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December 22, 1939

11:30 pm

1

Present:

Mr. Purvis
Mr. Plevin
Mr. Cochran
Capt. Collins
Dr. White
Mrs. Klotz

(Mr. Plevin gave the Secretary the attached communication from Ambassador Bullitt.)

HM,Jr: Will you gentlemen sit down! Excuse me and I will read it.

That's a very nice letter from the Ambassador.

Mr. Plevin: Mr. Secretary, I should have another letter to hand you, but I left so quickly from Paris that I could not take it. It was from Mr. Monnet who wanted me to convey to you his kindest regards.

Mr. Secretary, Mr. Purvis has perhaps already mentioned to you the reason of this visit.

Mr. Purvis: Mr. Secretary mentioned it to me, I think.

Mr. Plevin: I would not like to take up too much of your time if you know what I have to say.

HM,Jr: Let me hear it from you and see if I am right.

Mr. Plevin: I have been asked to come here to study with Col. Jacquin whether we could considerably increase the quantities of engines and planes that we could obtain from the United States. The Prime Minister has reached a view, with the support of his advisers, that not only must we continue to make in France and make in England

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all that we can make, but that in order to display supremacy in the air we must have many and many more planes than we will be able to secure even if the plans of France and England can be consummated as planned. So far we have very good luck in that no plants were bombed, but if any plants had been bombed, of course our plans could not go as speedily as they have since the War and even if our plans go on, we do not think it will give us the supremacy which is wanted.

The program is, therefore -- this is the problem which I have been asked to study with Col. Jacquin and I understand that the British Government is going to send, by one of the next Clippers, one of their experts to join with us: whether there is any possibility of increasing the output of engines, specially of engines and of certain air materials in this country for purchase by the other.

To give you an idea of the size of the effort which is contemplated, what we have in mind is something like four or five times as much as what has already been purchased by Col. Jacquin and the English Missions.

HM,Jr: What is four or five times?

Mr. Plevan: If in terms, you see, of values

HM,Jr: No. In number of planes.

Mr. Plevan: We have in mind something like 10,000. And this applies particularly to the engines. As far as the planes are concerned, we feel more hopeful to increase our output in France and in England, but as far as engines are concerned, we have difficulty to get the necessary machine tools; we have difficulty to get the necessary personnel to make engines.

Now we realize that with orders which have already been placed by England and France, and American industry as it is today, I don't say the whole capacity of the export of the industry is absorbed, but probably a great part of it. And we would like to be able to see, with your experts, by what steps we could take, either by new plants or enlarging the present methods or changing

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certain methods, of increasing the supplies which we would like to get from the United States.

HM, Jr: Well, Mr. Fleven, I think the thing that you want to do is to sit down with Mr. Purvis and Captain Collins and go over this whole situation. Captain Collins is familiar with what the present situation is, and get some idea just what you have in mind, and after you (Collins) have that, the thing in mind, I would like to know it looks like.

As I explained to Mr. Purvis, earlier today, this request that you are making is possible. It is perfectly possible. But it means doubling the present plant capacity for our airplane engines, which means that we have to enlarge our plants.

So after we get the picture, the first thing I have to do is sit down with you gentlemen and decide on what basis you are willing to help our manufacturers of engines to increase their plants and that is purely a Treasury matter, because it gets into the question of taxation.

Mr. Fleven: Uhm.

HM, Jr: Now we have worked out a formula which we are willing to recommend to any foreign Government who wishes to come in and ask our manufacturers to increase their plants, whether it is engines or gun powder.

Mr. Purvis: Yes.

HM, Jr: So that really is the first bridge that ought to be crossed after you have had a general talk with Capt. Collins, because once we do increase our plant there is no use talking, and the first thing that any manufacturer will do is come to us and say on what basis, and I think if we could come to an understanding between Governments as to how the plant should be financed, it will save an awful lot of time. But when you learn on what basis the Treasury is willing to recommend to the manufacturer that he accept money for manufacturing, as regards to the tax that's what interests him most.

Mr. Fleven: I understand that.

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HM, Jr: How is he going to be taxed? Are you a manufacturer?

Mr. Plevin: Yes.

HM, Jr: You are? Then you understand. What do you manufacture?

Mr. Plevin: Automatic telephones.

HM, Jr: If you had to suddenly double your plant you would want to know where are you going to be when this order is finished.

Mr. Plevin: Exactly! Exactly!

HM, Jr: And that's what our manufacturer wants to know and we have a formula, but it has to be agreeable to the Government that is placing the order and to the manufacturer, but first I think to the Government, because it is a question how you will finance these orders, and we have been all through this with Consolidated. We came to an agreement with them and that was most difficult.

Mr. Purvis: Yes.

HM, Jr: We came to an agreement with Electric Boat on these 23, what do you call them, torpedo launches, which would be copied after the one you sent over here. And we have had different types of plant expansion. We have been unable to come to an agreement with the manufacturers of armor plate. We have been talking with them for six months and we can't come to an agreement. So we have troubles here, but that's on domestic orders. But it would be very much easier to come to an agreement on an order placed by a foreign Government provided that the foreign Government will work with us, and we will be very reasonable.

Mr. Plevin: Mr. Secretary, after all the help he has given us, there is no one we would rather work with than Capt. Collins.

HM, Jr: The sympathy is here to do it and the discussion we had yesterday, Captain Collins and I with

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the President, he's in sympathy, so I think you will find that we are ready to move faster than you are. (Laughter followed this remark.)

Mr. Purvis: Let's see if we can disprove that. We will try, but I think we shall not be successful.

HM, Jr: (To Captain Collins) If these gentlemen, on a sort of dare, should move very fast -- I have spoken to Mr. Sullivan in New Hampshire and he will be back bright and early Tuesday morning.

Mr. Purvis: Good!

HM, Jr: And he is ready to talk. So if you (Capt. Collins) would take these gentlemen on for today, if you (Mr. Purvis) care to stay, Mr. Sullivan will be available Tuesday morning. Do you (Mr. Purvis) think of anything else?

Mr. Purvis: I can't at the moment. I think you have covered the situation as far as it can be at this point. We may come back a little later.

HM, Jr: I hope you will.

Mr. Purvis: I wish you a Merry Christmas, Mr. Secretary.

oOo-oOo

*Presented at
meeting 12 -*

6

Paris, December 11, 1939.

Dear Henry:

This note will serve, I hope, to introduce to you my old and close friend, René Pleven, who is about to visit the United States in his official capacity as assistant to the President of the Franco-British Committee of Coordination in London.

You will have through other sources official introductions for Pleven, so that I shall not need to give them; but I should like to tell you that you can have as absolute confidence in his intelligence and discretion as you were able to have in Jean Monnet's similar qualities. Anything which you say to Pleven will go no further. You will find him one of
the

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

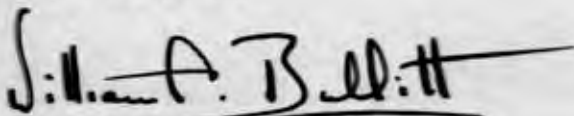
the most profoundly intelligent and one of the best informed men that you have ever met.

I was sorry that your telephone call the other day did not get through to me. Having visited certain northeastern regions incognito, I was engaged in visiting southeastern regions in the same capacity and, for obvious reasons, had given strict orders that no attempt should be made to locate me by telephone.

In any event, I congratulate you on the decision with regard to molybdenum, which I gathered on my return to Paris was what you had in mind. That was subtle and admirable.

Good luck and every good wish.

Yours very sincerely,

A handwritten signature in dark ink, appearing to read "J. William A. Bullitt". The signature is stylized with a large initial "J" and a long horizontal stroke extending to the right.

William C. Bullitt.

December 22, 1939

Mr. Feis

Mr. Cushman

Will you kindly send the following message:

"AMERICAN EMBASSY PARIS.**STRICTLY CONFIDENTIAL FOR THE AMBASSADOR FROM THE SECRETARY
OF THE TREASURY.**

Furvis called today and presented Flaven when I received
and placed in contact with Captain Collins.

Best wishes for a very Merry Christmas."



HEB:cmk
12.22.39

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: December 22, 1939, 8 p.m.

NO.: 1557

FROM SECRETARY MORGENTHAU.

STRICTLY CONFIDENTIAL FOR AMBASSADOR BULLITT.

Today Purvis called and presented Plevin; I received him and placed Captain Collins in contact with him.

I send you my best wishes for a very Merry Christmas.

HULL
(FL)

EA:LWV

JT

GRAY

PARIS

Dated December 22, 1939

Rec'd 6:05 p.m.

Secretary of State,
Washington.

3031, December 22, 7 p.m. (SECTION ONE)

FOR THE TREASURY FROM MATTHEWS

The Chamber by unanimous vote of the 536 present and without discussion this morning passed the national defense appropriations of approximately 55,000,000 francs for the first quarter of 1940 (my telegram No. 3013, December 20, 7 p.m.) and the authorization to contract expenditures for national defense for the entire year 1940 of roughly 249,000,000,000 (preliminary estimate). During the hearings Daladier stated that as of November 30 the army had lost 1,136 men killed, the navy 256, and air force 42 (compared to 450,000 killed by December, 1914).

BULLITT

EMB

JT

GRAY

PARIS

Dated December 22, 1939

Rec'd 6:47 p.m.

Secretary of State,
Washington.

3031, December 22, 7 p.m. (SECTION TWO)

Belgian tax receipts for the first eleven months are given as 8,683,000,000 or 721,000,000 less than estimates and 154,000,000 less than the same period year 1938.

Following the liquidation of the past two days (which was probably due in part to the cessation of the flow of repatriated capital seeking investment) the securities market was stronger today and most issues advanced between 1 and 2%. Rentes were up on the average slightly over a franc the 1937 dollars exchange issue gaining 1.35 francs. Official foreign exchange rates were unchanged.

(END OF MESSAGE)

BULLITT

EMB

DEC 22 1939

HSM

PLAIN

London

Dated December 22, 1939

Rec'd 12:40 p. m.

Secretary of State,
Washington.

2707, December 22.

FOR TREASURY FROM BUTTERWORTH.

With reference to No. 2692 of December 21, 1939, 6 p. m., an amendment to the defense (finance) regulations announced last night provides that as from January 8, 1940, all transfers of sterling from the account of a United Kingdom resident to that of a non-resident or the transfer of sterling securities by a resident to a non-resident will be subject to treasury permission. A non-resident for the purposes of the order is defined as a person resident elsewhere than in the United Kingdom, the British Dominions, colonies, protectorates and mandated territories (except Canada, Newfoundland and Hong Kong), Egypt, the Anglo-Egyptian Sudan and Iraq. The order does not affect the sterling accounts of non-residents which remain entirely free. The transfer of sterling from the account of a resident to that of a non-resident has since the beginning of exchange control been subject to some regulation

hsm -2- No. 2707, December 22, from London

lation, application being necessary on form E. 1. The formalities required under form E. 1 were lax at first, the applicant being merely required to declare that the transfer did not contravene the regulations. As reported in telegram No. 2448, paragraph 3, of November 24, the procedure was tightened up, applicants from then on being required to produce evidence that the transfer was for the purpose of paying for imports or for some other legitimate purpose, when making application for the transfer through a bank. If the bank was satisfied with the evidence it was then permitted to make the transfer. The new regulation which now requires Treasury permission in each case constitutes another step in the direction of reducing the amount of sterling which will become available on the unofficial market. It remains to be seen on which types of application Treasury permission will be granted. Meanwhile by routing all such applications through the Treasury the authorities will have the opportunity of studying the type of transaction for which sterling transfers are desired. Another order under the defense (finance regulations announced last night exempts from any formalities the payment of the proceeds of the sale or redemption of any sterling securities in the beneficial ownership of a non-resident, interest and dividends of any securities

registered

ham -3- No. 2707, December 22, from London

registered or inscribed in his name or in the name of his nominee and interest on bearer securities collected on his behalf by a bank having the custody thereof. This year's pre-Christmas note circulation expansion of £25 million since the war-time low on November 22, compares with last year's £27 million. The week's expansion of £7.2 million was more than offset by Bank of England purchases of Government securities which increased by £19 million; this with a decline of £11.3 million in public deposits, resulted in an increase in bankers' deposits of £27 million bringing the total to £114.8 million. The Bank of England is reputed to have made heavy Treasury bill purchases direct from clearing banks during the past two weeks -- a step contrary to convention and evidently resorted to in order to ease the year-end credit situation.

JOHNSON

RECEIVED
DEC 23 1939
CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Geneva, Switzerland

DATE: December 22, 1939, 4 p.m.

NO.: 330

FOR MORGENTHAU FROM ROYAL TYLER.

I spent one week in Budapest, and just got back.

I learned that now Hungary has definite assurance from Italy that the latter country will accept clearing liras for maritime freights for imports and exports. In cases where Italy is bound by contract to demand payment in free currencies, Hungary will be refunded. It is the intention of Hungary to continue, as at present, payments on the American relief credits and on League loan service. Hungary fears that after the summer of 1940, she cannot renew the three-year arrangement concluded in the summer of 1937 for other foreign debts on the same terms as incorporated in that arrangement. She is considering asking her creditors for agreement on suspending the amortization; the gold pengo paid out each year now amount to 40,000,000, and such suspension of amortization would reduce this amount by about 15,000,000. In the first weeks of the war the losses by Hungary in gold and free exchange were greater than they are now; however, Governor expects that the monthly average of these losses will be about 3 or 4 million gold pengo. At this rate it might be possible for Hungary to rock along for about two years, supplying essential raw

- 2 -

materials to her industry, avoiding unmanageable unemployment, and resisting attempts by Germany to reduce her to the status of an agrarian colony. Germany is now exerting pressure by means of increases up to 60 percent in the Reichsmark prices of German goods, such as dyestuffs and chemicals, which are needed by industry in Hungary; there has been no change in the prices of finished goods, although the choice of goods available is being reduced, and there is a decrease in the total value of imports into Hungary from Germany. Orders from Hungary for automobiles and trucks are still being filled by Germany; opportunities for penetration propaganda and espionage are afforded Germany because of the fact that the whole motor trade in Hungary is in German hands. Efforts are being made by Hungary to reach free exchange markets, but lack of such markets makes it necessary for her to sell to Germany some 50 percent of her total exports. The figure for Reichsmark holdings by Hungary is about 45,000,000; it has been as high as 100,000,000, and it is likely that there will again be some rise. Hungary does not welcome such accumulation of holdings of Reichsmarks, but this is regarded as a lesser evil than a forced customs union or invasion. Efforts are being made by Germany to link food prices in Hungary to prices

prices in Germany, so that any rise in the latter country will take place in Hungary also, making it increasingly difficult for Hungary to sell on free markets.

For the past six weeks the Director-General of the Hungarian National Bank has been in London trying to reach agreement on blockade problems. Today by telephone from Budapest I learned that he is returning tomorrow with an agreement which Hungary considers satisfactory. Hungarian food shipments have been fairly steady up to the present, but there has been a rise in manufactured and imported goods; the cost of living index has not been affected by these increases because of the exclusion of articles which are no longer of current consumption, such as coffee.

Frantic efforts are being made by agents of Germany to buy up any foreign assets which Hungarians own.

TITTMANN.

EA:LWW

December 22, 1939

10:15 a. m.

Present:

Mr. Purvis
Capt. Collins
Mr. Cochran
Dr. White
Mrs. Klotz

HM, Jr: Mr. Purvis, I asked you to come down even though you did have a meeting with Lord Riverdale.

Mr. Purvis: This is much more important.

HM, Jr: I don't know whether you know what Lord Riverdale makes his living out of.

Mr. Purvis: I don't think I do.

HM, Jr: He's the English agent for Climax Molybdenum.

Mr. Purvis: That explains a great many things! I did not know that! No. I think that completes a little circle.

HM, Jr: I only had it completed yesterday. But I would not see Lord Riverdale.

Mr. Purvis: No. Good.

HM, Jr: I want you to know.

Mr. Purvis: Yes.

HM, Jr: Even though Mr. Pinsent was quite insistent, because I said I only wanted my contact with you.

Mr. Purvis: Quite! Quite! And I am glad to say, Mr. Secretary, that from my viewpoint the thing is clearing up very well. Mons. Monnet telephoned yesterday and I had the feeling that the question of communications

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is going to be fixed up now very quickly. I have been dependent on very roundabout methods in certain regards and I think it is going to help in getting information perhaps a little more rapidly when we need it on the Anglo-French questions.

HM, Jr: I am glad for your sake.

Capt. Collins and I saw the President yesterday and he had a very long letter from Ambassador Bullitt in which Ambassador Bullitt said that the First Assistant to Jean Monnet

Mr. Purvis: Mr. Plaver.

HM, Jr: ... Plaver.....

Mr. Purvis: He called on me yesterday.

HM, Jr: was to arrive here yesterday and that he was to see me and Capt. Collins and I thought you would be interested to know that the President said no; that we look to you, and that if you wanted to bring in Mr. Plaver that that would be all right, but you were the head, as we understood it, of the Allied Mission and that we would work with you and that Capt. Collins was appointed by the President as Chairman of the Committee for the explicit purpose of working with you and other gentlemen, but as far as the English and French are concerned we are going to look to you.

Mr. Purvis: Very good. And I think it is fair to Mons. Plaver to say that prior to coming to you, which he could only do if he was permitted to come to you, if you were willing to receive him, that he would ask me to telephone you and I said I would be very happy to go down, so he had it in mind. I think he has the correct steer on this thing. Some details may have to be worked out, but they will be very helpful.

HM, Jr: I think the first time he comes you had better bring him.

Mr. Purvis: I think he is supposed to be in Washington sometime today. He was planning to be.

HM, Jr: Well, anyway, the first time he comes,

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because we want to keep our lines straight and I think I know a little something of the difficulties you have had getting yourself straight, so certainly I am -- the President distinctly does not want other people to come in who are going to be over your head.

Mr. Purvis: It helps me and it helps the purpose, which is the more important thing.

HM,Jr: And that's why I would not see Lord Riverdale.

Mr. Purvis: Quite.

HM,Jr: And that's why I would not see Lord Riverdale.

Mr. Purvis: Quite.

HM,Jr: As to what is in Bullitt's letter, he tells us of a meeting which took place between the French and himself

Mr. Purvis: Yes.

HM,Jr: that they have got to have 10,000 planes this coming year.

Mr. Purvis: Yes. I understand that is Mons. Plevin's great mission.

HM,Jr: And what kind of planes, and all the rest of it, why Capt. Collins will be glad to listen and I would be glad to hear about it in the first instance.

Mr. Purvis: Quite. Quite.

HM,Jr: I take it you don't want to talk about that yet.

Mr. Purvis: Not yet. As I understand it -- just one other fact on the table -- I gathered from Mons. Plevin yesterday that this is something initiated by the French; taken up with the British Prime Minister, approved as a Mission, and that effort by the War Cabinet, which is a joint matter I believe, and then -- by the War Council, I

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mean - and then started off by Mons. Plevin to come over and assist on the situation, endeavor to make a study with such help as you might give him and I to get in the commercial world as well any manufacturing knowledge I can add to it. I think that is what he wants to come to see you about.

HM, Jr: Well, whenever you will bring him in. And I expect to leave tomorrow, and Col. Ralston, the Canadian Finance Minister, is coming at one and I am saving the rest of the afternoon for him.

Mr. Purvis: If I could possibly reach Plevin in town today, if he is here, would there be a chance of squeezing him in for a preliminary talk with you before lunch, if it were only five minutes, Mr. Secretary? His plan, I know, was to come down on the midnight train.

HM, Jr: Where would he be?

Mr. Purvis: I think he was going to the Shoreham and if we could reach him it would be invaluable to me.

HM, Jr: Supposing I ask my operator to get him and if we can you can go in Mrs. Klotz' office and talk to him there.

(HM, Jr asked operator to reach Mr. Plevin and put the call in Mrs. Klotz' office.)

HM, Jr: You see, when you get into this thing, one of the questions, the first question is going to come up, is the question of plant capacity.

Mr. Purvis: Yes.

HM, Jr: And the Treasury, wholly on its own and nothing to do with this group, had several questions up which, if you don't know, I think you ought to familiarize yourself with and that is, for instance, the English, again I am informed, are trying to negotiate direct with both DuPont and Hercules on powder.

Mr. Purvis: I want to ask Capt. Collins whether I could tell him what our situation is. We have not yet started negotiations. We are only negotiating with Hercules.

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(At this point the operator rang twice, indicating she had Mr. Plevin on the phone and ready to talk in Mrs. Klotz' room.)

HM, Jr: I could see him at 11:30.

Mr. Purvis: Very good indeed!

(At this point, Mr. Purvis went into Mrs. Klotz' room to talk to Mr. Plevin.)

Capt. Collins: I think we must suggest to the French that he stay away from the manufacturers until such time as we know what they want.

HM, Jr: What I want to get at is this. This thing, if it gets down to plant business, we are right up against it with DuPont. He says it isn't Du Pont. DuPont want to build a \$15,000,000 plant to take care of this additional powder and the question comes up, right off, of depreciation, everything else, and if they are going to the airplane manufacturers and do this thing I can help this fellow. Give him a formula and say if you will follow this formula --and John Sullivan has the formula -- on this basis you can save months, if you say to the manufacturers we will do it on such and such a basis, we will advance the money, and Sullivan has that formula. He tells me that both Du Pont and Hercules are in disagreement.

(Mr. Purvis returned to the Secretary's office.)

Mr. Purvis: He will be here with the greatest pleasure.

HM, Jr: Can you come back, Capt. Collins, at 11:30?

Capt. Collins: Yes, sir.

HM, Jr: What I want to say -- this is all I know -- through Internal Revenue, both Du Pont and Hercules tell us they have an order from you.

Mr. Purvis: They are wrong; we are merely negotiating with them and one of the questions I wanted to ask today is what I could count on amortization, a question

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which is going to put its head up the minute we tackle anybody.

HM, Jr: It has. The DuPont people say they have a \$15,000,000 order and want to build a plant.

Mr. Purvis: They have no order. We asked for a proposal. To be perfectly frank, speaking in the room, I don't like the proposal. I would like very much the privilege of talking to Capt. Collins and asking such questions as I can properly ask; for instance, I would like to ask is it wrong of me to ask such questions as this: if I were to say to Capt. Collins that the price of powder as indicated is so and so or the set-up as indicated, does that look to him like a high price to pay. I rather fear some of these suggestions that are being made to us and the same on small arms

HM, Jr: That is the service we would like to render you.

Mr. Purvis: Splendid!

HM, Jr: That is a perfectly proper question.

Mr. Purvis: Good!

HM, Jr: We don't want our manufacturers to make exorbitant profits. We want them to make a profit, but not exorbitant profits.

Mr. Purvis: Yes.

HM, Jr: And we would be very glad to have you people say what the prices are that they are asking you and we would be very glad to tell you what is a reasonable profit.

Mr. Purvis: Good! Very good!

HM, Jr: That is one service we would like to render.

Mr. Purvis: Thank you very much. We are so definitely in their hands that service is invaluable. Only one or two people could quote on these.

HM, Jr: You are not in their hands because the thing we could do, which would save months, if you will put

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yourself in our hands and let -- we have worked out a formula which we think is fair for any manufacturer who has a foreign order.

Mr. Purvis: Yes.

HM,Jr: In regard to plants, and questions of right-offs and depreciation.

Mr. Purvis: Oh, good!

HM,Jr: Now, if you think it is fair, all you have to say is "this is the formula which is the Treasury formula and we have accepted that. There is no use arguing with the British Government. That is the Treasury formula." And you won't get to first base on the airplane order until we decide as to the formula for plant expansion, which will be the first hurdle you will have to take, because in order -- we figured yesterday with the President, just figuring roughly, that a thousand of those were bombers.

Mr. Purvis: That's correct.

HM,Jr: Which would take two engines, plus a spare, which is 3, which gives 15,000 engines plus if 10,000 were single

Capt. Collings: 5,000 singles.

HM,Jr: That's right. Five. So it would be seven. So it comes to 23,000 engines, we figure roughly, so we would have to total our motor capacity in this country. So the first thing is plant.

Mr. Purvis: Correct.

HM,Jr: So Mr. Sullivan, of Internal Revenue, has this thing worked out and it will save you months.

Mr. Purvis: And will we have access to that quite quickly?

HM,Jr: You could have it immediately. And the first thing you want to decide whether you think it is fair and if you think it is fair, or not, sit down with Mr. Sullivan and argue it out with us.

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Mr. Purvis: Splendid!

HM, Jr: And certain things that we want the British Government to do in connection with expansion of plant. You have your own tax problem at home.

Mr. Purvis: We have.

