purchase foreign gold produced at no more than \$20.67 an ounce, for \$35.00, and which enabled the profits garnered by the foreigners, particularly Britain and France, to secure considerable ownership in American industry and to purchase American goods with the profits thereof, all at the expense of the American taxpayers; again, I reassert that since the passage of this Act, and the adoption of this policy, wittingly or unwittingly, we Americans have been in this economic war since 1934, play-

ing the role of its chief financier. We have been in it to the extent of billions of dollars of profits for Great Britain and France, billions of dollars prepaid for the conduct of the second World War. And add to this fact that through our preferred tariff policies and through our Stabilization Fund which admittedly was used to support the French franc and the English pound, we have been sustaining a trade policy which operated for the benefit of Great Britain and France and which excluded, excluded participation on the part of Germany. That is neutrality!

So from time to time individuals speculate upon the possibility of our taking over the Bermudas, the British West Indies, San Pierre, Michelon, or island possessions of Great Britain and France, adjacent to our continent, taking them over in payment of the debts these empires owe us. As yet no one has speculated on our taking over the stocks and bonds now commandeered from private English persons by the British Government, stocks and bonds enabling Great Britain, a foreign government, to become the largest manipulator probably in Wall Street, and one of the largest holders and owners of American industry. In my opinion the gold purchasing policy should be abolished immediately. I base my opinion upon the major detrimental effects already indicated in this

lecture. In my opinion the Stabilization Fund, used to sustain in part the low priced British pound and French franc, that should be cancelled forthwith. Quoting from the Minority Report on the Gold Reserve Act of 1934, page 199, an official document, we read the following:

"We believe that such power, namely the Stabilization Fund, placed in the hands of the Secretary of the Treasury, over a two billion dollar fund, places autocratic and dictatorial powers in the hands of one man over directly the control of the values of money and credit, and indirectly over prices. In short, it places the economic destiny of the American people in the hands of one man." Unquote the document.

The Gold Reserve Act, and the Stabilization Fund resulting from it, were enacted into law, so it was advertised by the Administration of Washington "To meet a national and international emergency." We read that statement on page 200 of the Minority Report of the Gold Reserve Act of 1934. Now, it has not, in my opinion, met a national emergency. It has cooperated, wittingly or unwittingly, to meet an international emergency, shall I call it, which might be interpreted as making a prepayment by Americans for the World War of 1940.

Great Britain is playing a major role. Therefore, the question is not, will America become involved

in the present World War despite our Neutrality Act, a neutrality act which did not take into consideration the great contraband of money as representative profits through gold purchasing and the use of the Stabilization Fund? That question was settled in 1934 when, through the passage of the Gold Reserve Act and the institution of the Stabilization Fund, we actually did become participants in the economic war now raging in Europe and threatening to spread to the Orient; already we are involved, financially. The question is, how can we Americans counteract, counteract this unfortunate involvement?

I thank you, ladies and gentlemen, and invite you to write to me for a copy of this address.

ANNOUNCER: Attention please. The facts dealt with in today's lecture were probably unknown to millions in this audience. Do not deprive yourself of further information on these points which, with others, will be printed in "Social Justice" magazine. Write a letter directly to Father Coughlin, asking him to arrange to put your name on the mailing list. Copies of today's lecture are available gratis if you will simply write to Father Coughlin indicating your desire to receive a copy of today's lecture.

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THE SECRETARY OF STATE
WASHINGTON

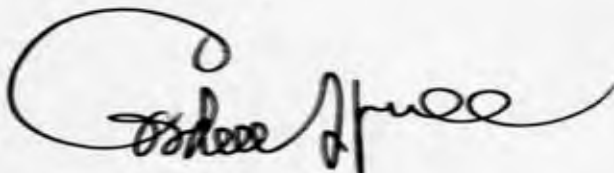
April 23, 1940

Dear Henry:

Thank you very much for your note of April twenty-second and the very interesting enclosures concerning the Trans-Siberian traffic. I shall not fail to keep their confidential nature in mind.

With best regards,

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Cordell Hull". The signature is written in dark ink and is positioned below the typed name.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

GRAY

Johannesburg

Dated April 23, 1940

Rec'd 9:09 a.m.

Secretary of State

Washington

April 23, noon.

Regulation effective April 1st requiring Union importation from non-sterling countries to be paid in Union currency or currency of country of origin amended to permit payment importation from non-sterling countries also in British sterling.

Inform Commerce.

BROCKS

EE

JI

GRAY

Filer

Dated April 23, 1940

Rec'd 12:58 p.m.

Secretary of State

Washington

11, April 23, 5 p.m.

FOR TREASURY DEPARTMENT.

Monday stock exchange volume 90,960, today's
trading and prices slightly lower.

SEVCS

WHC

PLAIN

Berlin

Dated April 23, 1940

Rec'd 3:12 p. m.

Secretary of State,
Washington.

1083, April 23, 10 a. m. (SECTION ONE)

My No. 325, February 7, noon, and No. 778, March
30, 1 p. m.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S
INFORMATION ALSO.