HM, Jr: And we just don't want to, through the tax route, let these fellows write off the plant against profit. You see?

Mr. Purvis: Oh, I see! That's a legitimate Treasury decision.

HM, Jr: So I think if you sat down with Mr. Sullivan for one day

Mr. Purvis: Yes.

HM, Jr: ... you could come to an understanding. Then you could cable that back and that is the keystone for all of these orders that need plant expansion.

Mr. Purvis: Yes. I think that is point number one.

HM, Jr: Point number one. And this gentleman who is coming over, before he can get anywhere you people will have to come to an understanding with the Internal Revenue of the Treasury. We will be very fair.

Mr. Purvis: Oh, yes!

HM, Jr: And it won't be difficult. And then, knowing that, then you can talk price and everything else.

Mr. Purvis: Exactly. That's one reason why I have not even responded to DuPont's quotation that they made on preliminary inquiry. I just felt when I read the contract it was dangerous to set up anything in the nature of a precedent, so we are clear as far as the British end is concerned and of course the French are now dealing with us. They started earlier and have things on the record which are not a good precedent, I fear. Monnet was very clear on that yesterday.

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There is one other question. May I ask you? One of the things I am very anxious to avoid a precedent on is the idea we have to put up a great deal of the value of the order as an irrevocable credit before anybody starts to turn the sod, from my point of view as the British Government representative. Now, in the first place, we are not asking first class directors here to put up a bond to show that they will fulfill their word and as far as possible I hope to get the atmosphere that they will accept the fact that this is an unquestionable thing. I think the problem came up in the last war and was satisfactorily settled after some discussion and perhaps some influence being brought to bear, but I think it is a desirable thing to get established.

HM, Jr: That thing Capt. Collins could help you on. That would be down your alley?

Capt. Collins: Yes, sir.

Mr. Purvis: We may have to come to individual cases.

HM, Jr: But the thing of depreciation and obsolescence, Mr. Sullivan is prepared to discuss and has worked out a formula acceptable to me.

Mr. Purvis: And will Capt. Collins introduce me to Mr. Sullivan? He's my channel?

HM, Jr: He's your channel.

Mr. Purvis: And can I recognize that as official?

HM, Jr: It's official and the President yesterday instructed Capt. Collins to go ahead.

Mr. Purvis: Splendid!

HM, Jr: And we have had our own little battle with the Army and Navy and they had to be told that the President is Commander-in-Chief of the Army and Navy and now they know it.

Mr. Purvis: I am so glad somebody else has cooperation besides ourselves.

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HM, Jr: They know it now. You are free to call up Capt. Collins just as often as you want. The President has made him available for this purpose.

Mr. Purvis: Splendid! Thank you very much.

HM, Jr: Now, your letter on aluminum. I gave it to Capt. Collins yesterday afternoon and he will talk to you about it. He has been all through this aluminum thing once for the French and then the French did not show up.

Capt. Collins: Perfectly true. We had conflicting reports as to what the French wanted and it was decided to find out first just what they did want. Mr. Blac-Laine was indicated as the one to contact us.

Mr. Purvis: I will correct that situation from now on. Blac-Laine is a sensible man and I think a man we are lucky to have from that angle.

HM, Jr: Hasn't he gone back?

Mr. Purvis: No. He's here as Vice Chairman with me. Sometime, if you did have the time, he would like a chance to pay his respects to you. May I bring him in sometime?

HM, Jr: You bring him in.

Mr. Purvis: Thank you very much.

HM, Jr: I have been trying to keep my lines clear. I will be very glad to have him brought in. I am still waiting to hear from your Government about nickel for Japan. Yesterday I got a telegram from Butterworth saying he had lunch with Leith-Ross and I gathered Leith-Ross has this and that he hoped that he would have an answer for me over the week-end. Isn't that the way you interpreted that telegram?

Mr. Cochran: Yes, sir.

HM, Jr: He did not mention the commodity, but I take it he's talking about nickel.

Mr. Purvis: Yes.

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HM, Jr: The other thing I want to tell you about is this. Everybody here in Washington, plus the various metallurgists that I have talked to, all agree; it's unanimous; did not talk to Leith-Ross, but with that exception it's unanimous; that there are three alloys which are necessary to make either Russia or Japan feel the want of either one of the two of the three: molybdenum, nickle, tungsten. If we did all three, everybody agrees it would slow them down and they might have to do some redesigning of tanks, etc., but the three together would be difficult. We are doing everything we can to help the molybdenum people get increased orders domestically and anything that you can do in England and France to increase your orders, would be helpful, although they are not asking you to build up stock piles.

Mr. Purvis: No. No.

HM, Jr: But anything you can do to increase the use of molybdenum in England and France would keep them happy, because half of their business was with Russia and Japan, so it's a great loss to them commercially, and they are being terribly good about it.

On the tungsten thing, you are the first person from your Government or the French that I have talked to about it. This is the situation as the Chinese tell it to us. They had a production of around 10,000 tons a year of tungsten and tin.

Mr. Purvis: Yes.

HM, Jr: They will soon use up their \$25,000,000 credit that they have with us. Have all their commitments made. They can't put out any more bids. Have used it all up and it has to be for non-military purposes. They have been very anxious for us to lend them another sum. Of the 10,000 tons of tin they can deliver

Dr. White: tungsten

HM, Jr: No, excuse me, they can deliver 10,000 tons of tin, for sale through this Universal Trading Corporation. As to tungsten, half of it, Dr. Kung informed me this week or last week, was pledged to Russia on barter. They had about 500 tons pledged to England. Which left

them, roughly, 5,000 tons for sale. I had some kind of an idea of a combined loan, we making possibly, oh let's say a loan of \$25,000,000 which they could only use for non-military purposes, the English and French putting up \$25,000,000 which they could use for ammunition.

Mr. Purvis: Yes.

HM, Jr: You know, politically the Russians are getting in more and more there and at present it is their only source of defensive weapons. This week a cable came in from the Minister of Foreign Affairs of France saying that the Chinese Government had in Indo-China 7,000 tons of tungsten and antimony; did not say how much of each, and the French Government has taken it all.

Mr. Cochran: That wasn't from the Foreign Minister of France.

HM, Jr: Of China. Foreign Minister of China sent me this message that they had 7,000 tons of tungsten and antimony which had been seized by the French. Well, I don't know what proportion is tungsten and what proportion is antimony. I would like to find out. I would like to find out what are the French going to do with this stuff and I would also like to find out whether in connection with, let's say, "cornering" the market in tungsten and molybdenum and nickle, would the Allies consider a simultaneous venture with the Chinese Government. You see?

Mr. Purvis: Yes, I see.

HM, Jr: Which would take care of this tungsten situation. You see?

Mr. Purvis: Yes. I see exactly what you mean.

HM, Jr: And then I was going to put this up to you and then comes this message from the Foreign Affairs Minister of China that France has grabbed off 7,000 tons of tungsten and antimony. Now, if you have lines of communication so that you could get a little bit quicker answer

Mr. Purvis: Yes.

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HM, Jr: because I am doing everything I can to keep our molybdenum people happy and I think your nickel people will be much happier if they knew that we were working on the three.

Mr. Purvis: Oh, on the three! Yes.

HM, Jr: I think there is only 16 pounds of molybdenum goes into an airplane and this is all silly, but if you were going to withhold all then we feel we could tell our stockholders, and I am sure the nickel people would feel the same way. So here is this tungsten, somewhere in Indo-China, plus the annual production which they claim of 10,000 tons, so this has nothing to do.-- this I am handling directly for the President and will not clear through Capt. Collins; I am handling with you direct. But the question of a certain kind of aluminum and the expense and anything like that would go through Capt. Collins.

Mr. Purvis: But this is rather different.

HM, Jr: And then this matter of getting the agreement between your Government and ours as to how we will handle new plants, I want to handle all myself because you know how they are going to handle investment in a new plant. I want to get that settled first.

Capt. Collins: That must be settled before I can go to any manufacturers.

HM, Jr: But contacting of manufacturers, I want to leave entirely to Capt. Collins. He knows the President of the three airplane motor companies. He knows them, knows the manufacturers of airplanes, and all that.

Mr. Purvis: Yes. Yes.

Capt. Collins: May I suggest, in connection with that, that no contacts be made by any of the Mission until we have some understanding of just what may be wanted.

Mr. Purvis: And the special air study that is to be made. May I say we are at the moment, for instance, in the British field, in negotiation for a number of small things: 100 fighters; 40 seacraft from Consolidated, similar to the ones you recently bought, of some similar nature,

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and 200 bombers from Douglas. I think it's 200. We are actually meeting those people from day to day now.

Capt. Collins: That was business commenced before the Board was set up; has been going on for several weeks.

Mr. Purvis: It's just emerging into the commercial side. It may be we will strike, even on small orders, the capital question, but it may be they will be so small in relation to the whole that the capital question will not stick its head out.

HM, Jr: I think even if it is old business, I would bring the Board up-to-date.

Mr. Purvis: If we can have an early meeting, we will bring everything pending on the British-Anglo Mission.

HM, Jr: I would, because the President has had his troubles in getting this Board to work and some of the Army people, well, they just don't like it. Now, in order -- the President only yesterday again reaffirmed his position that he wants Collins as Chairman of the Board. If you don't mind my saying, I wouldn't see the French. I think if you will bring Capt. Collins up to date on everything and we will save you some money, because this Consolidated crowd, for the Navy we saved the Navy from the time we started on right-offs we saved them \$6,000 per plane.

Mr. Purvis: We will come, I promise you.

HM, Jr: And we will let you know what the Navy bought.

Mr. Purvis: Yes; exactly. We will immediately file with you a statement which should arrive either, on Tuesday morning after Christmas, of outstanding negotiations. I will have to get the French on that over the week-end.

HM, Jr: You see, what the French were doing up until the time I asked the President to release me, I got every Monday morning from the French a sort of running inventory, orders placed during the weeks, orders under consideration, and orders fulfilled.

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Mr. Purvis: A weekly statement?

HM, Jr: Weekly statement.

Mr. Purvis: That's what I plan to give Capt. Collins, but we can start with something bringing you up to date.

HM, Jr: And they had a great time getting their people together because they were placing orders here and abroad, and the fact I insisted on the weekly report gave them an opportunity to use that as a leverage to get it for themselves.

Mr. Purvis: And then you begin to get a focus on the whole thing and that's very helpful.

HM, Jr: And I think if you could give Capt. Collins such a running inventory, eventually it would be very helpful.

Mr. Purvis: That will be done. And if you will give us a danger signal at any point "look out and wait for us", we will hold it up. Blach-Laine and I will establish offices next door to each other

HM, Jr: Congratulations!

Mr. Purvis: ... after talking to Monnet yesterday. I realized that though we are both without instructions, until Pleven came over and handed me a personal letter from Monnet yesterday, I now see clearly and have sufficient documents to know we can decide our procedure and general set-up between the English and French on this side of the water. We will now proceed as rapidly as we know how.

HM, Jr: What can you think of, Captain?

Capt. Collins: I think you have covered it all so far, Sir.

HM, Jr: You (Collins) have my aluminum letter? You have the original?

Capt. Collins: I have it in my secret file.

HM, Jr: You gentlemen come back at 11:30. If you want to wait in the Treasury, we have a room where you can wait.

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Pls file 12-22
date of meeting



TREASURY DEPARTMENT

WASHINGTON

33

December 26, 1939.

MEMORANDUM FOR THE SECRETARY'S PERSONAL FILES

Dec. 22.

Late Friday afternoon the Secretary sent for Mr. O'Donnell of Research and Statistics (Mr. Haas being confined to his home on account of illness) and me to confer with him and Kenneth Currie regarding the basis of Treasury estimates of revenue for the fiscal year 1941.

The Secretary handed Mr. Currie the original memorandums submitted by Mr. Haas giving the basis of these revenue estimates, and told Mr. Currie that he could read over this memorandum and ask Mr. O'Donnell any questions or for any additional information that he might want; and if there was anything further he needed he could get in touch with Mr. Bell or he could reach the Secretary by telephone at the farm. I understood that Mr. Currie went into the basis of the estimates with Mr. O'Donnell. Full explanations were made of each point raised by Mr. Currie. Mr. O'Donnell felt that while Mr. Currie was disappointed that the business forecasts used in making the estimates did not yield more revenue, nevertheless he seemed reconciled to the figures since he presented no new evidence which would ordinarily have led to a change in the estimates.

Saturday afternoon Mr. Smith, the Director of the Budget, telephoned me that he and Mr. Currie had just had a conference with the President; that Mr. Currie had told the President he felt the Treasury's estimates were entirely too conservative; that the Federal Reserve Board's estimates showed total revenues of \$6,400,000,000; and that he had an estimate from one outside concern which verified the Federal Reserve's estimates. He suggested that

the revenue estimates be raised to this figure.

Mr. Smith said the President did not agree to this increase but said he would agree to increase the Treasury revenue estimates by \$200,000,000 and would state in his budget message that he felt the Treasury's estimates were too conservative and that he had increased them by this sum.

I told Mr. Smith I did not believe we could allow the President, if we could at all prevent it, to do this as it would look as though there was a difference between the Treasury and the President on the revenue estimates, and for my part I would much prefer to see the estimates revised by the Treasury and arbitrarily raised \$200,000,000 than have the President arbitrarily increase the estimates and state in his budget message that he had done that.

Mr. Smith agreed that this would be better for all concerned and said he would appreciate it if I would talk to the Secretary and see if he would not agree to do this.

I immediately telephoned Mr. Haas and explained to him the situation. He agreed that the Treasury should change its estimates rather than have the President arbitrarily increase them. He said he would talk to O'Donnell and have him go over the estimates again and see if we could distribute the \$200,000,000 throughout the list early Tuesday morning so that the Budget could have our revised figures by noon that day.

The Secretary called me Sunday morning and asked me what had happened in the Currie conference. I gave him the foregoing information and that I had talked with Mr. Haas and it was our recommendation that the Treasury change its estimates to accord with the President's wishes. The Secretary said that we should go ahead and work it out and that he would talk to us again Tuesday morning.

He called this morning and said that he would leave it in our hands to change the estimates by \$200,000,000 and get them to the Budget today. He agreed that that was the best way to handle the matter.

A revised estimate went forward today changing about twenty-three items of the whole internal revenue list. About \$111,000,000 of the \$200,000,000 increase was added to corporation and individual income taxes.

subB

My dear Mr. President:

Recently you asked me about the possibility of issuing additional bonds against the Panama Canal under the Act authorizing the issuance of Panama Canal bonds, to reimburse the Treasury for costs of the Canal and more particularly for the purpose of financing the enlargement of facilities of the Canal in the interest of defense and interoceanic commerce, as authorized by the Act approved August 11, 1939, up to an aggregate cost of \$277,000,000.

In the opinion of the Treasury Department, no additional bonds may be issued against the Canal outside of the general borrowing authorization in the Second Liberty Bond Act, without obtaining further authorization from Congress.

The Panama Canal Acts authorized the Secretary of the Treasury to issue \$375,200,000 of two and three per cent bonds. Of this amount only \$134,631,000 were issued, leaving a balance unissued of \$240,569,000. This balance was subject to adjustment for certain Postal Savings bonds, issued, etc., bringing the balance down to about \$225,000,000 by the time of enactment of the Second Liberty Bond Act.

The Second Liberty Bond Act of September 24, 1917, authorized the Secretary of the Treasury to borrow, subject to an original limitation of about \$7,500,000,000, (now increased to \$45,000,000,000) and added that "of this sum * * * \$225,000,000 shall be in lieu of" the unissued Panama Canal Bonds. In other words, the Second Liberty Bond Act absorbed and extinguished the right to issue additional Panama Canal bonds, leaving no specific unused authorization to borrow against the Canal.

I will send to you a further letter in the next day or two concerning the general subject of issuing obligations to capitalize existing self-liquidating projects and finance the construction of future projects of this nature.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

WTH:vf
December 21, 1939

...Allsaps notes on French mission returned to him
with ELD corrections as per H.M.JR's remarks
original of this ret'd to Allsaps
12/22/69.

to - no such
memorandum

(The French airplane story begins in the summer of 1938, when H.M.JR., while traveling in France, discussed with Bullitt and members of the French administration the possibility of the French procuring military airplanes in the United States.) It was because of these discussions, as well, perhaps, as the President's memory of past War Department attitudes in such matters, that when Bullitt arrived in this country with the French military mission in tow, the President put them under the wing of H.M.JR. This was early in December 1938.

December 21, 1938, is the date of the origin of the row. At a cabinet meeting on this day, Woodring was informed of the presence and needs of the French mission, and of the fact that they were under H.M.JR's wing. The very next day at a meeting in H.M.JR's office, Woodring announced violent opposition to the whole business, and especially to the release of the early model Douglas attack bomber, of the existence of which the French mission had apparently learned from the Navy. In this period of the beginning of the row Woodring was ready, though far from anxious, to approve release of the Curtiss P-40.

Presumably this first meeting in H.M.JR's office caused both sides to go to the President. At any rate, towards the end of December, the President intervened to bring Johnson into the picture. Johnson was made familiar with what had already happened in a memorandum from

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General Marshall, and immediately went to the President to advocate the precise reverse of Woodring's stand. The Curtiss P-40, he said, was the best pursuit plane in the world, and the French should therefore, only be permitted to have the slower Curtiss P-36. As to the Douglas bomber, however, this was an out of date model, superseded by another type ordered by Johnson, of which Woodring was presumably ignorant, which would be in production by the spring. Therefore, he suggested that the French be allowed to have the Douglas. The decision was left pending, however, and (according to Woodring, but not Johnson) a row broke out again on January 5, 1939, when the President held a meeting in the oval room of the White House to discuss his special message to Congress on national defense appropriations. Present were the President, Bullitt, (H.M.J.), Humes, Edison, and some admirals, Johnson, Craig, Marshall, Woodring and Arnold. Defense appropriation had been discussed at some length and various problems had been thrashed out, the French mission matter was brought up. Again there was argument and again there was no decision. A day or so later there was a cabinet meeting after which the President received H.M.J., Sumner Welles, Woodring and (perhaps John Humes) in his office. Before the others went in, the President had given H.M.J. a letter confirming his authority to help the French mission. H.M.J. explained that the French wanted the new Douglas and the Curtiss-Wright. There was another big row, which was only the preliminary for a sort of general battle at a meeting at the Treasury attended by Woodring and his staff on the day following.

when H.M.JR. finally told Woodring, "I will tell the President you are obstructing me." The day after that H.M.JR. wrote a letter to this effect to Woodring, but after a telephonic argument, withdrew it.

*No such
letter and
telephone
conversation*

The matter was finally settled on January 16, presumably by the intervention of Louis Johnson at still another White House meeting attended by Ballitt, H.M.JR. and the army people, at which the President flatly announced that he proposed to let the French have the early Douglas, the Curtiss P-36, and an out of date Martin bomber as well. The orders to let the French see these planes were signed on January 19th.

- 1471's 6

X The French airplane story begins in the summer of 1938, when H.M. Jr., while traveling in France, discussed with Bullitt and members of the French administration the possibility of the French procuring military airplanes in the United States. It was because of these discussions, as well, perhaps, as the President's memory of past War Department attitudes in such matters, that when Bullitt arrived in this country with the French military mission in tow, the President put them under the wing of H.M.Jr. This was early in December '38.

December 21, 1938 is the date of the origin of the row. At a cabinet meeting on this day, Woodring was informed of the presence and needs of the French mission, and of the fact that they were under H.M.Jr.'s wing. The very next day at a meeting in H.M.Jr.'s office, Woodring announced violent opposition to the whole business, and especially to the

-2-

release of the early model Douglas attack bomber, of the existence of which the French mission had apparently learned from the Navy. In this period of the beginning of the row Woodring was ready, though far from anxious, to approve release of the Curtiss P-40.

Presumably this first meeting in H.M.Jr.'s office caused both sides to go to the President. At any rate, towards the end of December, the President intervened to bring Johnson into the picture. Johnson was made familiar with what had already happened in a memorandum from General Marshall, and immediately went to the President to advocate the precise reverse of Woodring's stand. The Curtiss P-40, he said, was the best pursuit plane in the world, and the French should therefore, only be permitted to have the slower Curtiss P-36. As to the Douglas bomber, however, this was an out of date model, superseded by another type ordered by Johnson, of which Woodring was presumably ignorant, which would be in

production by the spring. Therefore, he suggested that the French be allowed to have the Douglas. The decision was left pending, however, and (according to Woodring, but not Johnson) a row broke out again on January 5, 1939, when the President held a meeting in the oval room of the White House to discuss his special message to Congress on national defense appropriations. Present were the President, Bullitt, H.M.Jr., Hanes, Edison, and some admirals, Johnson, Craig, Marshall, Woodring and Arnold. Defense appropriation had been discussed at some length and various problems had been thrashed out, the French mission matter was brought up. Again there was argument and again there was no decision. A day or so later there was a cabinet meeting after which the President received H.M.Jr., Sumner Welles, Woodring and perhaps John Hanes, in his office. Before the others went in, the President had given H.M.Jr. a letter confirming his authority to help the French mission. H.M.Jr. explained that the French wanted the new Douglas and

the Curtiss-Wright. There was another big row, which was only the preliminary for a sort of general battle at a meeting at the Treasury attended by Woodring and his staff on the day following, when H.M.Jr. finally told Woodring, "I will tell the President you are obstructing me." The day after that H.M.Jr. wrote a letter to this effect to Woodring, but after a telephonic argument, withdrew it.

The matter was finally settled on January 16, presumably by the intervention of Louis Johnson at still another White House meeting attended by Bullitt, H.M.Jr. and the army people, at which the President flatly announced that he proposed to let the French have the early Douglas, the Curtiss P-36, and an out of date Martin bomber as well. The orders to let the French see these planes were signed on January 19th.

December 22, 1939.

Dear John:

In view of the strong compulsion you feel to return to your private affairs which you have expressed to me both verbally and in your letter of December 22, I have no choice but to transmit your letter of resignation to the President.

This I do with the greatest reluctance, both because of the loss of your able and loyal service and the deprivation that I feel in having to break a close personal association that has given me so much real pleasure.

Your service to the government has been distinguished and your help has been invaluable to me. I am most deeply grateful for it.

I know that your further career will bring you even greater honors, in which I also shall take pride, and I hope that it will be full of deep personal satisfactions.

Sincerely,

Secretary of the Treasury.

The Honorable John W. Hanes,

Under Secretary of the Treasury.

December 22, 1939.

Dear Johnnie:

I am sorry to receive your letter of resignation, but in view of the wish that you have repeatedly expressed to return as soon as possible to private life I am accepting it as of the date you set, which is as of the close of business on December 31 of this year.

In accepting it I desire to express my deep and sincere gratitude for the conscientious, loyal and able service you have rendered to the government and to this administration both in the Securities and Exchange Commission and in the Treasury Department. It is a record of good work done at personal sacrifice for which you should be honored and in which you are entitled to take the greatest pride.

I hope that your future activities may bring you great success and great rewards.

Yours very sincerely,

*Signed by The
President*

The Honorable John W. Hanes,

Under Secretary of the Treasury.

December 22, 1939.

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Under Secretary of the Treasury.

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I know that your further career will bring you even greater honors, in which I also shall take pride, and I hope that it will be full of deep personal satisfactions.

Sincerely,

Secretary of the Treasury.

The Honorable John W. Hanes,

Under Secretary of the Treasury.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

48

December 22, 1939

Dear Henry:

In accordance with our understanding last June, when I expressed my wish to return to private business and you suggested that we defer decision until the end of the year, I now beg to offer my resignation, to take effect at your convenience.

May I say with deep feeling that for me it has been a rare privilege to serve under your leadership in the Treasury. Your conscientious devotion to duty has been an inspiration to me. Were I in a position to do so, and if you desired it, I should enjoy nothing more than to remain under your direction in the public service.

The tasks recently assigned to me are now nearing completion and I know you will understand and accept my reasons for going back to my private affairs which have been completely neglected by me during these last two years.

With every good wish and affectionate regards,

Faithfully yours,

John W. Hanes

The Honorable

The Secretary of the Treasury.

FEDERAL RESERVE BANK
OF NEW YORK

49

OFFICE CORRESPONDENCE

DATE Dec. 22, 1939.

Files

SUBJECT: Loan to Sveriges Riksbank.

TO: L. W. Knoke

The Swedish Minister to the United States (Mr. Bostrom) and the Swedish Commercial Attache (Mr. Erickson) called this afternoon at 3 p.m. and in the absence of Mr. Harrison spoke to Messrs. Sproul and Knoke.

Mr. Bostrom handed us the attached message from Mr. Rooth of the Sveriges Riksbank to Mr. Harrison and inquired whether and on what basis Federal Reserve Bank of New York could arrange a credit to Sveriges Riksbank for one year of \$10,000,000. It was explained to Mr. Bostrom that it is the policy of this bank to grant short term loans of seasonal character against gold only if the gold is deposited in this country. As regards what Governor Rooth calls loans against commercial paper we said Federal Reserve banks were authorized under Section 14 of the Federal Reserve Act to purchase commercial bills maturing within 90 days, bearing two signatures and covering actual commercial transactions. These are the only two ways for extending credit to foreign central banks permitted Federal Reserve banks under the Federal Reserve Act. Mr. Bostrom inquired two or three times if a Federal Reserve bank could make a loan to a foreign central bank against the guarantee of its government and was told that it could not. A request for a loan against gold in this country or a loan in the form of the purchase of commercial bills, he was told, would have to be submitted for the approval of our board of directors and also that of the Board of Governors of the Federal Reserve System.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

50
DATE Dec. 22, 1939.

Files

SUBJECT: Loan to Sveriges Riksbank.

FROM: L. W. Knoke

No direct negotiations could be conducted by us without their knowledge. Mr. Bostrom inquired whether a loan in either form could be granted for one year and he was advised that it had been our practice in the past to make advances for three months with the possibility of renewals.

Mr. Bostrom referred briefly to the trade between Sweden and this country which he said was favorable to us to the extent of \$40,000,000 per year, with Sweden the second largest buyer of United States goods (next to Great Britain).

Mr. Bostrom was advised that Mr. Rooth's inquiry would be submitted to our directors at their next meeting on December 28 but that in view of the present holiday season no final answer could probably be expected for about two weeks. In view of Mr. Rooth's statement to Mr. Bostrom over the telephone and in his cable to Mr. Harrison that the money was not urgently needed, this schedule seemed to be satisfactory to Mr. Bostrom. It was understood that after we are ready to communicate with Mr. Rooth we shall cable him direct by means of our private code arrangement with Sveriges Riksbank and send copy of our message to the Swedish Minister in Washington.

RECEIVED

DEC 23 1939

RECEIVED
RECEIVED
RECEIVED

LWK:KW

SWEDISH LEGATION
WASHINGTON.

51

A telegram has been received at the Swedish Legation requesting that the following message from Mr. Rooth of the Swedish Riksbank be handed to Mr. Harrison of the Federal Reserve Bank of New York:

"Can Federal Reserve Bank New York contemplate credit to Riksbanken for one year of, say, ten million dollars against either Swedish commercial papers, deposited at Oslo, or gold earmarked for you with Norges Bank, Oslo. If such credit possible, please cable conditions. No urgent need. Proposal made only as precautionary measure."

Washington, December 22, 1939.

RECEIVED
DEC 22 1939

TESTIMONY
FURNISHED BY
FEDERAL RESERVE BANK
WASHINGTON, D. C.

FEDERAL RESERVE BANK OF NEW YORK

52

December 26, 1939.

S i r s :

With reference to Mr. Harrison's telephone conversation this afternoon with Chairman Eccles, we enclose for the Board's confidential information copy of a memorandum covering the conversation we had with the Swedish Minister on December 22 and of Mr. Rooth's message to Mr. Harrison. No reply to this message has as yet been sent to Mr. Rooth.

Very truly yours,

L. W. Knode,
Vice President.

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

Enc.

LWK:KN

RECEIVED

DEC 28 1939

TRANSMITTED TO THE BOARD
FOR INFORMATION
AND ACTION

**FEDERAL RESERVE BANK
OF NEW YORK**

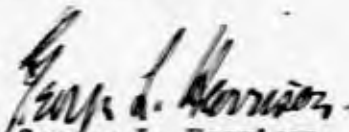
ack rec?
show Cochran?
53
AK

December 22, 1939.

Dear Mr. Secretary:

I am enclosing for your information translation of a letter dated November 11, 1939, received by me from the Governor of the Bank of France in connection with a recent French gold shipment via Halifax. I thought you might be interested in reading it.

Respectfully yours,


George L. Harrison,
President.

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

Enc.

14-00000-20-38

TRANSLATION

54

From The Governor, Banque de France, Paris
To Mr. Harrison, President, Federal Reserve Bank of New York

November 11, 1939

My dear Mr. Governor,

I have the honor to introduce to you my Cashier General, Mr. Rousseau, whom I have delegated to accompany to your bank a new stock of gold, which I request you to place into the account of the Banque de France. The necessity of keeping this shipment secret, has not permitted me to inform you thereof; I request you kindly to excuse my action under the existing circumstances.

I thank you for the steps you may take to facilitate the mission of my delegates,

Yours, etc.

(signed) P. Fournier

December 27, 1939.

55

Dear Mr. Harrison:

In the absence of the Secretary, who is away from Washington for a few days, I am acknowledging your letter of December 22nd which enclosed a translation of one you had received from the Governor of the Bank of France.

As soon as Mr. Morgenthau is back at his desk, I shall be glad to bring this to his attention.

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. George L. Harrison, President,
Federal Reserve Bank of New York,
New York, New York.

*Signed + mailed
Dec. 28th*

GHF:lmf

December 22, 1939

MEMORANDUM FOR MR. SULLIVAN.

On your return, Tuesday, I would appreciate your sitting down with Dr. Harry White and going over with him your proposed formula, which you evolved, in connection with foreign Governments who wish to place orders with our manufacturers which will entail upon them the necessity of increasing their plants.

December 22, 1939

MEMORANDUM FOR MR. SULLIVAN.

On your return, Tuesday, I would appreciate your sitting down with Dr. Harry White and going over with him your proposed formula, which you evolved, in connection with foreign Governments who wish to place orders with our manufacturers which will entail upon them the necessity of increasing their plants.

December 22, 1939

MEMORANDUM FOR MR. SULLIVAN.

On your return, Tuesday, I would appreciate your sitting down with Dr. Harry White and going over with him your proposed formula, which you evolved, in connection with foreign Governments who wish to place orders with our manufacturers which will entail upon them the necessity of increasing their plants.



TREASURY DEPARTMENT

WASHINGTON

59

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

December 22, 1939.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements which have been requested, the following applies:

De Laval Steam Turbine Company:

A conference was held with representatives of this concern on December 18, 1939, at the request of the Navy Department. Admiral Bass of the Navy attended. The contractor's representative stated the concern will accept a letter ruling that the treatment of the special tool involved will be determined in accordance with I. T. 5239. Such a letter has been mailed to the contractor and it is expected that the contractor will now be willing to enter into a contract without the necessity of a closing agreement.

The Midvale Company:

This matter is still receiving active consideration but there have been no developments.

Consolidated Aircraft Corporation:

The execution of a closing agreement in this case followed by the award of the Navy contract involved operate to close this case with a 100% accomplishment of the objective.

No new matters developed during the week.

Guy F. Helvering
Commissioner.

IT:P:CA
CAA

December 22, 1939.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements which have been requested, the following applies:

De Laval Steam Turbine Company:

A conference was held with representatives of this concern on December 18, 1939, at the request of the Navy Department. Admiral Bass of the Navy attended. The contractor's representative stated the concern will accept a letter ruling that the treatment of the special tool involved will be determined in accordance with I. T. 2289. Such a letter has been mailed to the contractor and it is expected that the contractor will now be willing to enter into a contract without the necessity of a closing agreement.

The Midvale Company:

This matter is still receiving active consideration but there have been no developments.

Consolidated Aircraft Corporation:

The execution of a closing agreement in this case followed by the award of the Navy contract involved operates to close this case with a 100% accomplishment of the objective.

No new matters developed during the week.

Commissioner.

CAA/MEA

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 22, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was very quiet which is the condition it usually settles into just prior to the Christmas holidays. Sterling opened at 3.94-5/8 and, during the morning, it moved up to 3.95. It remained at that level for most of the day but towards the close, the rate eased off. The final quotation was 3.94-3/4.

Sales of spot sterling by the four reporting banks totaled £259,000, from the following sources:

By commercial concerns.....	£ 107,000
By foreign banks (Europe, Far East and South America).....	£ 152,000
Total.....	£ 259,000

Purchases of spot sterling amounted to £316,000, as indicated below:

By commercial concerns.....	£ 205,000
By foreign banks (Europe and Far East).....	£ 111,000
Total.....	£ 316,000

The following reporting banks sold cotton bills totaling £28,000, to the British Control at the official rate of 4.02:

£ 13,000	by the Guaranty Trust Co.
£ 8,000	by the Chase National Bank
£ 7,000	by the National City Bank
£ 28,000	Total

The other important currencies closed as follows:

French francs	.0223-3/4
Guilders	.5310
Swiss francs	.2243
Belgas	.1666
Canadian dollars	11-1/2¢ discount

We purchased \$250,000 in gold from the earmarked account of the National Bank of Belgium.

The Federal Reserve Bank of New York received a cable from the B.I.S. requesting it to apply for a license to transfer from its Account #2 gold valued at approximately \$747,000 to the account of the Netherlands Bank at the Federal. B.I.S.'s Account #2 is gold owned by that bank. Authority to make this transfer was granted by the Treasury.

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

\$2,090,000 from South Africa, shipped by the South African Reserve Bank to be earmarked for account of the Netherlands Bank.
 116,000 from Mexico, shipped by the Bank of Mexico to be earmarked for its account.
 102,000 from Mexico, shipped by the Bank of Mexico for sale to the U. S. Assay Office at New York.
\$2,308,000 Total

We received a cable from the State Department sent by the American Consul at Hong Kong stating that the Banque Belge pour l'Etranger, Hong Kong, shipped gold valued at approximately \$211,000 to the Bank of America N.T.S.A., San Francisco. This shipment will be sold to the U. S. Mint at San Francisco.

Hendy and Herman's price for foreign silver was fixed at 35-3/8¢, off 1-1/8¢ from yesterday. The Treasury's price was unchanged at 35¢. No purchases of silver were made by us today.

The U. S. equivalents of the London fixing prices for spot and forward silver were slightly lower at 41.36¢ and 41.27¢, respectively.

Mr. Knoke telephoned me this noon that the Swedish Minister is calling at the Federal Reserve Bank of New York this afternoon at 3 o'clock in regard to a proposition emanating from Governor Booth of the Bank of Sweden.

As of December 21 the account of the State Bank of Russia with the Chase Bank amounted to \$6,400,000, which involves a decline of \$4,000,000 from the latest balance reported to us through the Federal Reserve Bank of New York. The amount of confirmed credits was \$5,400,000, which had been increased by \$2,000,000 taken out of the current account to Astorg. The Astorg balance as of December 21 had gone up from \$1,000,000 to \$2,000,000.

The Minister of Finland dropped in for a chat yesterday evening. Mr. Knoke told me yesterday that he had received cabled instructions from the Bank of Finland at Helsinki to place \$760,000 at the disposal of the Finnish Legation.

In answer to my inquiry, Mr. Knoke told me that no gold is held by the Federal Reserve Bank of New York for account of the Reichsbank, in its own name, and, furthermore, none through any account of the B.I.S. with the Federal. Mr. Knoke was checking up to see whether in recent shipments from the Netherlands there had been received any gold bars of German origin.

Mr. F. W. Lichtensteiger, who came from London to establish the Agency of the Swiss Bank Corporation at 15 Nassau Street, New York, in October, called on me yesterday. He is a Swiss, born in Basel, and has been with the Swiss Bank Corporation for 34 years, most recently in the London Agency. Mr. Colby, General Manager of the Swiss Bank Corporation, had planned to come to New York to open the Agency, but was prevented by European developments. He had written me a letter introducing Mr. Lichtensteiger. The latter gave me a little idea of the extent of his Agency's

- 3 -

business. The original plan had been to conduct the New York office with a staff of 35 people, most of whom were to be brought from Switzerland since the business of the Agency would necessitate knowledge of four languages by many of its personnel. 10 of the men who were to come over were called to the Swiss covers. Since opening on October 15 the New York Agency has increased its initial staff, first to 51 people, more recently to 92, and expects to have 100 by the end of the year. The percentage is about one-half American and one-half Swiss. The American half includes a number of people of Swiss origin. Mr. Lichtensteiger stated that he had at least 20 applicants for every position. Brought up in a bank which strives for continuity of service, pensions its employees, etc., he was startled to see the lack of stability in employment by financial concerns in this country, as evidenced by the long list of positions which had been occupied, often for a very brief period, by the applicants coming to his agency. Mr. Lichtensteiger said that the New York banks, some of which must feel the presence of a new banking agency in their market, have been very helpful in extending cooperation and advice to his concern. He has been surprised at the number of accounts that have been opened with his institution. Our records indicate that the Swiss have been for some time heavy purchasers of American securities. The Swiss Bank Corporation itself has for many years held large blocks of American securities, including railways, both for its own account and for its clients.

Since coming to Washington I have also had visits from representatives of the organization set up in New York by the Credit Suisse, the other large bank in Switzerland. Early in January, Mr. Chademet, who came to New York this fall to open the agency there of the Société Générale, is coming to Washington to call. It is hoped that some useful summary of the business of the three new concerns on the American market may be compiled within the next few months.

Mr. Leroy-Beaulieu telephoned today from New York that he is leaving that city tomorrow for Ottawa and will return next Wednesday. At his request, I arranged for the Secretary to receive him on Thursday next. Leroy-Beaulieu is to leave by clipper on January 2 for France, and to return by air on January 20. He is at present preparing an estimate of the dollars required to pay for the contracts which the French have now entered in the United States, such a report having been requested by the French Ministry of Finance. Until the French Ministry receives Leroy-Beaulieu's report, it will not be in a position to make its own estimate of dollar requirements for the next year.



TREASURY DEPARTMENT

64

INTER OFFICE COMMUNICATION

DATE December 22, 1939

TO Secretary Herguth
FROM Mr. Cochran

24

At 4:45 this evening the First Secretary of the Chinese Embassy telephoned me. He stated that a cablegram had just been received from the Chinese Embassy in Paris to the effect that the message from the Chinese Minister of Foreign Affairs had been delivered to the American Embassy, as requested by Secretary Herguth. The First Secretary informed me, however, that both Chinese Ambassador Loo and American Ambassador Bullitt were absent from Paris. Consequently, the message had been placed in the hands of Secretary Barnes of the American Embassy. Mr. Bullitt was understood to be on holiday in Algeria.

A. M. F.

MINUTES OF MEETING

Held at the Office of Mr. R.R. Appleby,
85 Broadway, New York, December 22, 1939

Present: Mr. G.D.M. Haggard, British Consul General
in New York in the Chair

Mr. L.H. Leach, British Consul in New York
Mr. R.R. Appleby Mr. C.W. Boise
Mr. Sydney H. Ball Mr. R.D. Peters
Mr. J.H. Vincent (representing Messrs. Lord,
Day & Lord).

1. Mr. Haggard occupied the Chair for the meeting.
2. (a) Mr. Leach reported that the British Embassy at Washington had indicated its general approval of the scheme outlined in the cable of the 17th December from Mr. Boise to Mr. Otto Oppenheimer. It was noted that the Embassy wished to see drafts of the communications proposed to be issued to the trade.

(b) Mr. Boise reported a cable of the 21st December received from Messrs. Otto and Louis Oppenheimer stating that the scheme had been submitted to the Board of Trade.
3. The following resolution was unanimously approved as a general expression of opinion:

"That this meeting supports the scheme outlined in the above-mentioned cable of the 17th December".
4. (a) Draft of the initial letter proposed to be circulated to the trade was approved as amended.

(b) Draft questionnaire to accompany the above-mentioned letter was substantially amended, and agreed subject to review of a clean draft.

It was understood that the next step would be to submit the agreed drafts to the Embassy and also that the above-mentioned letter and questionnaire could not be issued until approval of the scheme had been received from London.
5. Proposals as to future procedure for operating scheme were discussed. The under-mentioned draft forms were considered, various amendments were suggested, and it was agreed that revised drafts should be submitted at a subsequent meeting:
 - (i) A special form of declaration or statement to be used in relation to existing stocks.
 - (ii) A form of undertaking to be used also as a record for every transaction.
 - (iii) Explanatory Notes to be issued with books of printed forms of the undertaking.

6. The position of Messrs. Appleby, Ball and Boise in connection with the operation of the scheme was discussed. It was agreed that, subject to the views of the lawyers after further consideration, the proposal be made that the Board of Trade should officially authorize the Consul General to act in consultation with these gentlemen who might be designated as "Trade Consultants", and who would be registered under the Propaganda Act.
7. It was agreed that no action be taken in regard to publicity.
8. Proposals regarding office arrangements were considered and agreed as follows, subject to authorization being received to proceed with the scheme.
 - (a) Room adjoining the Consulate to be rented at about \$900 per annum, and to be part of the Consulate office.
 - (b) Mr. Tappan and Miss Bernholz to be taken on the staff of the Consulate.
 - (c) Office furniture and equipment to be rented.
 - (d) The Diamond Committee in London to be asked to arrange funds for expenses, such funds to be furnished to the Consul General through official channels in London.

December 22, 1939.

87

Draft of Letter Proposed To Be Sent to
Dealers and Users of Diamonds in the U.S.A.
by H.M. Consul General, New York City.

Gentlemen,

I have no doubt you are aware that an embargo has been placed as a war measure on the exports of diamonds from the British Empire, especially of those diamonds which can be used for industrial purposes. The British Authorities desire, however, to limit so far as possible the inevitable inconvenience resulting from a state of war, and in particular they do not wish these restrictions to produce dislocation of the business of bona fide dealers and users of diamonds in the U.S.A. Accordingly an effort is being made to find a procedure whereby satisfactory assurances can be given that diamonds released for export from countries within the British Empire will not reach any country at war with Great Britain or her Allies.

In order to facilitate setting up a procedure which could operate with the minimum of inconvenience to traders and users, your cooperation is now invited and you are asked to fill out and return the enclosed form at your earliest convenience.

All information supplied to this Consulate General will be treated in strict confidence and used for the sole purpose for which it is intended in connection with the proposed plan.

Yours very truly,

QUESTIONNAIRE

68

Name.....

All information supplied
will be treated in strict
confidence.

Address.....

.....

1. In what ways are you interested in rough diamonds? Describe whether as importer, dealer, broker, cutter, fabricator, user, etc., of diamonds.....
2. Do you import?..... If so, from what countries?.....
3. Do you export diamonds or tools, dies, etc., in which diamond is used?.....
4. What was your approximate total stock of diamonds at December 31, 1939?

Rough diamonds.....cts. (of which about.....cts.
was hoard for crushing purposes)

Other goods, including
diamonds set in tools, etc.....cts.

.....cts.

Total

.....cts.

5. Would you be willing to sign a statement that you would use your best endeavours to insure that diamonds or diamond products usable for industrial purposes would not, through act of yours, reach any country at war with Great Britain or her Allies?.....

(Signature)

(Please state whether proprietor,
partner, or official of corporation, etc.)

(Date)

December 22, 1939

HM, Jr called Pa Watson and told him to ask the President what he thinks of Tom K. Smith for Under-Secretary and the President sent back word that he does not like Tom Smith.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

70

DATE December 22, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 1 o'clock today the Secretary received as his luncheon guests at the Treasury Colonel Ralston, Minister of Finance of Canada, and the Canadian Minister to the United States, Mr. Loring Christie. Mr. Cochran also attended the luncheon.

Colonel Ralston was very frank and cordial. He stated that he had no problems to bring up, but had been anxious for some time to meet his American colleague. He hoped they could talk over general questions of common interest now, and at any future time, on an informal basis, and he was prepared to answer any questions in regard to his own country.

Secretary Morgenthau briefly summarized to the visitors the story of the trip of Messrs. Whigham and Gifford to this country with the view to preparing the way for the sale by the British Government of the U. S. dollar securities now held by British subjects but registered with the Government. The Secretary indicated his disappointment that the British Government had not approved of the recommendation made by the two experts, in full agreement with the views of the United States Treasury and the Securities and Exchange Commission, as well as with the advice of New York bankers, including J. P. Morgan & Company, that the British Government proceed at once with the vesting of some sixty securities. The Secretary was convinced that the market would be relieved of a certain nervousness if this step, which must come sooner or later, were taken as quickly as possible. Colonel Ralston said that he understood the securities which the British Government would take title to included large holdings of American railways, such as the New Haven and Hartford, which if sold now might seriously bear down the market prices. Secretary Morgenthau stated that he had received in strictest confidence a complete list of the U. S. dollar securities registered with the British officials, and consequently could not speak on the subject of the various types of securities held. He thought that Colonel Ralston's remarks, however, confirmed his own opinion that incomplete knowledge of the situation, and continued uncertainty as to what the British Government would have to sell now or later, contributed to an unstable and nervous market. Colonel Ralston admitted freely that his people were not at all informed officially in regard to this subject.

After speaking about the possible British requirements for U. S. dollars and the means of acquiring them, whether by the sale of gold or of securities, or both, the Secretary asked Colonel Ralston if his Government was informed with respect to British requirements of Canadian dollars. Colonel Ralston explained that at the outbreak of the war his Government had taken a census of its income and had made a report to the British Government as to such income and as to the extent to which the Canadian Government felt that it could participate in the war. He commented upon the change in the situation since

1914, when Canada had been obliged to borrow from England. He added that it was not now a question of England borrowing from Canada, but that the latter would contribute importantly to the war, while England would make sterling available to Canada against Canadian dollars. He explained that the process was already under way of the Canadian Government buying back its indebtedness on the London market, and borrowing in Canada to complete the refunding process. The Canadian Government does not yet know the extent to which the British Government will have to raise Canadian dollars. As a matter of fact, the principal purpose in recently sending Governor Towers of the Bank of Canada on a flying visit to London was to seek more accurate information upon this and related subjects. Governor Towers is expected back shortly.

In this connection Colonel Ralston volunteered that Mr. Greenley, of the British Purchasing Commission in North America, is considerably disappointed over the difficulty of obtaining sufficiently precise instructions from the British Government to permit his Commission to go ahead on a constructive program on this side of the water. Secretary Morgenthau told his visitors that Mr. Purvis, for whom he had a very high regard as a competent and high type official, had seen the Secretary twice this forenoon and had explained the problems of the Commission in having successful liaison with the British Government. More effective liaison with the French vice-president of the Commission in the United States had just been consummated through Bloch-Laine taking an office adjoining that of Mr. Purvis. Secretary Morgenthau also told his visitors that Mr. Purvis had today presented Mr. Plevin, the official next to M. Monnet, who had just arrived in this country to study the question of aeroplane production. Mr. Cochran remarked that Mr. Plevin had told him outside of the Secretary's office that the French would now be able to buy a considerable number of aeroplanes from Italy, the latter country being willing to provide France with about any type of manufactured product within its capacity, provided France would in turn meet some of Italy's requirements for raw materials. In meeting this part of the bargain, the French had to be careful lest they supply Italy with raw materials which might be transhipped to Germany, which is looking to Italy importantly for this type of import.

In connection with the lack of understanding between the Canadian and British Governments, Colonel Ralston pointed out that his Wheat Commission had been having direct contact with the Wheat Commission in London most unsuccessfully, and finally ascertained that the proper contact was the Ministry of Food.

The Secretary told the steps which had been taken by this Government the past few days to impose a moral embargo upon the exports of molybdenum, aluminum and gasoline processing plants to Russia and Japan. He emphasized the sacrifice that American producers of molybdenum were being called upon to make, since more than half of their business has been with the two countries in question. He said that effort was being made to open a better domestic market for molybdenum, and that he hoped the British and French would do what they could to compensate the American producers, although the latter

did not desire that the allies pile up unnecessary stocks of this metal. The point which the Secretary strove to bring home, however, was that this sacrifice on the part of the American industrialists would be in vain if coordinated measures were not taken by various parts of the British Empire to stop the exports of the two other metals, nickel and tungsten, which, along with molybdenum, constitute the three elements necessary to make steel alloys required in high speed machine steel, armor plate, etc. He explained that the International Nickel Company, with mines and plants in Canada, had agreed to stop exports to Russia, but still had under consideration the question of checking nickel exports to Japan. Mr. Christie raised the question as to whether or not France had a small supply of nickel in New Caledonia. Norway was mentioned as another small source of nickel. It was agreed, however, that it was the Canadian production which was all important, and that if the export of the Canadian product was not checked, the plan could not succeed. The Secretary summarized the situation with respect to Chinese tungsten, including the story of the recent seizure by the French of Chinese tungsten and antimony in Indo-China.