According to figures just published the short term debt of the Reich (composed of the floating debt and the tax certificate debt) stood on January 31 at 20,374 million marks. The January increase in short term debt was therefore 1,454 million marks which was slightly higher than the December 1939 increase of 1,378 million marks.

The floating debt which consists (one) of treasury bills and certificates and (two) direct Government borrowing from the Reichsbank increased by 1,627 million marks during the month to a total of 15,767 million marks on January 31, 1940. In December the floating debt increased 1,539 million marks. There was a net increase

in

REB -2-#1063, From Berlin, April 28, 1939, 10 a. m. (SEC. ONE)

in short term Treasury bills and certificates of 1,769 million marks in January but on the other hand there was a net decrease of 142 million marks in the indebtedness of the Government to the Reichsbank which declined from 785 million marks on December 31 to 643 million marks on January 31.

The increase in floating debt was partly offset by the retirement of tax certificates (the instrument by which the Government under the so-called new finance plan did the bulk of its borrowing from April 1 to November 1, 1939, when their issuance was discontinued). Tax certificates outstanding declined by ¹⁷³~~213~~ million marks during the month to a total of 4,670 million marks on January 31. In December tax certificates outstanding also declined by 161 million marks.

Figures for the increase in long term debt for January have not yet been published. In November and December the monthly net increases in funded debt were respectively 478 and 317 million marks (final figures correcting preliminary figures of 482 and 383 million marks in my telegrams under reference). It is assumed that in January, Government bond sales did not greatly vary from the November and December average so that the
total

REB -3- #1083, From Berlin, April 23, 10 a. m. (SEC. ONE)

total recorded borrowing of the Reich during the first month of this year may have been under two billion marks. In December a month of heavy tax payments the increase in the total disclosed debt of the Reich was 1,695 million marks (final figures).

To judge by the official figures monthly borrowing of the Reich at the turn of the year had declined by nearly one-half billion marks as compared with the first two months of the war. In September the Reich debt increased by 2,324 million marks and in October by 2,483 million marks.

KIRK

VWC

JT

PLAIN

LONDON

Dated April 23, 1940

Rec'd 4:28 p.m.

Secretary of State,
Washington.

1037, April 23.

FOR TREASURY FROM BUTTERWORTH.

CONFIDENTIAL. It has been rare in English history for national finance to become a matter of general national interest. For the first time since 1931 the problems of British national finance, which come up for treatment on budget day, have through public and private discussion again assumed such a character. This afternoon in the House of Commons the Chancellor of the Exchequer announced the terms of his war budget for the fiscal year beginning April 1, 1940, its substance was of the same ilk.

The total expenditure for the year 1940-41 is estimated at £2,667 million as compared with £1,817 million in 1939-40; total revenue at £1,234 million as compared with £1,049 million in 1939-40.

Of the total expenditure £2,000 million is the rough estimate for war expenditure as compared with £905 for the first seven months of the war.

The

-2- #1037, April 23 from London

The increase from £1,049 million to £1,234 million in revenue is to be obtained (a) by an increase in the yield of present taxes of £84 million, and (b) by £101 million from increases in taxes as follows:

An increase of 1d. per pint on beer to yield £15 million; of 15 shillings per proof gallon on spirits (amounting e.g. on a bottle of whiskey to another 1s.9d. therefore costing 16s.) to yield £6.5 million; of 3d per ounce on tobacco to yield £21 million; and an increase in the match tax which will yield £3.6 million; making a total from customs and excise of £46 million. Increases in post office charges, including telegraphs and telephones, yielding additional revenue of £12.7 million. The income tax standard rate increase from 7 shillings to 7 shillings 3d. in the pound as projected in the September war budget is estimated to yield £42.5 million.

The most important tax announcement is an innovation but the date of its operation, its rate and yield were not announced pending the introduction of special legislation. This is a "purchase tax" to be charged when the wholesaler sells to the retailer. It will thus not affect the export trade and it is not to be levied on food, drink, fuel and other basic essential items in the

cost

-3- #1037, April 23, from London

cost of living.

The gap of £1,433 million between expenditure and revenue is to be filled by: the yield of the purchase tax voluntary savings; an increase in the treasury bill issue; long-term loans; and be it noted by sales of present gold holdings.

Simon forcefully criticized Keynes' compulsory savings proposals nailing his sail to the mast of voluntary savings. As a stimulus to small savings he stated that these would not be taken into account in the unemployment assistance means tests to the extent of £375, he also announced that he would bring in special legislation to limit the dividends paid by public companies during the war to amount not more than those paid in recent years, evidently counting on the funds thus not distributed finding their way into war loans.

Until the details of the purchase tax are made known it is impossible to pass a final judgment on this budget as a means of solving the consumption problem but it is possible to say now that £2,000 million for war expenditure should be inadequate for the war effort which Britain's circumstances call for.

Incidentally I did not hear Simon mention the word inflation once during his two hour speech and I feel that
the

NC -4- #1037, April 23 from London

the considerations indicated in the final paragraph of my 815, April 1, 7 p.m., are still valid and that an occasion which called for a measure of greatness was met by mere cleverness.

KENNEDY

CSB