The Secretary explained that he had discussed this whole question with Mr. Purvis and that the latter had cabled his Government for instructions as to its attitude in the premises. The Secretary had received word from London today that this question was in the hands of Sir Frederick Leith-Ross, and that a reply could be expected over the weekend. The Canadian visitors were sincerely appreciative of the position which our Government was taking through its moral embargo policy, and of the frankness of the Secretary in letting them know what the United States Government was doing.

The question of aviation was touched upon at the luncheon, but discussed more extensively in the Secretary's office at 2 o'clock, when the luncheon group was joined by Mr. Jack Hickerson from the Department of State and Messrs. Viner, Riefler and White. Colonel Ralston explained that there are contemplated sixty-seven air training schools in the Dominion of Canada, scattered from one end of the country to the other. At least 40,000 people are to be employed as technicians and ground workers. Some men will come from England for training in aviation, but the large part of the flyers will be Canadians, augmented by Australians and New Zealanders. It is yet uncertain how many trained flyers will be prepared each year, but the number will run into thousands. This will make a heavy drain on the best type of Canadians from the age of 19 to 25 and within a couple of years the brunt of flying warfare for the British Empire will presumably be borne by the men trained in Canada. Instructors will go out from England to Canada. Some training planes are being received from England and some of the Harvard type have been purchased in the United States. The planes from England are complete except for the wings, which are manufactured in Canada. Colonel Ralston made the rather startling statement that the wastage in fighting aircraft, including men as well as equipment, was from 400 to 500% per year. This is higher than in bombers.

In answer to an inquiry in regard to unemployment, Colonel Ralston stated that this was being rapidly reduced by military needs and that if the war continues to develop along the lines expected the unemployment problem of Canada should be wiped out. Throughout his conversation Colonel Ralston contrasted the present war with the last war, stressing the degree to which this is an economic struggle, costing heavily, and involving a long grinding struggle without the glamour and music which attended the world war. To substantiate this he said that a large contingent of Canadian troops had recently sailed from Halifax, with a remarkable convoy, without even the inhabitants of this most important Canadian port realizing what was happening. Speaking of Halifax, he stated that traffic was being well taken care of and that there was no congestion on the railways leading into that port.

The policies of the Canadian and American Governments with respect to looking after grain farmers were compared, Colonel Ralston, Messrs. Viner, Riefler and White contributing information upon the subject. It was developed that the United States is considerably more generous in this line than is the Dominion of Canada. Colonel Ralston stated that the wheat position of Canada for the next year will depend importantly upon the extent to which the United States wheat crop is diminished by drought.

The Secretary explained to his visitors the problem which we have in this country of arriving at taxation on plants created or enlarged for war purposes. He said a formula had been worked out by the Treasury which was available to foreign governments contemplating purchases on this market which involved creation or enlargement of plants, such as powder and aviation. Colonel Ralston explained that there was a provision under his tax system which permitted allowance for the development of plants solely or largely for war purposes.

Dr. White raised the question as to whether the Canadian Government was responsible by some method of encouragement for the recent rise in Canadian gold production. Colonel Ralston was not aware that there was any significant increase, and said that no direct measures to foster increased production had been taken by the Government. It was shown, however, that the Canadian producers are allowed the full market price for their gold, as contrasted with the policy in South Africa. Colonel Ralston stated that prospecting for gold was on the decline. He said that through his excess profits tax he could compensate the Government for the full price paid gold producers. He realized that gold production constituted an important source of foreign exchange in present circumstances.

In connection with shipping, Canada contemplates having destroyers and vessels of a heavy type constructed in England, while producing mine sweepers, whale catchers, and other small craft on this side of the Atlantic. Canada is following a policy of her own in shipping and shipbuilding.

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Throughout his conversation Colonel Ralston stressed the uncertainty of the character and duration of the war. He realized that it was difficult for the British Government to make many decisions, since it was still uncertain as to how far the war would be carried on by air, or by land, or by sea, and what type of weapons would be used. On this ground he excused certain slowness in development of British policy and coordination of Empire effort.

The Minister planned to spend a few days in Florida. The Secretary extended him a warm invitation to have another visit at the Treasury if possible on his return trip to Canada. The entire conversation was extremely cordial and frank and would appear to have prepared the way for any serious conversations or negotiations that might subsequently be required by war or other developments.



December 22, 1939.
9:30 a.m.

GROUP MEETING

Present: Mr. Cotton
Mr. Schwarz
Mr. White
Mr. Bell
Mr. Cochran
Mr. Thompson
Mr. Gaston
Mr. Foley
Mr. Reifler
Mr. Viner
Mrs. Klotz

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H.M.Jr: Herbert?

Gaston: No, I haven't got anything except - yes, there was a Fortune article that came to me Wednesday afternoon on money and gold and I had a chance to read it Wednesday night and I thought it was terrible and I turned it over to Harry yesterday and his man, Eddy, has been working on it but they are proposing to make it up right away, to go into a number of Fortune. I want to try if we can get the man who wrote it down here to talk to Harry, because it is pretty bad stuff.

H.M.Jr: Are they for or against gold?

Gaston: They are all mixed up on gold. They have got this old idea about financing European armaments by buying gold at too high a price.

H.M.Jr: Why don't you call up the editor of Fortune?

Gaston: Russell Davenport, John Davenport's brother? John wrote the article.

H.M.Jr: Call him up yourself and tell him it is terrible and we would like plenty of time. If they haven't got time, they should skip it in the February issue and let it go in the March.

White: Maybe we could give them something to hold it over, tell them we could give them some inside dope.

H.M.Jr: Tell them we think it is terrible and we haven't got time to prepare for it and we suggest he hold it over until March.

Gaston: Yes, I will call him.

H.M.Jr: This must be the February issue this is going in, isn't it?

Gaston: Yes.

White: He said it was going into print today.

H.M.Jr: He will lift it out.

Will you, Herbert? You know them.

Gaston: Yes.

H.M.Jr: Will you?

Gaston: Yes, I will do that.

H.M.Jr: If you have no success, let me know and I will call up myself. If they refuse to hold it, let me know and I will call up myself.

White: The article will not reflect particular credit for Fortune either, so that there is that much justification in holding it up.

H.M.Jr: Can I say it is inaccurate?

White: There were many inaccuracies in it. It is more than inaccuracies, it is the whole thing.

H.M.Jr: If they won't hold it, I will call up and they will hold it. I have just got enough energy left to call up.

Gaston: We saw two films yesterday afternoon, quite a number of us, on the Secret Service and the Bureau of Engraving and Printing.

H.M.Jr: Did you look handsome?

Gaston: Did I look handsome?

H.M.Jr: I have got to tell a good story on myself. Last night we first went to Self-Help and I was so tired I excused myself and my family stayed and after they left they all went down to the Trans-Lux. So I said to Mrs. Morgenthau, "Was I in the movies? How was I?"

"Oh, you were there, but I wish you had heard Herbert Hoover." She said, "He goes on and his voice is such that the whole audience tittered." They said it was the darndest performance they had ever seen. The whole audience just tittered. He follows myself and right after that - and his voice and his manner and his face - the audience all broke out laughing and he is making this appeal for the Finns. She said it was the darndest thing she had ever seen. She said, "Oh, you were there but you looked as though you were mad at somebody." I said I was up against tough competition with Procope.

Mrs. Klotz: He insisted on a rehearsal.

H.M.Jr: I guess that is about all I was, too.
How were you in the Secret Service picture?

Gaston: They didn't let me in it.

H.M.Jr: How was I?

Gaston: You were all right.

H.M.Jr: Was I adequate?

Gaston: Yes.

H.M.Jr: Did I fill my chair nicely?

Gaston: Frank Wilson was adequate, too.

H.M.Jr: Ed?

Foley: That letter approving the circular letter on the Japanese discriminatory view last night --

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H.M.Jr: They called up and thanked Mrs. Klotz for getting it out.

Foley: There is a release they want put out that they approved which came back with the letter.

Schwarz: It is out for this afternoon's release.

Foley: That is what they want.

H.M.Jr: It is like the Cuban tariff. I was there when the President was signing it. I said, "Do you know what is in it?" He said, "No, do you?" I said, "No, they never gave me a chance."

Foley: They brought the letter over last night. It referred to the Cuban tariff thing and he said he hoped we wouldn't blame him for the rush on the part of his colleagues, because he was on it all the way through. He knew that it had been sent over here and that we were asked to rubber stamp it. That was Alger Hiss.

H.M.Jr: Who is Alger Hiss?

Foley: Donald Hiss' brother.

H.M.Jr: Who is he, Mrs. Hiss' son?

Foley: Well, he used to be over at A.A.A.

White: They both are very excellent men, unusual for the State Department.

H.M.Jr: I wrote Sumner Welles about the State Department, a very courteous letter.

Foley: Hiss knew it.

H.M.Jr: The President said the same thing happened to him. The Cuban thing, he had no idea what it cost, had no idea of it. He said nobody gave him a chance.

White: You will be interested to know that one of the members of the committee, Trade Agreements

Committee, who is in the State Department also, and very active, that same morning showed reporters, and he was quite sincere about it, that there was absolutely nothing in the possibilities of the Cuban settlement, it had been dropped many months before and they just were on the wrong track, so nobody in that office suspected it. That was the same day.

H.M.Jr: The way I figure, it is their responsibility. They have been very nice on this strategic war materials and I suppose they are under terrific pressure due to difficult times. It is their show. I mean, Mr. Hull got out that belligerent letter for me in twenty-four hours and was very nice about it. He was very nice to the belligerent people when they came down. He saw them. So, it pays to --

Foley: He should be. There is no change in policy at this time. It is possible they might work out some deal with the Japanese later, but they didn't want to take any action either pro or con right now.

H.M.Jr: But you (Schwarz) are going to get out what they want?

Schwarz: Yes.

Foley: There is another release on silver, I think, that ought to go out today, saying that that proclamation letter will not be extended and that either delivery or documents of title must be furnished to the S.A. office by the 31st of December.

H.M.Jr: Will you and Harry agree on the --

Foley: We have agreed on it, Harry and I.

Cochran: I have, also.

H.M.Jr: I don't understand it. I will read about it in the papers. Don't explain it.

Foley: It is not important, just saying we aren't going to do anything more.

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Gaston: They can't have sixty-four and a half cents. We insist on paying them seventy-one.

H.M.Jr: O.K.

Foley: I have a couple of letters to the S.E.C. that you can sign.

H.M.Jr: You will have to let it go until after Christmas.

Cochran: Handy and Harmon's price is thirty-six and a half. There is a nice editorial in the Times you had better see.

H.M.Jr: What do they say in this floor show, "Give Handy and Harmon a hand"?

Cochran: That is it.

H.M.Jr: Where is it, in the Times?

Cochran: Yes.

White: Are you raising your buying price?

Cochran: No.

H.M.Jr: Collins and Purvis are coming in at 10:15. I would like you here and I would like White here, please.

Joe, all of these cables that have come in from Bogota and that they send up, I don't read them.

Cotton: There is nothing in them. It is just about this legislation that was dropped down there to let the President settle the debt.

H.M.Jr: Incidentally, several weeks ago I made a suggestion to Mr. Welles that I thought it might be useful to have Ambassador Braden come up here on this thing. For reasons I don't understand, Mr. Welles said, "Oh no, no, don't have him up here."

Cochran: I didn't know that --

H.M.Jr: I have heard nothing from Jesse Jones on this.

Cochran: I have talked to Warren. I don't think you will get anything until after Christmas.

H.M.Jr: But he --

Hanes: Jesse told me just before he went away, that he was going to write you a letter on the train, that he hadn't had time to write, that he was going to write on the train and send it back to you.

H.M.Jr: I see. He called me up and said that he would let me have something before.

Hanes: I called him up to say goodbye and wish him Merry Christmas and he said he was writing a letter from the train to you and he would send it back. I understood it would be back the next day, that he was going to write that night.

Cochran: He turned it all over to Warren Pierson, I think, according to Warren.

H.M.Jr: What are the plans of you two gentlemen (Viner and Reifler) for the next four or five days?

Reifler: Well, I am going home this afternoon and going to the meetings next week in Philadelphia. I will come down if there is something urgent you want me for.

H.M.Jr: Dr. Viner?

Viner: I am here right through until Tuesday, but occupied - preoccupied. But if anything --

H.M.Jr: After Tuesday?

Viner: Then I am gone with the wind.

H.M.Jr: You mean you are going up to this association?

Viner: Yes, and then go home.

H.M.Jr: Well, some time today I would like to talk to both of you.

Harry?

White: The exports to Russia show one important thing this week, very very large exports of copper and copper products. I have got a list of the other items.

Of passing interest, the United Kingdom is putting more stress and pressure on buying goods and paying for it in sterling, which is something like Germany started so as to force the --

H.M.Jr: Who is doing that?

White: England, as much as possible, paying for their imports in sterling, requiring the foreign exporter to accept payment in sterling. What will follow from that, that may or may not mean that they are going to adopt tactics of making sterling cheaper on certain markets to certain products, but we watch for it.

H.M.Jr: That doesn't seem to gibe with the telephone conversation Knoke had.

Cochran: I think it does. It is in line with that telegram from Butterworth.

H.M.Jr: No, I mean the telephone conversation Knoke had about seventy or eighty percent of the payments - was that to be in sterling?

Cochran: I will check that again. I sent it direct to you.

H.M.Jr: That telephone conversation.

White: That excepts the United States.

H.M.Jr: Don't do it now. Look at the telephone conversation that you sent me last night that Knoke had with Bolton and compare those two. I don't think they check. It looks to me - anyway, compare the two statements, will you?

Cochran: All right, sir.

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H.M.Jr: Because I thought that was important and I didn't quite understand it.

Cochran: I will look at the two of them.

H.M.Jr: Will you, Harry?

White: Yes.

H.M.Jr: Telephone conversation Knoke had with Bolton. I think you gentlemen (Viner and Reifler) ought to look at that, too. I mean, if you have the time. It may mean a new move on the part of England.

White: They are going forward in the Inter-American Subcommittee on the banks with their discussions and it seems to be shaping up pretty rapidly. I told Mr. Berle that we here would begin working on a preliminary draft of the significant aspects and for your examination, so that it is coming closer to the time when there will have to be a definite decision made as far as Treasury is concerned on some of the more outstanding matters and we will have it ready some time during the week before New Years, some time within a day or two. The legal division will have to do much of the work, I take it, on the drafting.

H.M.Jr: Chick?

Schwarz: The Canadian legation announced that the Honorable Ralston comes here today and I would like to double check their story --

H.M.Jr: You saw the story before they gave it out, didn't you?

Schwarz: That was dated Wednesday. He was originally coming Wednesday?

H.M.Jr: Yes. Is he coming today?

Mrs. Klotz: I have him down for today.

H.M.Jr: There is Ralston and Cochran and the Minister and myself.

Schwarz: That is all?

H.M.Jr: Do you people (Reifler and Viner) want to meet them after lunch?

Reifler: Jake is the one that has been keeping in touch with this. I haven't.

H.M.Jr: I think it would be nice if you would meet them around 2:00 o'clock, and Harry, you also.

Dan?

Bell: The committees --

H.M.Jr: Excuse me. Do you think we ought to have anybody from the State Department here?

Cochran: I don't believe you need to.

H.M.Jr: I tell you what you do. Call up Mr. Hull's office and ask if they would like to have us have somebody here from the State Department.

Cochran: For the meeting at 2:00 o'clock?

H.M.Jr: Yes. Who looks after Canada?

White: Hickerson, unless he has changed.

H.M.Jr: I would call him up. They have the right to have either Hickerson or Feis, if they want to.

Bell: A committee of Government securities dealers in New York have been working for the past two months on the question as to whether they should change the quotations on Government securities from a thirty-second to a sixteenth and they have decided that they will make the change as of January 1.

H.M.Jr: Which way?

Bell: To a sixteenth.

H.M.Jr: I am in favor of one sixty-fourth.

Bell: There will probably be a lot of deals and sixty-fourths and thirty-seconds. All the quotations will be in sixteenths. The chairman called me yesterday and said they were going before the Stock Exchange Committee on Tuesday and they probably would be asked the question as to whether the Federal Reserve Bank of New York and the Treasury have been consulted and they wanted to say they had been and that we offered no objection, but I don't think it is really any of our business. I don't think we care.

H.M.Jr: I am for a sixty-fourth.

Bell: Are you? Do you want to tell them that?

H.M.Jr: No, I don't care. When it gets down to where I've got to decide one sixteenth or one thirty-second, it is a bad day for me.

Bell: I told them I didn't think we were interested in it.

I have a couple of letters. One is on that Panama Canal bond and I have put in a nice paragraph there.

H.M.Jr: What is it, can you or can you not?

Bell: Cannot, because the Second Liberty Bond Act took away that authority.

H.M.Jr: Please send a copy of this to Harry Woodring, will you?

Bell: Yes, indeed.

That is a letter to the President asking him to sign the letter transmitting the report on emergency expenditures.

H.M.Jr: Friend Ottley keeps saying that there is a Secretary of the Treasury fund, that I have a fund.

Bell: A Secretary of what?

H.M.Jr: That I have money to deposit as the Secretary of the Treasury, not personally. Is there such a fund?

Bell: No.

H.M.Jr: Have I at my discretion money to deposit?

Bell: No, you have, of course, control of the depository system and you could make this thing a general depository and put a half a million or a million dollars down there, but it would be contrary to a long-standing policy. They have had four million dollars for about four years of special depositories and we haven't called upon them and they haven't rendered any service.

H.M.Jr: Didn't I say that when he came up the next time that you and he could sit down?

Bell: Yes.

H.M.Jr: He is a go-getter.

Hanes: Who?

H.M.Jr: John Ottley. He called me up about three times.

Bell: He is pretty well satisfied.

H.M.Jr: He is the fellow who says we judge our friends by the size of their donations. He says a hundred thousand dollars doesn't look like much friendship, or something like that.

Bell: Well, he is earning that one.

H.M.Jr: Yes.

Bell: He gets all of these checks from the collection of this unemployment thing.

H.M.Jr: He is a nice fellow and he has gone to a lot of trouble for me. All right?

Bell: Yes.

H.M.Jr: Who all wants to see me? Harry?

White: Just for a minute.

H.M.Jr: I would like to see Gaston and Hanes right now. Are you ready?

Hanes: Yes.

December 22, 1939.
4:45 p.m.

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H.M.Jr: I've got one of your
Jesse: - henchman with me here, Jesse. Hello?
Jones: Hello.

H.M.Jr: I've got one of your henchman here.

J: Got what?

H.M.Jr: I've got one of your men here on your payroll.

J: Good, who is he? Hope he's a good one.

H.M.Jr: His name is Tom Crawford.

J: Oh I see. Good for Tom.

H.M.Jr: Yes. He wants to borrow some money from the
Export-Import Bank. He said he wants to borrow
a hundred million for Sweden.

J: I wrote you a letter on the train Henry.

H.M.Jr: Yes, you're a great fellow. How the hell can I
settle Columbia when you go down to Houston.
What are you doing, commuting down there?

J: Huh?

H.M.Jr: What do you do, commute to Houston?

J: I'm in Houston, yes.

H.M.Jr: I say, you commute there.

J: Yes, I am commuting, but I've got a hell of a cold
now.

H.M.Jr: I'm sorry. Did you write me a letter?

J: I wrote you a letter from the train.

H.M.Jr: Attaboy.

J: I'm sorry you let Johnny go.

H.M.Jr: Well I can't - he's been wanting to do that for
six months.

J: I know that. I saw him the day I left but he didn't say anything about it.

H.M.Jr: I see, well he's been wanting to do that for six months.

J: All right. Well -

H.M.Jr: He says he's got to make a living.

J: That's right. I guess we all have.

H.M.Jr: That's right.

J: Well everything's all right with you.

H.M.Jr: Everything's all right and I hope you and Mrs. Jones have a very happy Christmas.

J: Thank you, the same to you and your family.

H.M.Jr: We'll let Colombia wait until Christmas is over.

J: O.K.

H.M.Jr: Have a good time Jesse.

J: Goodbye, thanks.

H.M.Jr: Goodbye.

December 22, 1939.
4:55 p.m.

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H.M.Jr:
James
Farley:

Jim?

Merely want to congratulate you on joining the third party movement. I see that you and Ickes and LaGuardia are in it, so I'm delighted to know that you're along - going along with them.

H.M.Jr:

Well I just thought there's another thing of Jim Farley's fine Italian taste.

F:

That's right. That's my Machiavellian - one of my Machiavellian moves, if that's what you would call it.

H.M.Jr:

Yes.

F:

O.K. Well I merely wanted to wish you a Merry Christmas and Happy New Year, sir.

H.M.Jr:

Well that's what I want to say - what does it all mean Jim?

F:

Well frankly I don't know anybody more about it than you do. I really don't. Don't - I'd miss it, but I'm sure you don't pay any more attention to it than I do, which is nothing.

H.M.Jr:

Right.

F:

I don't know - it's a lot of hocus-pocus.

H.M.Jr:

Well come down here and have lunch with me.

F:

Yes, I'll do it next week, positively.

H.M.Jr:

Righto.

F:

this is a lot of hocus-pocus. I really don't know what's back of it. I don't give a damn. How do you like that?

H.M.Jr:

Right.

F:

Is that fair enough.

H.M.Jr:

You saw Hanes resigned.

F:

Yes I saw that. I was glad to see you appointed Johnny.

H.M.Jr: And put in Sullivan.

F: Yes, I saw that. Was delighted to see it. He's -

H.M.Jr: He's a grand fellow.

F: Yes he is. I'm sorry - you know he's a friend of mine of long standing. I told you the story.

H.M.Jr: Sullivan?

F: Yes.

H.M.Jr: Yes, well I knew he was.

F: And I'm sorry to see Johnny go.

H.M.Jr: Well he's had it in his mind, he's been talking about it for months now.

F: Is that so?

H.M.Jr: But it's better now that it would be three months from now.

F: I suppose. You're all right yourself, are you?

H.M.Jr: Oh I'm all right mentally. Physically it's a tough job, and I haven't got enough help, but otherwise it's all right.

F: Well it's all you can do. Well the best to you and yours Henry.

H.M.Jr: Thank you.

December 22, 1939.
10:55 a.m.

92

John
Sullivan: I didn't dare bother you. I was calling
Mrs. Klotz to give you the message.

H.M.Jr: I want to know what the Doctor said.

S: I finished with them and it is one hundred per cent.

H.M.Jr: A hundred per cent?

S: Yes.

H.M.Jr: Well you're better than Ivory soap.

S: That's it.

H.M.Jr: I see.

S: Well, I - I was very very much elated that it
turned out to be just what the other fellows
thought it was, a little food poisoning and
absolutely nothing more.

H.M.Jr: Swell.

S: And on the ticker - perfect.

H.M.Jr: Wonderful.

S: So -

H.M.Jr: Well I'm delighted.

S: I didn't know whether you were interested in
knowing.

H.M.Jr: I am and I'm interested for this reason. You saw
maybe in the paper that Hanes is resigning.

S: I talked to his secretary this morning and he told
me that that was in there.

H.M.Jr: And we may want to announce your appointment -

S: That Schwarz - Hello.

H.M.Jr: The President may want to announce your appointment
as Assistant Secretary today, I don't know.

S: I see.

- 2 -

H.M.Jr: But, so if it comes, don't be surprised.

S: I see.

H.M.Jr: Otherwise he proposes to send it up on the first day that Congress meets, see?

S: Yes. Well, then I'm glad I called if there was anything like that pending, because I am completely ready and will be in fighting trim.

H.M.Jr: Now let me ask you this. The head of the Allied Missions, Mr. Purvis, is here, and very early next week, I want to give him a formula in case any, the English Government wants to put any money into our plan on what basis we can go along. You've got that formula ready, haven't you?

S: Yes.

H.M.Jr: What?

S: Yes.

H.M.Jr: And incidentally they have no order for Dupont, they don't want to do business with Dupont right now.

S: Is that so?

H.M.Jr: Isn't that interesting?

S: Very, very.

H.M.Jr: So - when will you be back here?

S: I will be there at eight o'clock Tuesday morning.

H.M.Jr: Well, that's fine. I hope you and your family have a very happy Christmas.

S: Thank you and we all wish you the same.

H.M.Jr: I'm delighted you're a hundred per cent. I wish I could say as much.

S: Oh well, I think you are too.

H.M.Jr: All right.

S: And you'll be back Thursday.

H.M.Jr: Wednesday or Thursday.

S: I see. Well then I'll get in touch with you as soon as you get back.

H.M.Jr: Thank you.

S: Thank you so much, sir.

H.M.Jr: Goodbye.

S: Goodbye.

December 22, 1939.
4:07 p.m.

95

H.M.Jr:
Captain
Collins:

Captain?
Yes, sir.

H.M.Jr:

I'd like you to find out in your various talks whether any of those Curtis P-40's have gone over to France yet.

C:

Yes, sir.

H.M.Jr:

Do you know whether they have?

C:

I do not think so sir.

H.M.Jr:

The thing that I had in mind was - and if there was any doubt about it - that we might arrange to let the French have three right away so they can try it out - well what I had in mind is this, a remark that General Arnold dropped. They're not at all sure that that's as good a ship as it may be on account of whether - its maneuverability, you see?

C:

Yes, sir.

H.M.Jr:

So they can try it out to see whether, how it is in battle, you see?

C:

Yes, sir.

H.M.Jr:

Supposing you make some inquiries.

C:

Yes, I can get some information on that Tuesday.

H.M.Jr:

That'll be all right.

C:

Yes, sir.

H.M.Jr:

If they have it, I think they ought to - we haven't much - a great many on order for ourselves, the Army I mean.

C:

Yes, sir. I do not know that total number but -

H.M.Jr:

They've bought a hundred.

C:

Yes, sir.

H.M.Jr:

My thought was to let them have three right away and get them over there.

C:

Yes, sir. The French ordered a hundred we know.

H.M.Jr: Yes. I don't know how many the Army has.

C: I don't either sir.

H.M.Jr: But it's one thing to have them on the drawing board and it's another thing to have them in battle.

C: Yes, sir.

H.M.Jr: I think everybody is surprised that the P-36 has stood up as well as it has.

C: Well of course that was arranged for a ship you see, it was the old 75-S brought up to date.

H.M.Jr: I know but this P-40 is something quite new.

C: It's revolutionary, it's the first - it's the first liquid cool you see that's been used.

H.M.Jr: Now what I'm interested in is the remarks that Arnold dropped. I'm not at all sure that he's sure, that the thing - how the thing will perform.

C: Yes, sir. Well he ought to know that was tested out there.

H.M.Jr: I know.

C: And Wright, you know, they gave it the works before they ever gave them an order.

H.M.Jr: Don't you think to be tried in actual battle is something quite different?

C: Well - of course they're fighting there - out there they simulate battle conditions on those flight tests you see, before the experimental is awarded.

H.M.Jr: They're not going up against -

C: No that's true.

H.M.Jr: German ships.

C: No that's perfectly true.

H.M.Jr: Well you do a little inquiring.

C: I'll do that sir.

H.M.Jr: Did you get - and let me know back before Wednesday.

C: Yes, sir. Have you another moment?

H.M.Jr: Surely.

C: Well we had quite a session over here. I brought the gentleman over to the office and we had quite a talk and I tried to impress upon them some of the difficulties that had been encountered in the last sessions we had with the French.

H.M.Jr: Yes.

C: The way it stands now is that they are to see Mr. R - Mr. Sullivan, they're coming here at nine Monday and I will take them to him.

H.M.Jr: Monday is Christmas.

C: I mean Tuesday, sir.

H.M.Jr: Yes.

C: I will say Monday. And then after that I told him that we must know definitely what they want and what the plans are and they must make up their minds that they want a specific motor and that motor alone.

H.M.Jr: Yes.

C: Because I do not see really any use in bringing the manufacturers into this Mission until such time as these people have made up their minds because the manufacturers have too much business to be putting up with any shopping expeditions today.

H.M.Jr: They should make up their mind as to what?

C: As to the types of motors they want.

H.M.Jr: That's right.

C: Because there's no use of me calling on Carl Ward and say, "Can you give them three hundred motors".

H.M.Jr: That's right.

C: And I think after, if we can impress upon them the necessity of not changing their minds every fifteen minutes I think we'll be able to go some place. Now from what Purva says there will not be this difficulty that we experienced with the other deal or their having to go continuously back to Paris, because he apparently has been given plenty of powers and can make decisions.

H.M.Jr: Yes. O.K.

C: Well then I will see you Wednesday, sir.

H.M.Jr: That's right. Don't forget about this P-40.

C: I shan't forget, sir.

H.M.Jr: All right.

C: And I want to thank you so much, Mr. Secretary, not only for myself, but on behalf of the others who have worked so hard over here for that note. It's very cheering and the psychological effect is gorgeous.

H.M.Jr: Well I'm pleased at everything you've done and I know the President is pleased.

C: Well thank you very much, sir.

H.M.Jr: Merry Christmas.

C: Merry Christmas to you sir.

H.M.Jr: Thank you.

C: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

99

DATE December 23, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was very quiet. The opening quotation for sterling was 3.94-3/4 offered. The Federal Reserve Bank of New York received an order to sell £75,000 at 3.94-1/2 or better from the National Bank of Denmark. The closing quotation was 3.94-5/8 bid.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £245,000, from the following sources:

By commercial concerns.....	£ 55,000
By foreign banks (Europe).....	£ 115,000
By Federal Reserve Bank of New York (for Denmark).....	£ 75,000
Total.....	£ 245,000

Purchases of spot sterling amounted to £70,000, as indicated below:

By commercial concerns.....	£ 32,000
By foreign banks (South America).....	£ 38,000
Total.....	£ 70,000

The Guaranty Trust Company reported that it sold cotton bills amounting to £2,000 to the British Control at the official rate of 4.02.

The other important currencies closed as follows:

French francs	.0223-3/4
Guilders	.5309
Swiss francs	.2243
Belgas	.1664-1/2
Canadian dollars	11-1/2% discount

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

\$ 800,000 from the National Bank of Rumania
350,000 from the Bank of the Republic, Colombia
<u>\$1,150,000 Total</u>

-2-

The Federal Reserve Bank reported to us the following shipments of gold:

\$20,000,000	from Canada, shipped by the Bank of Canada to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of England.
7,842,000	from Sweden, representing three shipments by the Bank of Sweden to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of Sweden.
2,146,000	from Sweden, shipped by the Bank of Sweden to the Federal Reserve Bank of New York, to be earmarked for account of the National Bank of Denmark.
2,088,000	from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.
1,925,000	from Norway, shipped by the Bank of Norway, to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of Sweden.
103,000	from India, shipped by the Chase Bank, Bombay for account of its London office, to the Chase National Bank, New York, for sale to the U. S. Assay Office at New York.
<u>\$34,104,000</u>	Total



CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Geneva, Switzerland

DATE: December 23, 1939, 4 p.m.

NO.: 332

FOR MORGENTHAU FROM TYLER.

I spent a few days in Rome and Milan, after having been in Budapest.

It is extremely difficult to get any information on Italian public finance. One Italian in the inner circle told us that since last September the total expenditure by the State has gone up to an annual level of 100,000 million lire; this figure is approximately four times as great as the ^{various} estimates which have been published. The bills of the State are certainly not being paid; every chicken roost is being robbed by it, and irresistible pressure is also being brought to bear on solvent corporations to turn ownership over to the State for such compensation as is considered adequate by the State. That there is any extreme difference between this procedure and Bolshevism is often not apparent to the so-called beneficiaries.

TITTMANN.

EA:LWW

CHINESE EMBASSY
WASHINGTON, D. C.

102

December 23, 1939

My dear Mr. Secretary:

Yesterday I received a cablegram from the Chinese Embassy in Paris saying that Mr. Bullitt had left for Algeria and would not return until after Christmas and that my message had been transmitted to his secretary, Mr. Barnes. Since then, I have received information from Paris saying that "French Foreign Office has expressed willingness to give favorable consideration to exports to England and America". I hasten to transmit this encouraging news for your information.

I called on the President Wednesday noon. He was very sympathetic and understanding as always.

I do hope your prophecy about my being as handsome as the Finnish Minister may come true.

I take this opportunity to send you and Mrs. Morgenthau my warmest greetings and best wishes of the season.

Very sincerely yours,



Hu Shih

Honorable Henry Morgenthau, Jr.
2211 30th Street, N.W.
Washington, D.C.

*Copies of documents
received from Gov.*
COPY FOR SECRETARY
Roots by *M. M. S. Miss
Chambers*

Re a new kind of sterling, called special pounds.

As will be seen from the enclosed translation of a Communiqué concerning payments in sterling the main principle of the procedure to be followed is that sterling arising to Sweden from the United Kingdom out of trade, freight etc. must not be sold on the international foreign exchange market.

Such sterling balances with banks, firms etc. abroad and sterling securities as are in Swedish possession on the day when the new procedure was announced, shall be declared to Sveriges Riksbank and may be used for only purposes set out in the Communiqué.

Under normal conditions Sweden has a surplus in her balance of payments with the United Kingdom. Whether this will continue to be so under present circumstances is of course impossible to say.

In order to prevent the accumulation of Swedish special pounds that cannot be disposed of, such pounds may be used for payments not only in the United Kingdom but also within the British Empire /except Canada, Newfoundland and Hong Kong/ and in some other countries.

The rate for special pounds will be based on the Riksbank's dollar rate and the Bank of England's rates for Swedish kronor and dollars. On the first day the Riksbank quoted 16.80 - 17.00 per pound which corresponded to the Swedish kronor rate quoted by the Bank of England on that day. Since then London has been quoting 16.85 - 16.95 and we have quoted the London rates.

The Swedish banks sell sterling at the official selling rate and buy at the official buying rate. The Riksbank's transactions in special pounds with the commercial banks are made at the middle rate, less 1 öre when we buy, and plus 1 öre when we sell.

A translation of the declarations that buyers and sellers of foreign exchange are asked to make, will be found enclosed.

Stockholm, 23rd December, 1939.

Declarations to be made by

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(a) buyers of special pounds

"I, the undersigned, request that you will sell to me

..... special pounds.

I am aware that such pounds must not be sold on the foreign exchange market abroad but may be used exclusively for payments by persons in Sweden within the British Empire (except Canada, Newfoundland and Hong Kong) and in Brazil, Egypt and Belgium. I undertake not to use them otherwise.

The above amount will be disposed of for the payment of

.....
(the purpose to be stated here: trade, freight etc.)
.....

The debt to be paid by these pounds existed (did not exist) on December 20th 1939 and has (has not) been declared to Sveriges Riksbank before January 15th 1940."

(b) buyers of other pounds than special pounds

"I, the undersigned, request that you will sell to me

..... pounds sterling (not special pounds).

I am aware that such pounds must not be used for commercial or financial payments by persons in Sweden within the British Empire (except Canada, Newfoundland and Hong Kong) and in Brazil, Egypt and Belgium.

I undertake not to use them for such purpose."

(c) buyers of other foreign exchange than sterling

"I, the undersigned, request that you will sell to me

..... (e.g. Francs etc.).

I undertake not to use this currency directly or indirectly for the purchase of pounds sterling, to be used for payments within the British Empire (except Canada, Newfoundland and Hong Kong) or in Brazil, Egypt and Belgium."

(d) payers of kronor to an account of a bank abroad

"I, the undersigned, hereby pay into the account of X bank with you

Kronor

I confirm that this kronor amount will not with my knowledge be converted abroad into pounds sterling or constitutes the equivalent of pounds sterling bought abroad.

I am aware that pounds sterling bought against Swedish kronor abroad must not be used for commercial or financial payments from Sweden to the British Empire (except Canada, Newfoundland and Hong Kong) and to Brazil, Egypt and Belgium."

In order to secure that in the first place such sterling as arises from the United Kingdom to Swedish creditors from trade, freight, insurance and certain kinds of financial payments etc. shall be used for Swedish payments to the British Empire / except Canada, Newfoundland and Hong Kong/, Sveriges Riksbank and the Swedish commercial banks have agreed on the following procedure.

Debts payable in Swedish crowns are settled by transfer of Swedish crowns to the creditors.

Any sterling /special pounds/ arising as from this day from debts of the above-mentioned kinds will be paid into Swedish accounts in the United Kingdom. When selling sterling to a Swedish bank, the Swedish creditor will receive payment on the basis of Sveriges Riksbank's buying rate for sterling. Special pounds may be purchased from the banks at the selling rate for sterling quoted by Sveriges Riksbank. The rates for sterling quoted by Sveriges Riksbank as from today will refer to special pounds.

Special pounds may be used for payments in sterling within the British Empire /except Canada, Newfoundland and Hong Kong/. These pounds may not be sold on the international foreign exchange market. The banks will control this. - Special pounds should be sold through a Swedish bank.

The above-mentioned debts payable in sterling may not be paid otherwise than by using special pounds.

With regard to existing sterling balances now in Swedish possession the following shall be observed.

As sterling balances of this kind shall be considered sterling balances and sterling securities in Swedish possession.

The said existing balances as well as Swedish debts, payable in sterling shall be declared to Sveriges Riksbank not later than January 15th 1940. Any sterling assets of this kind, which, declared to Sveriges Riksbank within the specified period, have been approved of by Sveriges Riksbank may be used for the payment of

- a/ existing Swedish debts in sterling, provided these debts have been declared to Sveriges Riksbank before the 15th January 1940;
- b/ travelling expenses incurred in the British Empire /excluding Canada, Newfoundland and Hong Kong/ by persons in Sweden.

Such assets, if not declared within the specified period or if declared but not approved of by Sveriges Riksbank, may be used for the payment of

- a/ the holder's own debts, subject to permit being granted by Sveriges Riksbank;
 - b/ travelling expenses abroad incurred by the holder or his family.
- Stockholm, 20th December, 1939.

JT

GRAY

107

BERLIN

Dated December 23, 1939

Rec'd 3:05 p.m.

Secretary of State,
Washington.

2455, December 23, 10 a.m.

The two leading business and financial dailies of the Reich, the Berlin BOERSEN ZEITUNG and the FRANKFURTER ZEITUNG in their editions of yesterday both give prominence to the new British-Swedish clearing agreement which because of its provision that the excess of Swedish exports over imports from Great Britain must henceforward be paid into a special blocked account which can thereafter only be utilized for purchases in certain parts of the British Empire is cited as a proof of the weakness of the pound sterling and of British export organization. Both editorials also describe it as a new form of British pressure on neutrals.

The FRANKFURTER ZEITUNG editorial states that the agreement is "the first but probably not the last of its kind" concluded by England and designed to give support to the pound against the heavy pressure on the sterling exchange rate. Omitting any reference to the fact that the British clearing

clearing system with Sweden is similar to that which Germany employs with most of the countries with which it is still in trading relations the editorial asserts that "for England to have recourse to such methods is significant. One sees how limited its financial possibilities are today. In 1938 Swedish imports from England were 376,000,000 pounds and exports 447,000,000 pounds. Probably this relationship during the war has not improved in England's favor. Sweden has therefore sterling credits, the disturbing influence of which is feared by England".

The concluding paragraph of the BOERSEN ZEITUNG editorial is devoted to a discussion of the international payment and internal monetary difficulties of Sweden as a result of the war pointing out that Sweden had an unfavorable trade balance for the first eleven months of 1939 of more than 500,000,000 crowns in comparison with 200,000,000 crowns for the corresponding period of last year. The editorial comments that "this deterioration of Sweden's trade and payment balance has naturally had an effect on the position of the Swedish Central Bank. The Swedish Reichs Bank was obliged on December 14 to raise its discount rate by $\frac{1}{2}\%$ to 3%. The tension in the status of the

the Swedish Reichs Bank which caused this raise in discount rate is clearly illustrated in the institution's statement of December 15. Its foreign exchange (foreign bonds, credits abroad and foreign bills) which had already diminished the week before by 66,000,000 crowns to 319,000,000 crowns again diminished by 59,000,000 crowns to 260,000,000 crowns. The reduction was mainly at the expense of foreign bank credits which fell from 267,000,000 crowns to 208,000,000. The gold reserve of 733,000,000 crowns remained practically unchanged; internally, however, a change is to be noted since the gold reserve coverage fell from 624,000,000 crowns to 609,000,000 while gold reserve held abroad and not included in the gold reserve coverage rose from 109 to 124,000,000 crowns. Inland bills discounted which had risen during the previous week from 62,000,000 to 137,000,000 crowns, increased again by 59,000,000 crowns to 197,000,000 crowns. As a result of this credit demand on the institution the clearing deposits of the banks with the Swedish Reichs Bank which during the course of this year, suffered a decline of more than 400,000,000 crowns to a total of 92,000,000 crowns in the previous week increased to a total of 133,000,000 crowns. Bank note circulation which had reached a record high of 1,276,000,000 crowns in the previous week attained a new

high

-4- #2453, D.C. 23, 10 a.m. from Berlin

high of 1,341,000,000 crowns on December 15. One must wait and see whether the measures taken in Sweden which include a further limitation of the currency circulation will have the desired effect and brake the flight of capital".

Repeat to Treasury.

WIRE

JRL

2044031

COPY

PERSONAL

MINISTER OF FINANCE
Canada

Pancoast Hotel
Miami Beach
December 23, 1939

Dear Mr. Morgenthau:

Thank you again and most sincerely for your hospitality of yesterday. I came away with most pleasant and satisfying recollections of my visit and of your keen appreciation of problems which affect us both. Thank you too for the added pleasure of meeting Mr. Cochran and that exhilarating group of Treasury and State Department Staff.

From word already received it is apparent that I shan't have any opportunity for a stopover in Washington on my way back -- (I expect now that I shall have to leave here Sunday the 31st) but having met you I very genuinely look forward to closer associations and I shall not fail to avail myself of your cordial suggestion that we see each other when I am next in Washington. I need not say that it would give us in Canada a great deal of pleasure if your activities might bring you to see us in our "native lair". We would welcome you most heartily I assure you. In the meantime I hope that you will feel perfectly free to communicate with me if there is anything

by way of information or otherwise in connection with which
you think our relations as "opposite members" might be useful.

Yours sincerely

/s/ J. F. Ralston

Hon
Henry Morgenthau Jr
Secretary of the Treasury,
Washington



Personal

Pinecrest Hotel
Miami Beach
December 23, 1939

Dear Mr. Morgenthau,

Thank you again and most sincerely for your hospitality of yesterday. I came away with most pleasant and satisfying recollections of my visit and of your keen appreciation of problems which affect us both - Thank you too for the added pleasure of meeting Mr. Cochran and that exhilarating group of Treasury and State Department Staff.

I have word already received it is apparent that I shall have an opportunity for a stopover in Washington on my way back - (I expect now that I shall have to leave here Sunday the 31st) but having met you I very genuinely look forward to closer association and I shall not fail to avail myself of your candid suggestion that we do each other when I am next in Washington - I need not say that it would give us in Canada a great deal of pleasure if your activities might bring you to see
(over)

4
us in our "native land" - We would
welcome you most heartily &
assure you - In the meantime I
hope that you will feel perfectly free
to communicate with me if there is
anything by way of information or
otherwise in connection with which
you think our relations as "oppor-
tunities" might be useful -

Yours sincerely,

J. H. Watson

How
Henry Morgenthau Jr.
Secretary of the Treasury,
Washington

Collection read ref



STRICTLY CONFIDENTIAL

114

[Handwritten signature]

STOCKHOLM, December 25th, 1939.

Dear Mr. Secretary,

I very much appreciate the Seasonal Greetings that you kindly sent to me and I reciprocate them most heartily.

Although our dollar assets are so far not depleted we have a feeling that the political situation may under certain circumstances deteriorate and that it would therefore be wise to try to increase them.

To this end we have been sending gold to America for about a year. At present there are very few boats leaving Scandinavian ports for New York and the American insurance companies are not willing to insure more than a fairly small amount on each steamer varying from 2 to 3½ million dollars according to the ship. We can, however, not use these boats for our own account only. Our neighbouring countries Finland, Denmark and Norway also want to ship gold to America and we have, therefore, made an arrangement under which we share the shipments between us in a reasonable way. The gold that we still hold in London is being shipped via South Africa to New York. On this route we have heavy Dutch

The Honorable Henry Morgenthau,
Secretary of the Treasury,
WASHINGTON, D.C.

The honorable Henry Morgenthau, 25.XII.1939. 2.

shipments to compete with but we have come to an understanding with the Nederlandsche Bank so as to permit us to send some gold that way. In order to help our Finnish friends we have on several occasions from them bought gold earmarked in London and in Stockholm.

All Scandinavian central banks have deposits in Swedish kronor which they are now gradually exchanging for dollars insofar as they are not using their Swedish kronor for imports from Sweden. Our assets in the United States have been reduced to about half of what they were at the end of August.

With a view to increasing our dollar assets we asked the Swedish Minister to take contact with you in order to find out whether it would be agreeable to the U.S. Government if we tried to issue a Swedish loan on the American market and if Sveriges Riksbank tried to get an overdraft credit from American banks. I am grateful for your reply that your Government did not object to these plans. As you may already know, we have subsequently been informed by Mr. Boström that there is at present no possibility of raising such credits.

Mr. Boström informed me at the same time that he had talked to Mr. Pierson of the Export-Import Bank and that Mr. Pierson would consider a loan of about 25 million dollars to Sweden when his funds had been increased by Congress. I also understand that there may be a chance for Sveriges Riksbank to get a credit from the Federal Reserve Bank of New York.

Cochran has been informed of a new law regarding Sveriges Riksbank which may be put into effect in an emergency. I have also told him about some developments on our money market which

The Honorable Henry Morgenthau, 25.XII.1939. 3.

I thought might be of interest to the Treasury. I suppose that he has informed you of these things in case they interest you personally.

Will you please excuse me for having written you this long letter. I felt, however, that I had to thank you for what you have done for us and I hope that you will in future help not only Sweden but also the other neutral countries in Europe. Amongst them I include Finland which in spite of her heroism and her present success needs substantial help by way of planes, munitions, money and men. I do hope that Congress will change your law so as to permit of a credit for Finland to be used not only for the purchase of commercial stocks but also for buying armaments from the United States and other countries.

I am,

Dear Mr. Secretary,

Sincerely yours,

Handwritten signature: Harold G. [unclear]

CLIMAX MOLYBDENUM COMPANY
300 FIFTH AVENUE
NEW YORK

TELEPHONE PENNSYLVANIA 8-8787
MINE AND MILL, CLIMAX, COLORADO
CABLE ADDRESS "MOLYBDENUM" NEW YORK



HKH:AA

December 26, 1939.

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

Dear Henry:

I am attaching copies of my today's
letter to Mr. Green and of the enclosure therein
referred to.

Sincerely,

Harold

Enclosures

1939
72-1883-14
RECORDED
INDEXED

HHH:AA

December 26, 1939.

118

Joseph C. Green, Esq.,
Chief, Division of Controls,
Department of State,
Washington, D. C.

Dear Mr. Green:

You will recall that when we had the pleasure of seeing the Secretary of State and you on December 20th we read to you a draft of proposed letter to our stockholders. Since then, because of many inquiries received, we have deemed it advisable to revise that draft. A copy of the revised draft is enclosed. I shall take the liberty of telephoning you tomorrow to ascertain whether the letter is satisfactory from your standpoint insofar as the Department of State is interested in this matter.

Yours very truly,

Harold K. Hochschild.

Enclosure

cc-Hon. Henry Morgenthau

To the Stockholders:

We quote herewith a letter received by us from the Department of State, Washington, D. C.:

(Insert)

The enclosure referred to reads as follows:

(Insert)

We understand that this request applies to Russia, Germany and Japan. We have advised the Department of State that we shall be guided by our Government's policy. We have also informed the Department that we have contracts with customers in Germany but that, due to the American neutrality legislation and the Allied blockade, no shipments under these contracts have been made since the outbreak of the war.

During the past five years the proportion of our sales to the said countries to our total sales has been as follows:

<u>Year</u>	<u>Percent of Total</u>
1935	52.97
1936	54.89
1937	53.02
1938	72.11
1939	57.8

The extent to which this request will affect your Company's business under present conditions depends on various factors the influence of which cannot now be foreseen. We understand that in certain foreign countries not affected by this situation the consumption of molybdenum in 1940 is expected to be materially greater than in 1939. Our domestic sales have shown an upward trend during the year 1939 both actually and in proportion to our total business.

In addressing our stockholders in this matter, we desire to correct any erroneous impressions that may have arisen. Molybdenum is widely used in alloy steels of high quality but it is added to such steels usually in small amounts, averaging between two-tenths and four-tenths of one percent in the steel. It is safe to estimate that not more than one percent of all the molybdenum consumed in the world during the past three years has gone into aircraft of all types - commercial and military. The primary uses of molybdenum are for peacetime industrial purposes. Like many other commodities to which that statement applies molybdenum can be considered a war material only to the extent that the industry of a country is geared to a war basis.

By Order of the Board of Directors:

Max Schott,
President.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

121

DATE December 26, 1939

TO Secretary Morgenthau

FROM Joseph J. O'Connell, Jr.

During the investment banking hearing before the Temporary National Economic Committee, evidence was introduced relative to the percentage of the total capital of J. P. Morgan and Company contributed by the individual partners.

As of the end of 1938, the largest single capital contribution was that of the estate of Charles W. Steele, that estate holding 36.6 per cent of the total capital of the firm. Thomas W. Lamont, with 34.2 per cent was in second place, and J. P. Morgan, with 9.1 per cent was third. The following partners had made the following capital contributions:

R. C. Leffingwell.....	6.1	per cent
F. D. Bartow.....	2.9	" "
J. S. Morgan.....	2.2	" "
A. M. Anderson.....	1.9	" "
George Whitney.....	1.9	" "
H. B. Davison.....	1.2	" "
Charles P. Hickey.....	.9	" "
T. S. Lamont.....	.6	" "

The above figures total 97.6 per cent. The record does not include information as to whose interests go to make up the balance.

The distribution of earnings in J. P. Morgan and Company bears no necessary relationship to the capital contribution made by the various partners. Mr. Whitney, while on the stand, explained that the partnership agreement provides for a stated return on the capital contribution of each partner, with an arbitrary division of profits over and above the stated return on a basis which has nothing to do with the capital contribution but is related (at least to some extent) to the participation of the various partners in the day to day operations of the firm. Unfortunately, the record does not contain any information as to the actual proportion of earnings paid to each partner.

Joseph J. O'Connell Jr.

December 26, 1939

Secretary Morgenthau

Joseph J. O'Connell, Jr.

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(Signed) Joseph J. O'Connell, Jr.

JJO:Gee:km Typed 12/26/39

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London

DATE: December 26, 1939, noon

NO.: 1668.

128
~~128~~

The following is from Secretary Morgenthau; it is strictly confidential, for Mr. Butterworth.

You are requested to forward by pouch a detailed account of what you did for the Treasury when you were in France.

HULL
(HF)

EA:LMW

RECEIVED

DEC 27 1939

PARAPHRASE OF TELEGRAM

124

To: Secretary of State, Washington.
From: American Embassy, Berlin (via Brussels)
Dated: December 26, 10 a.m.
Rec'd: December 29, 1939, 2:05 p.m.
No. 2461

My 2570, December 16, 10 a.m.

The German official news agency has announced the conclusion of trade negotiations with Rumania, Holland, Latvia and Sweden as well as signature of the German-Danish trade agreement, negotiations for which were concluded in November. Negotiations with Estonia are still continuing in Berlin and with Hungary at Budapest.

The press communique gives but few details of the trade agreements. With regard to the Rumanian agreement it was announced that effective January 1st the clearing selling rate of the mark will be increased from 40.5 lei to 49 lei and the buying rate to 50 lei. The original German demand was for a rate of 60 lei, later reduced to 55 lei. The press asserts that the new agreement will mean a substantial improvement in German imports from Rumania.

The Dutch agreement is briefly described as a
prolongation

prolongation of the present clearing arrangement. Concerning the Latvian arrangement the statement is made that "the agreement gives ground for anticipating an increase in the trade exchanges during the next year." The communique reported the Swedish negotiations as concerned with "the extension of the private debtors' agreement between the two countries and the structure of German Swedish commerce in 1940" to which was added the terse comment "the negotiations have resulted in a solution of these questions".

The Rumanian Legation has not yet received exact information regarding the recently arranged quota for export of oil from Rumania to Germany. However, it is the consensus that no very great increase over the former volume is represented. I am told by my informants that though the mark has had its value upped 50 percent in relation to the lei this augmentation is not as great as the increased price in leis of petroleum products. The lei price of petroleum products has gone up almost 100 percent, that is, at the end of October from 32,500 lei a tank local Constanza to 61,100 lei at today's date.

It is reported from sources in Holland that no conspicuous increase of imports from the Netherlands to Germany will result from the new German trade agreement.

What

What has already resulted from Anglo-Dutch negotiations which are still pending has been described as the agreement forced upon Holland not to reexport copper, iron ore and several other things to Germany. Therefore purchases by Germany in the Netherlands are limited for the most part to butter, cheese, eggs and other products of an agricultural nature. Likewise the statement is made that the blocked clearing balance the Dutch had in Germany, amounting to over 40,000,000 guilders and accumulated as a result of increased imports by the German Reich during the months just before the war, has shrunk to approximately 4,000,000 guilders. At the present rate it is expected that Germany will soon have material credits in the Netherlands owing to the favorable balance of trade she now has. The persons who have supplied me with the above information foresee that when this situation is attained a proposal will be made by the Germans that the agreement be changed from a clearing to a paying one, thus giving free exchange to Germany. It was suggested that probably the Dutch would put no objection in the path of a proposal of this kind. According to sources in Latvia it has been indicated that in the new accord there was no provision made for a special innovation or trade increase. It was stated that due to Latvia's obligation to augment her imports to the U.S.S.R. her power to send increased provisions to Germany was hindered. Likewise the

complaint

complaint has been received that in the quantities she wished Latvia could not get certain kinds of merchandise, especially products of steel and iron. Reports here state that Latvia is still being allowed to keep up some trade with England. This applies to Denmark also.

Originally it had been the hope of some agricultural officials in Germany to divert all the former trade that had been carried on between Denmark and England to Germany. However, information has reached the Embassy to the effect that this plan has been given up. One of the principal reasons for this abandonment is the fact that if Denmark is to maintain her production of dairy products she must go on getting concentrates and fodder with which Germany and the Baltic district cannot supply her but which must come from overseas. The latter implies that permission must be granted by the British blockade officials.

From sources in Sweden come indications to the effect that the new German agreement brings in no important change to the trade relationship of Germany and Sweden. Also it is believed that in spite of the fact that the accord was negotiated to last a year new negotiations would be suggested by the Germans within the next several months.

It would seem that the Germans have gained no marked augmentation of supplies. This impression is based upon press articles and conversations with local persons, in
neither

neither of which has enthusiasm been expressed vis-a-vis the trade negotiations. Notwithstanding, sources in Switzerland and Holland maintain that the German Reich has been enabled to get better range of quality and terms of delivery of its exports than was the situation of the first weeks after the war's commencement. It was said at the Legation of Switzerland that that country had been able to obtain from Germany certain agricultural products, the exact nature of which were not specified. It is presumed that this relative amelioration of exports is due partly because of the use of stocks previously manufactures. However, indubitably it is also due to the special efforts on the part of German manufacturers urged on by pressure from the government. During a confidential talk it was suggested by a certain German source of authority that in the matter of furnishing exports to countries in Europe while the war was in progress Germany had been granting too many favors, and that Germany's efforts did not appear to be appreciated by all these countries. The comment was also made that Germany might withhold some of her exports until other nations demonstrated more desire to grant compensation to the Reich in the form of goods of which Germany is in need.

129



DEPARTMENT OF STATE
WASHINGTON

December 29, 1939

In reply refer to
Eu

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits for the latter's information five paraphrases of telegram no. 2461, December 26, 1939, 10 a.m., received from the Embassy in Berlin.

Enclosures:
5 copies
Telegram no. 2461,
Berlin

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

RECEIVED
JAN 2 1940
U.S. DEPT. OF STATE

RECEIVED

etc.

TREASURY DEPARTMENT

130

INTER OFFICE COMMUNICATION

DATE December 26, 1939

TO Secretary Morgenthau
FROM Mr. Blough

Attached is a summary of the proceedings of the second meeting of the Fiscal and Monetary Committee called to discuss the Income Certificate Plan for Agriculture which was held in your office last Thursday, December 21, 1939.

This is not a verbatim record, but is believed to be a substantially correct statement of what transpired at the meeting.

RB

Subject: The second meeting of the Fiscal and Monetary Committee to discuss the Income Certificate Plan for Agriculture held in the office of the Secretary of Treasury, December 21, 1939, at 4:00 P. M.*

Those present were:

The Secretary of Agriculture; Mr. Carl B. Robbins, President of the Commodity Credit Corporation; Mr. J. B. Hutson, Assistant Administrator of the Agricultural Adjustment Administration; Mr. H. B. Boyd, Director of Insular Division, Agricultural Adjustment Administration.

The Chairman of the Federal Reserve Board; Mr. E. A. Goldenweiser, Director, Division of Research and Statistics of the Federal Reserve System.

Mr. Frederic A. Delano, Chairman, National Resources Planning Board; Mr. Thomas Blaisdell, Chief, Division of Research, National Resources Planning Board.

The Director of the Budget.

Dr. Lauchlin Currie, Administrative Assistant to the President.

The Secretary of the Treasury, The Under Secretary of the Treasury; Mr. Roy Blough, Mr. Carl Shoup and Mr. Ecker-Racz, Division of Tax Research, Treasury Department.

Mr. Morgenthau was detained at the White House;

Mr. Hanes called the meeting to order.

* This is a summary and not a verbatim record of the proceedings and, therefore, is subject to error.

Mr. Wallace addressed some remarks to the question whether the certificate plan was regressive or progressive in its effects. Available data on cotton indicate, he said, that the effect of the plan would be progressive. About 80 percent of the returns from the cotton certificates would go to farm families having annual incomes of less than \$750. These funds would come from consumers who, on the average, had higher incomes. To account for 78 percent of cotton consumption one must include consumer groups having annual incomes up to \$3,000. Moreover 25 percent of cotton farm families in the lowest income brackets have annual incomes of less than \$400, whereas one must include groups of consumers having incomes up to \$1,200 in order to account for 25 percent of cotton consumption.

Hanes: How shall we proceed? I understand that the plan proposed by the Department of Agriculture and that analyzed by the Treasury Department differ in some respects. Have the two staffs conferred?

Blough nodded to indicate "yes."

Wallace: We have prepared a statement which outlines the Department of Agriculture's plan. Would you like to have the statement read?

At this point, Mr. Robbins pleaded a weak voice and asked Mr. Blough to read Agriculture's statement. Mr. Blough

read the statement. Mr. Wallace interjected to say that at the Chicago meeting of the Farm Bureau Federation early this month the cotton group proposed a program which would call for a cotton crop loan equal to parity price and for an export subsidy equal to 6 cents a pound. At the same meeting Oscar Johnson proposed that the appropriation for parity payments be increased from \$225 million to \$500 million, the money to be raised from a manufacturers' sales tax. These groups, said Mr. Wallace, were quite influential. Mr. Morgenthau arrived as the reading of Agriculture's statement was being completed. When the memorandum had been read, Mr. Morgenthau asked Mr. Eccles to preside.

Eccles: The proposed plan raises many questions. As a member of the Fiscal and Monetary Committee, we are faced with certain alternatives. In the final analysis, the question is not whether we like or dislike this plan. If the Certificate Plan is not adopted, then what are the alternatives? We can't ignore the political implications of this issue. I, personally, don't like a tax on consumption. What we need at this time is an addition to purchasing power and not a redistribution of the existing purchasing power. However, we can't ignore the agricultural problem. We would not be helpful to the President unless we gave him some plan. To report merely that we disapprove the

Certificate Plan because it would tax consumption would not be of practical assistance to the President.

Wallace: I may interject at this point that the United States Chamber of Commerce is meeting today in Chicago to discuss the problem of parity payments.

Eccles: It is my view that something should be done for agriculture. Agriculture is in bad condition and requires assistance. But, let us not spend too much time discussing theoretical generalities. None of us can stay here long enough to cover all the theoretical problems raised.

Mr. Delano, would you like to say something?

Delano: I am here as an observer who is not very thoroughly versed in these matters. I have, however, seen agriculture and know that it has problems. Secretary Wallace has stated the problem in a correct way. I don't think he has exaggerated it. None the less, I am not prepared at this time to say whether the Certificate Plan is or is not the solution to the agricultural problem. It is an ingenious device, quite new to me. In a way, Secretary Wallace would do for agriculture what Alexander Hamilton did for manufacturing. Hamilton's assistance to manufacturing placed a burden on all the people. Everybody is paying for it. It is, of course, more difficult to help the farmer in the same way. When the tariff was first adopted the farmer represented

75 percent of the population. None the less, he allowed this burden to be put on him, but in return received a market for his products and large grants of land from the Government.

I have discussed this plan with two of my colleagues. I expected Beardsley Ruml to be very much concerned about the burden the Certificate Plan would place on the consumer. He didn't take that position as strongly as I expected and was willing to admit that it may not necessarily be too burdensome to consumers because farmers have low incomes. Charles E. Merriam was not prepared to express an opinion without further study. I notice that Flynn in the Washington News makes some unpleasant remarks about the plan. He thinks it is designed to deceive the public.

Wallace: Mr. Delano, with reference to your remarks on the tariff, I may say that the Certificate Plan is essentially a scheme to help export agriculture. To be sure, indirectly, it will help the entire agricultural structure. However, the only concrete case you can make out for its helping other farmers is that by helping cotton and wheat growers it will enable these, say, 2 million farmers to buy more in the cities, thereby creating a greater demand in the cities for farm products. I might add that export agriculture will be in a particularly bad condition when this war comes to an end.

At this point, Mr. Eccles asked Mr. Smith for an expression of opinion.

Smith: I haven't had a chance to look into this problem in sufficient detail and I am not prepared to take a position on it. Before making up my mind I would want to know more about the actual impact of this thing on our national economy. That is a very difficult thing to work out. These theoretical generalizations are not enough. We need more specific data. Up to now we have provided parity payments to farmers through borrowing. Now we proposed to provide parity payments by taxing consumers.

Wallace: We all agree that this is a tax on consumers.

Smith: It would be a regressive tax on consumers.

Wallace: That is where we differ. I don't think the effect would be regressive.

Smith: That question has to be answered specifically with facts and not generalizations. The plan needs more digestion on the part of the technical people. It needs analysis removed from the atmosphere of a meeting devoted to defending or attacking the plan. I, myself, am not prepared to make up my mind.

Eccles: Well, are there some things we can agree on? Do we all agree that Agriculture needs some assistance in

addition to the \$500 million appropriated for soil conservation? Is it necessary to give agriculture more assistance? If our answer to that question is in the affirmative, then we must ask what is the best way to give that assistance. We have three alternatives: (1) Deficit financing, (2) general taxation, (3) a plan of this sort. Personally, I think agriculture needs assistance. Moreover, I think that it will get assistance from Congress. I think it is to the interest of the whole economy that agriculture gets some assistance which will equalize distribution of incomes. I don't like the Certificate Plan as a first choice. I think aid to the farmer should come from appropriations and it should be paid for by corporation and individual income taxes. The burden should be distributed in accordance with ability to pay and should be placed on those more or less responsible for the present lack of the flow of funds. If that is impossible, then the Certificate Plan is our second choice. Our third choice is to do nothing about it. (To Mr. Morgenthau) Mr. Secretary, it may be a good plan for each of us to write up our recommendations with reference to this question. That may be the best way to proceed on this thing.

Wallace: I am wondering what we should say to the Press at this time. They were on my heels as I came in here. They know that we are discussing the Certificate Plan and I don't think it would be politically advisable to tell them that there has been disagreement among the Committee. It would be preferable to tell them that the meeting of the Committee had an educational purpose.

Morgenthau: This is an informal committee and in the past its recommendations were communicated only to the President.

Eccles: All we are expected to do is advise the President with respect to the specific problems that he raises.

Morgenthau: I am wondering whether our technical people (I don't mean the Department of Agriculture) could not meet between Christmas and New Year to iron out some of these questions. We could make better progress if they discussed this plan and then presented a statement to this Committee, indicating to what extent they are in agreement and providing alternative answers on those questions that they disagree on.

Eccles: It would be well for the technical staffs to discuss this problem. Mr. Goldenweiser is here for the Board. Mr. Delano brought along Mr. Blaisdell. How does that plan strike you, Mr. Goldenweiser?

Goldenweiser: I think that is a good idea.

- 9 -

Morgenthau: Would it then be agreeable if Mr. Blough got the group together and started things going?

At this point, Mr. Blough was designated to act as Chairman of the Technical Committee. The meeting was adjourned at 5:45 P. M.

December 26, 1939

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Goldensweeper: I think that is a good idea.

Mr. Slough: Would it then be agreeable if Mr. Slough get the group together and started things going?

At this point, Mr. Slough was designated to act as Chairman of the Technical Committee. The meeting was adjourned at 5:45 P. M.

E-R:cb
12/26/79

TO:

The Secretary

Do you think
he can make up
his mind as to
whether it's a tax
or not? @

12.28.39.

From: MR. SCHWARZ

Increased its net to \$773,504 from \$773,504
Wall St. Journal

Farm Certificate Plan Will Replace Export Subsidies, Says Wallace

Incomes "Approaching" Parity To Be
Provided, He Explains — Silent
On Sugar Program

WASHINGTON—Secretary of Agriculture Wallace yesterday said that the proposed farmer's income certificate plan to provide parity income for farmers would end the need for export subsidy payments by the government. He explained that farmers under the plan would receive an income "approaching" parity from that portion of that crop that is consumed domestically and therefore, with this bolstering of income, the portion of commodities intended for export would be sold at the market.

Mr. Wallace declined to comment on the sugar situation, except to say that the sugar division of the department would announce 1940 marketing quotas as soon as possible.

He also declined to comment on the probability of farmers receiving parity payments next year if the certificate plan or some other program is not adopted. He termed it a "farmer's tax." He denied that the proposed plan is in the strictest meaning of the word a tax and compared it with the tariff which benefits industry. "Like the tariff, it is a tax on consumers," he said, "but only in the sense that it is compared to the tariff."

The plan, which would provide for issuance of certificates to farmers which they would sell to processors and thereby receive additional income from their crops, might be extended to commodities other than the three principal export crops—cotton, wheat and rice—the secretary said.

SECRETARY WALLACE TODAY COMPARED HIS FARMERS' INCOME CERTIFICATE PROPOSAL TO THE TARIFF WHICH HE SAID IS ALSO A TAX ON CONSUMERS.

DISCUSSING THE DISPUTE FOR FINANCING FARM RELIEF WITHOUT DRAWING ON THE TREASURY, HE TOLD REPORTERS:

"IT IS ESSENTIALLY THE FARMERS TARIFF. LIKE THE TARIFF IT IS A TAX ON THE CONSUMER."

THE CERTIFICATE PLAN, WHICH WALLACE DESCRIBED AS A SUBSTITUTE FOR THE OUTLAWED PROCESSING TAX, WOULD ENABLE FARMERS COOPERATING IN THE AGRICULTURAL ADJUSTMENT ADMINISTRATION PROGRAM TO SELL CERTIFICATES TO PROCESSORS PURCHASING THEIR PRODUCTS. THE PRICE OF THE CERTIFICATES WOULD BE SET AT THE DIFFERENCE BETWEEN THE PURCHASING PRICE FOR LAST YEAR'S CROPS AND PARITY.

PROCESSORS WOULD HAVE TO BUY CERTIFICATES TO COVER PRODUCTS TO BE SOLD IN THIS COUNTRY. THE COST PRESUMABLY WOULD BE PASSED ON TO CONSUMERS.

"THE GREAT ADVANTAGE OF THE CERTIFICATE PLAN," WALLACE SAID, "IS THAT IT DOES NOT APPEAR IN THE BUDGET. IF IT APPEARS IN THE BUDGET PEOPLE POINT TO IT AND SAY 'MY, HOW LARGE THE BUDGET IS.'"

WALLACE SAID THAT THE PLAN ALSO WOULD MAKE UNNECESSARY PAYMENT OF EXPORT SUBSIDIES.

12/27--RA13P

FORMATION FOR THE PRESS

United States Department of Agriculture

151

Release - Immediate

WASHINGTON, D. C., December 26, 1939

STATEMENT BY SECRETARY WALLACE

1 1 1

Henry A. Wallace, Secretary of Agriculture, announced today that the following statement was being issued in order to correct any wrong impression that may have arisen recently about the Farmers' Income Certificate Program as a consequence of its having been erroneously characterized as a regressive tax on consumers.

"Congress has for seven years declared its objective to bring about parity relationships between prices and incomes of agriculture and other industries.

"Back of this objective is the recognition of the fact, repeatedly demonstrated by actual experience, that the maintenance of farm income at a parity level means more jobs for industrial workers, more purchasing power in the hands of consumers, increased business activity, and an improved condition of the Federal Treasury. As a result of the farm and other programs considerable progress has been made toward attaining the parity objective, thus bringing about a more nearly reasonable balance between agriculture and industry. In 1932 farm income was only a third of parity. It is now three-fourths of parity. Farmers are getting only 75 percent of parity because foreign and domestic conditions keep prices relatively low. The certificate program is a method of bringing about parity relationship, on the domestic portion of certain basic export crops. To the extent the certificate plan contributes to the restoration of this parity balance, less federal funds will be required.

1145-40

"It is not a tax measure that would raise revenue for the Treasury," said the Secretary. "Moreover, its effects, instead of being regressive, would be progressive because it would benefit the low-income farm group through improved prices for agricultural products supplied in large part to the higher-income non-farm groups.

"The outstanding inference of the charge that this is a regressive tax on consumers is that the certificate program is somehow unfair. This is not only misleading but also astonishing, because a fundamental result of the program would be the correction of existing injustices.

"For a long period, particularly since 1920, certain policies of the Federal Government have had regressive effects on the producers of export crops. The not effects of high tariffs, and numerous other price-supporting devices for industrial products, have been to impair the farmer's foreign market and at the same time to increase his costs of both living and production. Consequently the greatest distress and lowest incomes developed among the producers of our great export crops. Later the income from other crops was affected, and finally our entire industrial structure was impaired.

"Since 1933 some counterbalancing forces have been set in motion, but these, powerful as they have been, have only partially corrected the situation. The prices of farm products in relation to non-farm prices are still 25 percent below a normal relationship.

"In the retail markets food prices are 15 percent lower than other prices, taking 1929 as a basis for comparison. In fact earnings of employed industrial workers could now buy 26 percent more food than in 1929.

"Even at parity prices the average cost of the wheat in an 8 or 9 cent loaf of bread is only 1.8 cents. This would be 0.7 cent more per loaf of bread than in October 1939, when the average farm price of wheat was 70.3 cents.

1145-40-2

"The cotton farmer at present prices receives on the average 12 cents for the raw cotton in an article retailing at \$1.00. The restoration of parity prices would mean the addition of less than 5 cents to this retail cost.

"It is to be noted that the certificate plan is supplementary to the Ever-Normal Granary program under which consumers are protected against scarcity and extremely high prices. In the long run, consumers will gain from a continued soil conservation and Ever-Normal Granary program. It is to their long-time advantage to have all farmers participating in such a program from year to year. In this way they can be sure that the soil fertility will not be destroyed. Consumers, as seekers of employment want to protect themselves as well as farmers from the ghastly effect of 15 cent corn, \$3.00 hogs, 5 cent cotton, and 30 cent wheat. They know that the low farm prices of 1932 brought them no benefit. They do not want to go through with that again. I am convinced that when people in the cities really understand the farm program they will want to see it strengthened and not weakened.

"The objective toward which the farm people are striving with the certificate program is not only to obtain a fair income, but also to place agriculture on a more lasting and self-sustaining basis comparable to that enjoyed by industrial groups generally, through such governmental price-supporting measures as tariffs, franchises, and corporate powers.

"The thing I believe most farmers really deserve and desire, is that agriculture be given a fair chance to stand on its own feet and participate equitably with industry in the national income by being permitted to derive its own income in the normal way through the sale of its products.

"I am convinced that many of those who are against the certificate program honestly believe that the producers of cotton and wheat are not entitled to a parity price even on the domestically consumed portion of their products. They will fight any plan which will make it possible for cotton and wheat producers to adjust more continuously and equitably to the world situation. My belief is that the certificate program or its equivalent is needed if we are more continuously and definitely to protect farm income, the soil, the consumer and the national income itself."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

154

DATE December 26, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Quotations in the foreign exchange market today remained fairly steady in light trading. Sterling, after opening at 3.94-3/4, moved to 3.95 during the morning, then returned to 3.94-3/4 at the close.

Sales of spot sterling by the four reporting banks totaled £136,000, from the following sources:

By commercial concerns.....£	106,000
By foreign banks (South America).....£	30,000
Total.....£	136,000

Purchases of spot sterling amounted to £202,000, as indicated below:

By commercial concerns.....£	177,000
By foreign banks (Far East).....£	25,000
Total.....£	202,000

The Guaranty Trust Company reported that it had sold oil bills amounting to \$330,000 to the British Control, this being the first reported oil bill transaction going through at the official rate of 4.02. The Guaranty explained that the sale arose from a special arrangement between a leading American oil firm and the British Treasury, and covered shipments of oil to South Africa. It is Guaranty's opinion that this transaction should not be regarded as establishing a precedent that oil bills are entitled to the official rate.

The Chase National Bank stated that it had sold cotton bills totaling £12,000 to the British Control at the official rate.

The other important currencies closed as follows:

French francs	.0223-5/8
Guilders	.5309-1/2
Swiss francs	.2244
Belgas	.1665
Canadian dollars	11-3/8% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank informed us that the Chase National Bank's Bombay office was shipping \$280,000 in gold to the Chase National Bank, New York, for sale to the U. S. Assay Office.

We received from the State Department cables informing us of the following gold shipments:

5,530,000	from Japan, shipped by the Yokohama Specie Bank, Osaka, to the Yokohama Specie Bank, San Francisco.
1,293,000	from England representing two shipments by Samuel Montagu & Co. to the Irving Trust Company, New York.
916,000	from England, representing two shipments by Samuel Montagu & Co. to the Chase National Bank, New York.
<u>7,739,000</u>	Total

The first of these shipments will be sold to the U. S. Mint at San Francisco, and the others to the U. S. Assay Office at New York.

Since today was a holiday in Great Britain, there were no prices fixed for silver in London.

Although there was a holiday in Bombay, a New York bank received a quotation for first settlement silver (January 7 delivery) from that center. The U. S. equivalent, less the import tax, was 42.88¢.

In the New York silver market, Handy and Harman reduced their price for foreign silver to 34-3/4¢, off 5/8¢ from Friday. The Treasury's price was unchanged at 35¢, and three purchases totaling 300,000 ounces were made under the Silver Purchase Act. All of this silver was new production from foreign countries, and was purchased by us for forward delivery.

The Federal Reserve Bank of New York reported that the Far Eastern deposits with the New York agencies of Japanese banks as of December 20 totaled \$63,791,000, the greater part of which (\$56,448,000) is placed with the Yokohama Specie Bank in New York. The latter bank also has on its books an overdraft of \$95,443,000 as of December 20 which is understood to be for account of its head office in Japan. Since November 1, this overdraft has risen about \$13,800,000.

J. M. F.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

156

DATE December 26, 1939

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Colombian Debt.

Laylin called me this morning and asked me to try and clear up in proper quarters a misapprehension as to the Colombian position which he, Laylin, unwittingly may have fostered in his interview with Duggan, reported in the memorandum of December 14.

In discussing the cable of instructions from President Santos to Turkey, both he and Duggan interpreted the reference to the fact that the amount of service offered should include the sterling as well as the dollar debt as a condition which would continue during the whole life of the agreement. On the basis of a subsequent talk with Turkey, Laylin finds that the Ambassador interprets such reference in his instructions to mean only that in the first year the amount offered should include service of the sterling as well as of the dollar debt, and that thereafter this minimum figure -- which might be increased by gradual stages to \$2,000,000 -- would exclusively apply to service of the dollar debt.

Incidentally, I learned that Mr. Welles has not yet talked with Turkey. Under the circumstances, and in view of Mr. Duggan's absence from Washington, I communicated the above to Mr. Briggs of the Department of State, asking him to communicate with Mr. Welles.

J.P.C.

December 26, 1939

Secretary Bargarthen

Joseph P. Cotton, Jr.

Re: The Brazilian Debt and
the U. S. Steel Project.

Mr. McConnell, Mr. Noble's advisor at the Department of Commerce, has developed and explored with U. S. Steel and with financial interests in New York, an idea for tying in the U. S. Steel project in Brazil with an adjustment of that country's dollar debt which seems to present interesting possibilities. Mr. Noble has been trying to bring it to Mr. Welles' attention without success so far, for the reason, I am informed, of some personal antagonism which exists between Mr. Welles and Mr. McConnell. The idea, as explained to me by Mr. McConnell, is, briefly, as follows:

- (1) The U. S. Steel project would involve development of the famous Itabira concession in the State of Minas Geraes, reorganization of port facilities and of the central railway of Brazil, and the building of a steel plant to meet a substantial portion of Brazil's internal needs. It would require a capital of some \$25 millions in foreign exchange plus the equivalent of some \$15 millions in milreis for internal costs.
- (2) The project is believed to present great profit-making possibilities and is being seriously considered by the financial committee of the U. S. Steel Company on the basis of the detailed report of its experts sent to Brazil for that purpose. Vargas and the Brazilian army are said to be keen about the possibilities. In addition to demanding certain concessions and modification of the Brazilian labor and immigration laws to permit importation of United States technical personnel and to assure effective management, the steel people feel that, in order to fortify the safety of such an external investment the Brazilian Government or interests sponsored by the government of Brazil should put up the necessary milreis capital and participate in the control and development.
- (3) Mr. McConnell's idea is that the United States bondholder should turn over his bond to, and receive in return an interest in, a

development corporation formed to undertake this and other projects, provided the Brazilian Government would agree to service and redeem the bonds in milreis -- thus providing the milreis capital necessary for the project. As the bonds were redeemed, the Brazilian Government would become the eventual partner of U. S. Steel by gradually taking over the share of control originally vested in a representative of the bondholders.

(4) It is believed that, negatively, by reducing the necessity of imports, and positively, by exports of iron ore, the project would greatly improve Brazil's foreign exchange position; and give the bondholder and other foreign investors participating a run for their money. Although Brazil might be sensitive to the implication of a large-scale development corporation and it would be difficult to work out satisfactory arrangements for divided control, the project seems to present something tangible from which all important interests might hope to benefit substantially. The apparent hopelessness of the United States bondholder getting anything substantial in any conventional readjustment of the Brazilian external debt, is an additional reason why this novel proposal would seem to merit serious consideration. The total external governmental debt is approximately \$1 1/2 billions, of which by far the larger part consists of franc and sterling indebtedness, the dollar debt being only about \$350 millions.

Presumably the United States Government would come into the picture because the U. S. Steel Company would be willing to put up only a part of the necessary external capital of \$25 millions.

(initialed) J. P. C., Jr.

JPC,Jr:BJ

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London

DATE: December 26, 1939, noon

NO.: 1668

The following is from Secretary Morgenthau; it is strictly confidential, for Mr. Butterworth.

You are requested to forward by pouch a detailed account of what you did for the Treasury when you were in France.

HULL

(HF)

EA:LWW

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 25, 1939

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: The Brazilian Debt and
the U. S. Steel Project.

Mr. McConnell, Mr. Noble's advisor at the Department of Commerce, has developed and explored with U. S. Steel and with financial interests in New York, an idea for tying in the U. S. Steel project in Brazil with an adjustment of that country's dollar debt which seems to present interesting possibilities. Mr. Noble has been trying to bring it to Mr. Waller's attention without success so far, for the reason, I am informed, of some personal antagonism which exists between Mr. Waller and Mr. McConnell. The idea, as explained to me by Mr. McConnell, is, briefly, as follows:

(1) The U. S. Steel project would involve development of the Amazon Luling concession in the State of Minas Geraes, reorganization of port facilities and of the central railway of Brazil, and the building of a steel plant to meet a substantial portion of Brazil's internal needs. It would require a capital of some \$25 millions in foreign exchange plus the equivalent of some \$15 millions in milreis for internal costs.

(2) The project is believed to present great profit-making possibilities and is being seriously considered by the financial committee of the U. S. Steel Company on the basis of the detailed report of its experts sent to Brazil for that purpose. Vargas and the Brazilian army are said to be keen about the possibilities. In addition to demanding certain concessions and modification of the Brazilian labor and immigration laws to permit importation of United States technical personnel and to assure effective management, the steel people feel that, in order to fortify the safety of such an external investment the Brazilian Government or interests sponsored by the government of Brazil should put up the necessary milreis capital and participate in the control and development.

(3) Mr. McConnell's idea is that the United States bondholder should turn over his bond to, and receive in return an interest in, a

development corporation formed to undertake this and other projects, provided the Brazilian Government would agree to service and redeem the bonds in milreis — thus providing the milreis capital necessary for the project. As the bonds were redeemed, the Brazilian Government would become the eventual partner of U. S. Steel by gradually taking over the share of control originally vested in a representative of the bondholders.

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Presumably the United States Government would come into the picture because the U. S. Steel Company would be willing to put up only a part of the necessary external capital of \$25 millions.

A.P.C.

MEMORANDUM FOR THE PRESIDENT:

The State Department wishes to include in a proposed Argentine trade agreement a provision with respect to exchange controls somewhat along the following lines:

If the Government of either country establishes or maintains any form of control of the means of international payment, it shall impose no prohibition or restriction on the transfer of payments for articles the growth, produce or manufacture of the other country or of payments necessary or incidental to the importation of such articles, etc.

It is my understanding that Argentina prefers that the exchange control provision simply involve a guarantee of most-favored nation treatment (which appears generally in our trade agreements), but that State Department believes that the American exporter will receive greater protection against discrimination if Argentina will agree to place no restrictions upon the granting of foreign exchange for goods imported into Argentina from the United States.

If the above provision is included in the Argentine trade agreement, and if, by reason of the 'most-favored nation' clause, it is generalized to all countries with whom we have agreements, then the power now possessed by the President and the Secretary of the Treasury to employ exchange control for the purpose of controlling imports is seriously curtailed.

In view of what I believe to be your instructions to maintain a free hand to move on a twenty-four hour basis with respect to foreign exchange control, I am reluctant to approve the inclusion of the above provision in the Argentine trade agreement without taking this opportunity of calling your attention specifically to this matter and obtaining your express approval to this restriction of our foreign exchange powers. We can not be certain at this time that the question may not arise necessitating foreign exchange control here ought to be limited by the Argentine agreement.

The Ecuador trade agreement signed in August, 1938, contains a limitation on foreign exchange control similar to that proposed to be included in the Argentine agreement. However, if you agree with the views which I have expressed in this memorandum, it would seem desirable for the State Department to take appropriate action to notify the pertinent provision in the Ecuador agreement and in any other agreement where it may appear.

Treasury Department
Division of Monetary Research

Date 12/27/39 19

To: Miss Chauncey
From: L. Shanahan

For your records.

The originals of attached
memoranda were sent to the Secretary
last night by Secret Service messenger.

DEC 26 1938

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MEMORANDUM FOR THE PRESIDENT:

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The Ecuador trade agreement signed in August, 1934, contains a limitation on foreign exchange control similar to that proposed to be included in the Argentine agreement. However, if you agree with the views which I have expressed in this memorandum, it would seem desirable for the State Department to take appropriate action to modify the pertinent provision in the Ecuador agreement and in any other agreement where it may appear.

December 26, 1939

Secretary Morgenthau

Mr. White

Subject: Apologia.

1. We first questioned this provision on legal grounds four months ago. Some time in September the State Department asked us to pass on the provision in connection with the then proposed revised trade agreement. After discussing the matter with our legal division we informed the State Department that we had some doubts about the wisdom of including this provision in their trade agreement and asked them to withhold action until we had further opportunity to study the matter. However, the Cuban trade agreement was then dropped and so there was no occasion to discuss it at that time.

The provision next received our attention during October and November in connection with the proposed Argentine trade agreement. At that time I advised the State Department orally that the Treasury was questioning the advisability of including the contemplated provision in the Argentine agreement and suggested that the State Department's legal division contact the Treasury legal division for the purpose of discussing this matter further. As a result thereof, Mr. Bernstein discussed with representatives of the State Department the legal consequences and purposes of the proposed provision and indicated that, in view of the fact that such provision constituted a serious curtailment of foreign exchange powers of the President and the Secretary of the Treasury, it was incumbent upon Treasury counsel to specifically advise the Secretary of the Treasury of the significance of the provision. The State Department representatives agreed to furnish the Treasury with legal and other memoranda on the problem, and we decided to wait for such memoranda before calling the matter to your attention. After a lapse of a week or ten days, Mr. Bernstein inquired at the State Department as to when we might expect to receive the memoranda indicating that the Treasury would like to have ample time to consider the problem after the receipt of these memoranda and before the Secretary of the Treasury was asked to approve the Argentine trade agreement. Despite

repeated inquiries, the State Department did not deliver the memoranda until a day or two before the Christmas holidays.

2. The provision in question is a so-called standard provision which was passed on by a subcommittee of the trade agreement committee of which I am Chairman. The provision was the subject of contention for a period of many months in the year 1937 and was approved by the trade agreement committee of which I was a member. The Treasury at the time consistently opposed this provision on economic grounds but not on legal grounds. In fact I did not at any time in the past see the full legal implications of the restriction. We were outvoted but did not consider the matter of sufficient Treasury interest at that time to warrant taking the matter up with you. The matter did not come to the attention of the legal division until the Cuban agreement during September.

3. The same provision is contained in the Ecuador trade agreement. The legal division was not given an opportunity to pass on the Ecuador agreement because it was received at 1:15 P.M. on Saturday afternoon in August, 1938, with notice it was to be signed at 6 P.M. the same afternoon. Defects in the agreement from the Customs point of view were called to the attention of the State Department that afternoon but no changes were made in the agreement. Various corrections were made subsequently by protocols but not relating to this exchange provision which was not called to State Department's attention.

4. A similar provision is contained in the modus vivendi concluded with Greece on January, 1938, but was not submitted to the Treasury Department for approval.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 26, 1939

TO Secretary Morgenthau
FROM Mr. White
Subject: Apologia.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

12-27-39

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TO Secretary Morgenthau
FROM Mr. Foley

Pursuant to your suggestion, the State Department has been informed of your views on the proposed foreign exchange provision in the Argentine agreement. Two of the representatives of the Trade Agreements Division came over to discuss the matter with us. The problem was canvassed in its various aspects.

It appears:

(a) State considers this provision the essential benefit which the United States will receive from the Argentine agreement. Of course, Argentina would be happy to have the exchange provision put on a most-favored nation basis.

(b) State could suggest no alternative method of dealing with the situation that would be satisfactory to the Treasury and said that the problem was one for decision between the two Secretaries and the President.

(c) There is a 50-50 chance that the negotiations for the agreement will break down for other reasons. However, if the agreement is to be signed at all, it will be signed before the coming session of Congress.

(d) If the Treasury point of view is sustained with respect to the foreign exchange provision, it would be possible through negotiation to modify the exchange control provision in the Ecuador agreement and in any other agreement which undesirably impairs the Treasury foreign exchange powers.

F.H.F.L.



DEPARTMENT OF STATE
WASHINGTON

171

December 27, 1939

My dear Mr. Secretary:

I have received your letter of December 14, 1939, in reply to my communication of December 13 with which was enclosed a letter designating Mr. Winfield W. Riefler as a member of the Committee on Statistics of the Eighth American Scientific Congress. I note in your letter under acknowledgment that you would prefer that Mr. George C. Haas, Director of Research and Statistics in your Department, be designated to serve on this Committee in Mr. Riefler's stead.

When the Department was called upon to organize the Eighth American Scientific Congress it became evident that in view of the magnitude and scientific nature of the task it would be necessary to rely in a large measure upon an Organizing Committee composed of prominent scientists and Government officials residing in or near Washington. The members of this Committee were chosen with the collaboration of Dr. L. S. Rowe, Director General
of the

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

of the Pan American Union, and Dr. Alexander Wetmore, Secretary General of the Congress, and represent the principal professions interested in the meeting.

Consonant with this policy of dependence upon professional advice, the Department requested the Organizing Committee to select the sections into which the work of the Congress will be divided and to nominate the section chairmen to whom has been assigned the primary responsibility for the administration of the technical work of the several groups.

In view of the fact that the section chairmen were thus called upon to assume such important responsibilities the Department felt that those executives should be accorded the privilege of nominating the officers and members of their respective committees. In general the section chairmen have recommended experts who have had wide experience in inter-American affairs and who are well known throughout the other American republics. The Department and the Organizing Committee have urged the section chairmen to restrict the membership of their committees to a minimum compatible with the effective performance of their duties and, consequently, the chairmen have deemed it feasible to select only a few individuals rather than to attempt to obtain appropriate departmental representation.

representation. It would be extremely difficult to include in all of the committees representatives of the numerous branches of the Government concerned with the several phases of the Congress' activities.

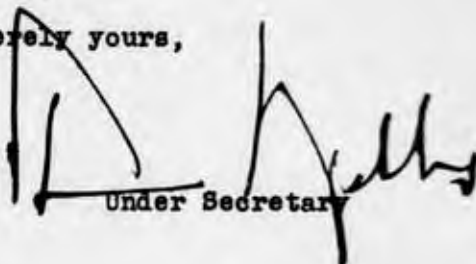
Cognizant of the very valuable counsel and cooperation which the Government departments and agencies are in a position to offer in connection with the Congress, the Department and the Organizing Committee are planning to request you and the other interested members of the Cabinet and heads of independent agencies to serve as vice chairmen of an Advisory Committee. This Committee will include the heads of appropriate divisions of the several departments as well as distinguished scientists and professional leaders in private life. It is hoped that the Advisory Committee will be constituted at an early date and that those invited to serve will find it possible to participate in this important work.

I am glad to furnish you with this information in view of your special interest in the matter. Dr. Stuart A. Rice, Chairman of the Section on Statistics, has informed me that he has discussed with you the question of Mr. Haas' service on the Committee. Dr. Rice now recommends that Mr. Haas be designated to serve on the
Committee

Committee in his individual capacity. Accordingly, I am enclosing herewith for transmittal to Mr. Haas, should you desire to do so, a letter designating him as a member of the Committee on Statistics of the forthcoming Congress.

I am grateful for your interest in the Congress and I trust that the Department and the Organizing Committee may be assured of your continued cooperation as the preparatory work progresses.

Sincerely yours,



Under Secretary

Enclosure:

Letter of designation.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 27, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

While the foreign exchange market had the semblance of inactivity, there was nevertheless a fair volume of sterling transactions. The rate for sterling opened at 3.94-1/2 and fluctuated in a narrow range until about noon. At that time, it was quoted at 3.94-3/4. The rate remained steady for the rest of the day and closed at 3.94-3/4.

Sales of spot sterling by the four reporting banks totaled £578,000, from the following sources:

By commercial concerns.....	£ 135,000
By foreign banks (Far East and Europe).....	£ 443,000
Total.....	£ 578,000

Purchases of spot sterling amounted to £196,000, as indicated below:

By commercial concerns.....	£ 161,000
By foreign banks (Europe and Far East).....	£ 35,000
Total.....	£ 196,000

The following reporting banks sold cotton bills totaling £18,000 to the British Control at the official rate of 4.02.

£ 14,000 by the Guaranty Trust Co.
3,000 by the National City Bank
1,000 by the Bank of the Manhattan
<u>£ 18,000 Total</u>

The rate for the belga moved in an erratic manner. It opened in Amsterdam at .1666-1/2 and rose to .1690. Later in the day it was quoted at .1680 in that market. In New York, the opening quotation was .1675 bid and, after touching .1685-1/2, it receded to close at .1675. The wide movements in the rate were due to some buying to cover contracts maturing at the end of the year.

The other important currencies closed as follows:

French francs	.0223-5/8
Guilders	.5311-1/2
Swiss francs	.2243-1/2
Canadian dollars	11-3/8 discount

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

We purchased \$10,000,000 in gold from the earmarked account of the National Bank of Switzerland.

There were no shipments of gold reported today.

On the report of December 20, received from the Federal Reserve Bank of New York, giving the foreign exchange position of banks and bankers in its district, the total position of all currencies was short the equivalent of \$16,173,000, an increase of \$555,000 in the short position. The net changes in positions are as follows:

<u>COUNTRY</u>	<u>SHORT POSITION</u> <u>DECEMBER 13</u>	<u>SHORT POSITION</u> <u>DECEMBER 20</u>	<u>INCREASE IN</u> <u>SHORT POSITION</u>
England	\$ 4,494,000	\$ 5,745,000	\$ 1,351,000
Europe	8,026,000	7,068,000	958,000 (Decrease)
Canada	572,000 (Long)	4,000	576,000
Latin America	464,000	287,000	177,000 (Decrease)
Far East	3,178,000	3,044,000	134,000 (Decrease)
All Others	28,000	25,000	3,000 (Decrease)
Total	\$15,618,000	\$16,173,000	\$ 555,000

The prices for foreign silver fixed by Handy and Harman and the Treasury were both unchanged at 34-3/4¢ and 35¢, respectively. We made eight purchases of silver totaling 699,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented inventory and 224,000 ounces consisted of silver acquired by a New York bank in expectation of sale at higher prices to Bombay, which did not materialize; the remaining 275,000 ounces were new production from foreign countries and were purchased for forward delivery. We also purchased 60,000 ounces of silver from the Bank of Canada under our monthly agreement.

Silver in London was weak. The spot price was fixed at 22-1/2d and the forward price at 22-11/16d, both off 13/16d. The U. S. equivalents were 39.94¢, off 1.42¢, and 39.92¢, off 1.35¢, respectively. The drop in the prices of silver was attributed to selling from India, coupled with very little support in London. Indian sales of silver in London are probably due to the desire of Bombay speculators to reduce the long position built up to take care of expected up-country demands which have not materialized to the extent anticipated. As India is included in the sterling area by the British Control, settlement for such sales is on a sterling basis and presents no special exchange problem to the British authorities.

The only price quoted for silver in Bombay was for January 7 delivery. The U. S. equivalent, less the import tax, was 42.75¢, off about 1/8¢.

B. M. S.

CONFIDENTIAL



TREASURY DEPARTMENT

WASHINGTON

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OFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS ONLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

December 27, 1939.

Memorandum for the Secretary:

On Tuesday forenoon, December 26, 1939, Dr. Harry White called and we discussed the general problem facing the Anglo-French Mission in the light of Chief Counsel Foley's memorandum on obsolescence and the criticism of Mr. Viner. We concluded that the closing agreements with Colt and Consolidated Aircraft would not be helpful except insofar as they reveal the extent to which small tools and special machinery could be depreciated for income tax purposes. It was Dr. White's suggestion that in my conference with the Anglo-French Mission I discuss the various techniques that might be used to enable their governments to persuade American manufacturers to increase their plant facilities without incurring substantial tax liabilities and losses arising therefrom.

In the telephone conversation which Dr. White and I had with you it was suggested that instead of the British Government building their own plants they let the manufacturers build the plants and the total construction price be deposited in escrow; then at the end of the emergency when the manufacturers write off the plants as they discard them or have them revalued for another purpose, whatever loss they suffer at that time would be offset by reimbursement from the escrow fund. Dr. White suggested that this would have an added advantage that by taking five percent depreciation at the end of the first year and at the end of the second year, that ten percent could be released from the escrow fund to the government. In that way they would not suffer so much loss because the depreciation had been written off and an equal sum returned to the British Government out of the escrow fund. You approved of this plan but asked that we work out some plan whereby a small manufacturer might borrow money without having to go to a banker, and suggested that you would like us to keep in mind the desirability of establishing new airplane companies in the central part of the United States.

At three o'clock Captain E. E. Collins called with the following gentlemen:

Mr. Purvis
Mr. Plawan
Mr. Bloch-Liane
Mr. Miller-Hyde
Mr. Boddie
Colonel Jacquin

The discussion on their side was led by Mr. Purvis, head of the Joint Anglo-French Mission. The problem which was disturbing them was the reluctance of American manufacturers to increase their plant facilities for fear that when the war ended they would have on their hands obsolete buildings and would be receiving no income from which this obsolescence could be deducted.

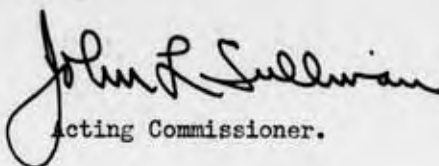
After they outlined their difficulties I stated the problem from the point of view of the manufacturer and then told them that, realizing their urgency, we had addressed ourselves to the problem but that we were still in the thinking stage and that in this conference I would discuss with them techniques which we hoped might become available.

I first submitted to them the proposal that in a case where they wanted Corporation A to erect a new plant costing \$1,000,000 they deposit \$1,000,000 in escrow in an American bank and in their contract with Corporation A provide that when the contract was completed and/or the war ended the corporation be reimbursed at that time out of the escrow fund whatever amount of obsolescence was written off against the building. This could be done in different ways. Example: In 1940 and in 1941 Corporation A writes off five percent depreciation each year against the million dollar new building. At the end of each calendar year the foreign government could withdraw from the escrow fund \$50,000. In 1942 the war ends and the corporation instead of discarding the building elects to continue it, not as a manufacturing plant but as a warehouse. The Internal Revenue Bureau engineers at that time evaluate the property for \$400,000. The foreign government would then reimburse Corporation A \$500,000, - this being the difference between the new value of the property and the adjusted cost basis of the building.

Subsequently, I suggested that a slightly different technique was under consideration: namely, that the foreign government lend to Corporation A \$1,000,000 to be repaid at the end of the war or the termination of the contract and Corporation A be permitted to deduct from the repayment amount the difference between the new valuation of the building or its salvage value and the adjusted cost price.

The latter technique seemed to be far more acceptable to the members of the Mission and Captain Collins and I agreed to communicate with them Friday morning, December 29th, after submitting the proposal to you.

Men in the Income Tax Unit to whom I submitted this proposal raised the question of the necessity or desirability of the manufacturer paying interest upon the loan or giving security for it. Their other observations have been reduced to a memorandum which I am enclosing herewith.


Acting Commissioner.

Enclosure.

DEC 27 1940

Memorandum to Mr. Sullivan:

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Basing an opinion on the conditions which are alleged to prevail in the plants of American manufacturers of military powder, it appears to the undersigned that the following general outline of a plan of procedure will most nearly fit into the objectives of the parties in connection with advances by foreign governments to enable the acquisition of additional plant capacities by such manufacturers for the production of munitions for export.

The American manufacturers desire to secure capital for the necessary expansion of the facilities. A plan involving the making of a loan by the foreign power to the American manufacturer commends itself for the reason that neither in the making of the loan nor in the repayment thereof is taxable income engendered. It is understood that the situation does not permit of mortgaging the property as security for the loan and that the loan will be made on the general credit of the manufacturer but subject to the terms of a contract between the parties. It is earnestly recommended that the contract provide for the payment of interest on the loan in order to bring into operation one of the best evidences that the advance is in fact a loan. Under this arrangement, the American manufacturer will proceed to procure the necessary additional facilities.

The American manufacturer also desires to avoid the risks of an investment in plant facilities which at the termination of the war will be found to be obsolete, involving a serious loss to him. The avoidance of this loss may be accomplished by provision in the contract under which the foreign government guarantees to make good any amount of loss suffered by the American manufacturer from this source, and it will be highly important to make the provision in the contract as to the time when this guaranty liability on the part of the foreign government definitely accrues to fall within the same income tax taxable year as such year in which the loss of the American contractor is deductible for income tax purposes. If the two accruals fail to fall within the same income tax year they will lose their mutually compensatory effect on the tax. The contract may provide that the loan shall run during the entire period of the European war and for a specified additional period thereafter long enough to afford full opportunity for a determination of the loss of the manufacturer due to the obsolescence of the facilities, in order that, as also may be provided expressly in the contract, the American manufacturer may take credit against the loan for the loss, thus reducing his obligation to the foreign government prior to the date when it is due and payable.

The American manufacturer is desirous of following a course which he may legally take to pay a tax only on the real profit he realizes from the manufacturing operations. An agreement on the part of the foreign government to pay the income tax attributable to the guaranty against loss through obsolescence, if any, would satisfy this desire.

Chappel

Mooney
John W. Bennett

FEDERAL RESERVE BANK
OF NEW YORK
B. B. L.

OFFICE CORRESPONDENCE

DATE Dec. 27, 1929.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF FRANCE.

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Mr. Cariguel called at 11:15 a.m. today. He wanted to make sure, he said, that if and when he had to sell some of the gold which we were holding for account of Bank of France, he could get credit at once. I replied that on refined gold the Assay Office was in the habit of making an advance of from 90 to 98% depending on the fineness, that is, on high grade fineness they would advance as much as 98%. However, they would never commit themselves in advance. If he had to sell some gold he must, of course, instruct us in time as it would always take a couple of hours before we could make physical delivery from our vaults to the Assay Office. Mr. Cariguel thanked me for the information; he had wanted to be sure that there was no change in our usual practice.

LWK:KW

DEC 28 1929

December 27, 1939.

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Dear Mr. Hoover:

Secretary Morgenthau has asked me to acknowledge your letter of December 16th, together with the enclosed copy of a memorandum dealing with the activity in this country of Mr. Adam Von Trott.

Mr. Morgenthau was glad to have this material and appreciated your sending it to him.

Sincerely,

(Signed) H/S. Klotz

H. S. Klotz,
Private Secretary.

Mr. J. Edgar Hoover,
Federal Bureau of Investigation,
United States Department of Justice,
Washington, D. C.

GEF:lmf

• Mrs. Johnson
Pls ack rec.

—

JOHN EDGAR HOOVER
DIRECTOR

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

December 16, 1939

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

My dear Mr. Secretary:

I thought you would be interested in having a copy of the attached memorandum dated December 16, 1939, which pertains to the activities of Adam Von Trott, whom you recently discussed with a member of my staff. Copies of this memorandum have been transmitted to the White House and to the State Department.

This is the first memorandum prepared on this matter in view of the fact that a constant surveillance has been maintained in an effort to accumulate such a quantity of data concerning Trott's activities as to permit the preparation of the material in a comprehensive form.

Present indications are that Von Trott will in the near future leave New York and return to Germany via the Orient.

Sincerely yours,

J. Edgar Hoover

Enclosure

December 16, 1936

MEMORANDUM

Re: DR. ADAM VON TROTT EN SOLZ, with aliases;
Adam Von Trott en Solz, Adam Von Trepp en
Solz, Adam Von Trott en Solz

Information has been received that Dr. Adam Von Trott en Solz, who arrived in New York City on October 2, 1933, from Europe ostensibly to attend a conference of the Institute of Pacific Relations held at the Cavalier Hotel, Virginia Beach, Virginia, between November 22 and December 2, 1933, inclusive, in reality is visiting the United States for the purpose of soliciting the assistance of a few prominent individuals in a plan to overthrow the present regime in Germany. Dr. Von Trott arrived in New York City on the S. S. Pulcinella of the Italian Line, having originally departed from Genoa, Italy, on September 2, 1933.

The records of the Immigration authorities at New York City indicate that Von Trott was in possession of Film IT-176, issued on August 9, 1933, at Berlin, Germany, for pleasure. He has a round-trip ticket and his papers indicate that his final destination is Germany. These records further reflect that he intended to visit his uncle, Dr. William Seheffelin, at 620 Park Avenue, New York City, for the approximate duration of four months.

Dr. Seheffelin, according to who's who, New York Edition for 1932, was born in New York City on April 14, 1886, and was educated at the Columbia School of Mines, obtaining a Ph.D. degree, and the University of Munich, from which institution he received a Ph.D. degree. Dr. Seheffelin has been connected with Seheffelin and Company Laboratories for the past twenty years and has occupied the positions of President and Chairman of the Board of Directors. He belongs to a number of civic and social clubs in New York City and was Colonel of the 192d New York Infantry from 1916 to 1923.

The records of the Immigration and Naturalization Service indicate that Dr. Von Trott previously visited the United States arriving on March 12, 1937, having sailed from Southampton, England. His passport on this occasion was issued in Berlin, Germany, on February 1, 1937, and indicated that his permanent address was Imbmanns, Germany, and his father's name was given as Dr. F. Trott en Solz, address, Imbmanns, Solz, Germany.

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The conference of the Institute of Pacific Relations, held at the Cavalier Hotel, Virginia Beach, Virginia, from November 22 to December 2, 1939, inclusive, was attended by approximately eighty-five persons from the United States, Europe and the East. This course of study is held every three years and was to have met at Victoria, British Columbia, Canada, during 1939, but, due to the outbreak of war in Europe, was changed to a neutral country.

Von Trott's expenses for his trip to the United States are apparently being defrayed by the Institute of Pacific Relations, as evidenced by a telegram dated September 12, 1939, addressed to Adm. Von Trott, Falkenreid 30, Hahleim, Berlin, Germany, by Mr. Richard C. Barker, member of the Board of Trustees of the American Council of the Institute of Pacific Relations, New York City, which is quoted as follows:

"Institute exploring possibility expending for Western inquiry to relate unofficial scholarship to general settlement. In view your knowledge present inquiry regard it utmost importance you come this country earliest possible moment for consultation. Hope this can be regarded as your first national service. Cable."

It has been ascertained that the American Council of the Institute of Pacific Relations, 129 East 52nd Street, New York City, has been in existence since 1925. The Institute at the present time has eleven national councils which exchange pamphlets and literature with one another based upon research work accomplished by the respective councils. The Institute appears to be particularly concerned with Oriental countries and places a great deal of emphasis upon the relations of these various countries with other parts of the world. The American Council is definitely interested in the part the United States plays in the Orient. The Institute is reported to work very closely with the Foreign Policy Association, 8 West 40th Street, New York City, and with the Royal Institute of International Affairs, London, England.

The American Council's national officers, as reflected in the annual report of the American Council of the Institute of Pacific Relations, Incorporated for 1938, are as follows:

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Carl L. Albany, Chairman

Vice Chairman

Wallace M. Alexander
 Miss Ada L. Comstock
 Philip C. Jessup
 Benjamin H. Elder
 Robert Gordon Sproul
 Ray Igman Wilbur

Secretary

Frederick V. Field

Treasurer

Francis S. Hagan

Miss Bilda Aarsten, Assistant
Treasurer

On October 2, 1939, Dr. Van Trott registered at the Marlborough Hotel, New York City, checking out on October 11, 1939, from whence he moved to the Sheraton Hotel, 33 West 59th Street. It has been ascertained that during his stay in New York City he has been occupying an office at the Institute of Pacific Relations, 139 East 52nd Street, New York City.

Dr. Van Trott is reported to be the son of a former Minister of Culture of Prussia pre-war days and is the author of a book entitled "European State Philosophy and the International Right", published by Gottigen University, the seminar for public rights and diplomacy, in 1932. It has also been learned that he was a Rhodes Trustee and spent a year as such in Asia sometime ago studying conditions there.

It is interesting to note that Dr. Van Trott is in possession of two letters of introduction from some unknown Berlin resident, one of which is addressed to Professor Charles H. E. Webster, 39 Maitland Square, London, England, which is dated May 31, 1939, and indicates that Van Trott is a close friend of the author of the communication and was to be in London for a period of one week. This communication requested that Mr. Webster give him an audience stating that he, Van Trott, "will give you an account of our present views". The second letter is addressed to Henry Brooks, Member of Parliament, London, England, and is in a similar vein but in addition indicates that Van Trott "tends to the Schlange brand of opinion rather than the Helthe brand".

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There is reason to believe that Von Trott came to the United States with Fritz Caspari, who registered in Room 1404, Marlborough Plaza Hotel, New York City, on October 2, 1939, checking out on October 4, 1939. This individual exhibited passport number 998561, Department of State, issued by the American Consulate at Stuttgart, Germany, on August 1, 1936, and visa number 517 for Switzerland. The association of Von Trott with Caspari is substantiated by a note written to Dr. Von Trott on October 2, 1939, which has been translated as follows:

"Dear Trupp:

My central etc. lasted a great length of time. I followed your instructions and live here in room 1404. In the event I am not there please notify me as to what time you expect to be here.

(signed) F.C."

It is known that Caspari arrived at New York City aboard the S. S. Valancia on October 2, 1939, and it is interesting to note that he is presently teaching at Scripps College, Claremont, California, where he first arrived as an instructor in February 1939 from Germany where he had been serving in the army. He returned to Germany in July 1939, allegedly for a visit, but again appeared in Claremont, California, on October 10, 1939, where he resides with Dr. Arnold Bergstrasser, who came to Scripps College as the head of the German Department in the fall of 1937. Although Bergstrasser claims to be a monarchist, he is friendly with the local German Consul. However, neither Bergstrasser nor Caspari is openly pro-Nazi. It is reported that Dr. Bergstrasser served on the Nazi Economic Delegation to London in 1933.

On October 19, 1939, a conversation was overheard between Von Trott, Frederick T. Field, Secretary of the American Council, Institute of Pacific Relations, New Haven, Professor at the New School for Social Research, New York City, and a Dr. Hair (phonetic), whose identity is unknown, which in substance was as follows.

Von Trott mentioned a Mr. Fraser, who is possibly identical with Leon Fraser, President of the First National Bank of the City of New York, whom he described as a most reputable person in financial circles on Wall Street.

and a man of unusual ability, great experience and character. Dr. Van Trost had apparently had a previous conference with Mr. Prager, who indicated his willingness to become implicated in an international trust, so-called. Dr. Van Trost described him to his guests, however, as a true American who does not lean to the English side but who was considered by Van Trost as being a good prospect, especially as a supporter of the theories of Van Trost, and his associates concerning the solution of European present-day problems.

During this conversation, Van Trost took the occasion to mention the failure of the American "gold smuggling" policy and concluded by referring to an unidentified individual, believed to be Mr. Prager, stating that he was well prepared and willing "to help us here in America, in order to bring about the communication with Europe, and this includes Germany". From the conversation which followed, it appears that Mr. Prager apparently informed Van Trost that he did not believe American should be in close relationship with Germany and Van Trost was of the opinion that Prager was an important American for his program.

Van Trost also referred during the conversation to Joanny, who is believed identical with Philip Joanny, Vice Chairman of the American Council of the Institute of Pacific Relations. The name of J. A. Eitzen Payne was also mentioned and Van Trost remarked that he needed this individual and "we must talk this one point over with him so to how far we should go with our plan".

Later during the course of conversation the name of Lehman was mentioned. Lehman is believed to be identical with Philip Lehman, Professor of Business Economics at the New School for Social Research, who also participated as an expert in the German Government Inquiry for the reform of Corporation Law and Statutes. With reference to Lehman, Van Trost stated that he was totally unknown to foreign officials and advised that "we do not know whether we could contact him in his so to foreign nature". Van Trost in a previous conversation with Lehman had apparently told him that they were working for the same objectives but that a "change must be wrought in present Germany".

One of the guests then remarked, "Miller has a German group which is important". Van Trost apparently responded by stating, "I believe that we need this man and we

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must strive very diligently to bring about a favorable relation in order that we may have a conference for the purpose of championing the cause", which evoked a remark by one of the guests, "We must cooperate to a great extent with the institute with reference to its activities".

As the conversation continued, Von Trott stated that he was not ready to definitely conclude whether the Russian influence would exhibit itself in the constitution of future Europe and that such an idea is probably contrary to the theory promulgated by Molotov. In further elaborating upon this point, Von Trott advised that his group was not in a position at this time to abrogate the Hitler-Stalin agreement but he did indicate that the opinion generally existed that the revolutionary elements of Germany and Russia must cooperate in order to introduce a socialistic concept in favor of Germany.

Von Trott, during the course of this conference, indicated his intention to proceed to Boston, Massachusetts, for the purpose of making a survey of ideas. It is interesting to note that he did proceed to Boston, where he allegedly visited Heinrich Brüning, a Professor at Harvard University and a former Chancellor of Germany, and Alexander Behr, also known as Behr, a tutor at Harvard University, who formerly attended Corpus Christi College at Corpus Christi, Texas.

The conference then continued with a discussion as to what form the specific plan would take, whether it would be a peace plan or educational reform. Von Trott stated that it would be based upon conditions favorable to peace and that the plan would be submitted to the Americans after it had been closely examined and scrutinized by eight American leaders, the names of whom were suggested by one of the guests as Connery, Kenneth or Kennedy, Macdonald, Mori, Scherberg, Wheeler Bennett and two other individuals whose names could not be discerned.

Von Trott and one of his guests then referred to their plan and to the possibility of its adoption by the German people. The guest indicated that he contemplated some reluctance on the part of the German people and further explained that the plan must be introduced mildly or Dr. Jessup (apparently connected with the Institute of Pacific Relations) would protest

violently. Von Treits expressed his opinion that a rallying point in public opinion of the Allies, Americans and Germany be voted for before bringing the matter to the public, or a revolutionary move would result.

One of the guests then remarked that England was ready to deprive Hitler of the leadership and to relegate Germany to a constitutional form of government. Von Treits replied that England did not recognize the revolutionary socialist element in Germany and that was why the English propaganda was so ineffectually planned. The possibility of having a German Communist bring about peace was also discussed but it was contended that a military Polish was necessary to bring into action a socialist regime in Germany. The possibility of having an immediate overthrow of the German Government was suggested by Von Treits but no discussion followed.

As the conversation continued Von Treits indicated that he had been engaged in similar work in England but that the results were more favorable there than they had been in America. In discussing the socialist element Von Treits advised that it was possible to build up the crystallization point for a constructive socialist proposal. However, he stated that the Americans were very suspicious of the term "socialism" but that he would incorporate it in his European peace proposal.

He emphasized the fact that the cooperation of Russia should be sought to defeat Hitler. This was to be accomplished by combining the socialist element in Russia and Germany. Von Treits stated that Germany was in a better position for a socialist revolution than it was in 1932 at the time Hitler came into power. Public opinion has been bolstered since then, according to Von Treits, and the socialist type working man has increased in numbers.

For the success of this program Von Treits stated that the progressive groups in the United States must participate and bring pressure to bear upon France and Great Britain. Von Treits suggested that American progressive groups could be called upon for assistance in their program if some such slogan as "Keep out of war by participation in peace" was well publicized.

Von Treits stated, "We in Germany feel that no hope for socialism will be realized unless we have European peace. I really feel that, and that means ultimate world

socialism. I thought that we should convey to you the feeling and press the views of the German socialists. You see, they are so cut off, so isolated, and they feel quite right that they are entirely misunderstood and forgotten."

On October 24, 1939, Von Troelt held a conversation with a friend, believed to have been Dr. Hans Hehle of 18 Lauenburg Place, Bloomfield, New Jersey, who is connected with the Seabury Company at Bloomfield, at which time Von Troelt indicated that he had paid a visit to Dr. Branning, Professor at Harvard University, and discussed his plans and program with him to some extent but that he did not get very far with Branning and did not go into the matter in detail because of this fact.

Von Troelt and his guest then stated that it was their purpose to create two parties which were to have a common basis and that it must not be disclosed that their program was of socialist origin. Von Troelt then indicated that he did not believe his guest was exactly on his side, to which the latter responded by stating that if such were the case it was due to misunderstanding of his principles.

The discussion then indicated that most of the German people were in favor of a change and that the German property owners have been greatly weakened and the working people have among other things taken a more dominant position in German affairs. Von Troelt advised that it was obvious that the Nazis were implanting their ideas in the minds of the children, which apparently has subdued the free-thinking German people, and that he wished to say that at the present time objections to a revolution are unheard of. Von Troelt advised his guest that they should be extremely cautious not to undermine the morale of the German people at a time when foreign nations were making an attack. He then expressed the opinion that so far as he could see victory for Germany was not apparent. He advised that the present was the time for a socialist struggle to arise in Germany and further related that the Communist element had greatly strengthened itself of late. He further expressed the opinion that Germany was undergoing a reorganization without regard for leadership but that conditions in Germany demanded a change.

On October 28, 1939, a conversation between Von Troelt and Arthur Seebach, a German refugee who resides at the Croydon Hotel, New York City, was overheard and in substance was as follows.

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Seeshak expressed the opinion that the instability of Europe to be on friendly terms gave rise to Hitler which, in effect, was brought about as a result of a weakness of the great powers. Von Trott responded that in the interior of Europe there were certain middle-aged revolutionized nations which considered themselves larger than they actually were and it was this superficial attitude which causes so much discontent and unrest in Europe.

Von Trott then stated that they must show that the peace which was promised by Hitler will not be a lasting one and that within a few years the internal situation in Germany would be changed by pressure exerted from foreign sources as well as from inner sources, such as a rising from the Polish-Austrian situation and the development of certain concerted action and the Soviet activity. Seeshak expressed the opinion that a revolution would be better than to have a "bottle lost" Germany and that it should be shown (apparently in the round table discussions at the conference of the Institute of Pacific Relations) that the Germans do not have the means to restrict the Hitler regime.

Von Trott responded that the main point today was that if "we" can not aside Hitler, they must give "us" a chance but that if these powers deny us this chance, we will not continue to seek their aid but we must consider then our enemies. Von Trott added that this was a political consideration but there was a great possibility that his presence in America might be misconstrued and the people refer to him as a young man representing European financial interests in Germany who wanted to draw up a faulty scheme of friendship indicating how Germany should be handled. Von Trott was of the opinion that a new life in Europe was not possible under the present system of conflicts but a method similar to that of the United States would have to be sought, which was anti-imperialistic and not been able to solve its own internal problems. He was of the opinion that the unity of Europe could only be accomplished through the cooperation of Europe, similar to that outlined by the League of Nations, and that to do so it would be necessary to place Asia, Africa and the United States on the list of large customers of German exports to replace Russia.

During the conversation, Seeshak indicated that he had prepared to leave Germany in 1935 because he knew that with his talents he could cope with the situation and risk leaving

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Germany to become a refugee and by this means avoid being killed by the Germans, thus indicating that Seckbach was apparently at odds with the present regime in that country.

On October 30, 1939, a conversation between Von Trott and Paul Scheffer, former Editor in Chief of the Berlin Tagblatt, who was ousted by German Minister of Propaganda Goebbels because of his liberal and anti-Nazi sympathies, was overheard, which in part ran in the following vein.

Von Trott was of the opinion that a certain practical plan should be made and, as suggested by a Mr. Shepherdson, there should be a peace program worked out to show why the League of Nations failed and to elaborate upon the qualities still remaining in Germany which would give support to a peace program approved by eight Americans and three or four Germans. Von Trott inferred in his remarks that the peace plan must be realistic and when presented to the eight Americans it should be presented to them not for the purpose of influencing them but for the purpose of getting a clearer viewpoint.

Scheffer expressed the opinion that the great problem was to develop an inner coop to work in Germany and that when contacting an American one should adhere closely to the facts and not tell them anything which was untrue as Simons had attempted. Von Trott stated that he had come from Germany in an unofficial capacity and that when the plan was presented to the Americans it should be presented by Simons, Hahle, Hissler, who is believed identical with Kurt Hissler, Professor of Philosophy at the New School for Social Research and formerly member of the Foreign Service of Imperial and Republican Germany from 1906 to 1920, and a man named Webber, whose identity is unknown.

During the conversation it was further mentioned by Von Trott that he had spoken to Frankfurter, apparently identical with Mr. Justice Felix Frankfurter of the Supreme Court, and other very progressive people and no suspicions were aroused. He then spoke of the value which some people at Harvard had placed upon his ideas.

Von Trott further expressed an opinion that they had a very good working scheme which had not received any publicity but that it would be highly desirable to establish channels through which information could be exchanged and through which study would be facilitated.

Seebach and Von Troelt then spoke of experiences of the various refugees from Germany and Von Troelt mentioned Seebach as one person who had certain experiences and suffered greatly mentally. Von Troelt stated that his suffering was not confined strictly to political views and that Seebach, apparently Mr. Seebach of Germany, said that the German people, from a standpoint of social traits, were too subjective and to this extent unlike the people of Russia and England.

On the afternoon of November 10, 1939, Von Troelt received a telephone call from Washington, D. C. from a Mr. Stems, who described an interview with Mr. Rolles on that day and proceeded to discuss some documents, the nature of which was not stated, over the telephone. Mr. Stems further advised that he had left a copy, apparently of the documents, with a Mr. Haeuserwirth. Stems further indicated that Mr. Rolles was aware of the fact that Stems represented Von Troelt in this matter and that there was to be another discussion with Mr. Rolles the following week.

On November 18, 1939, Von Troelt, accompanied by Arthur Hanso Von Seebach, frequently referred to as Seebach, left New York City by automobile and proceeded to Washington, D. C., where they registered at the Mayflower Hotel on the same date. During his stay in Washington, Dr. Von Troelt contacted Thomas Herfaden, Felix Herzog, Mr. George B. Haeuserwirth, Assistant Secretary of State, and Dr. Hans Thomsen, Counselor of the German Embassy, Herbert Von Stempel, First Secretary of the German Embassy and William T. Stems, who has been employed since 1924 as Washington correspondent of the Foreign Policy Association, New York City. Mr. Stems is Vice President of the association and local manager, with offices in the National Press Building.

Von Troelt departed from Washington, D. C. on the morning of November 21, 1939, and proceeded to the Cavalier Hotel at Virginia Beach, Virginia, where he attended the conference of the Institute of Pacific Relations until December 2, 1939, when he returned to Washington, D. C. via automobile, where he again registered at the Mayflower Hotel.

The following is a letter dated November 1, 1939, directed by Von Troelt to Dr. Brumling, Professor at Harvard University, which is quoted as follows:

129 E 52
New York City

Nov 1, 1939.

Dear Dr. Branning,

in supplementation to the draft proposals of discussion themes which were to be submitted at the meeting, may I enclose a programme of somewhat more exacting questions which in a preliminary sounding were submitted to me from the other side. These would be the substantial points to be cleared up with some measure of agreement if an unofficial and confidential advisory committee were to prove really effective at a later and more critical stage. It is fully appreciated at the same time that not the slightest point of information need be disclosed which would weaken the country's present position in the struggle and it is therefore obvious that some of the questions do not require a full answer.

I also enclose a copy of Dr. Noble's draft memorandum which may be interesting as a first basis of discussion.

Dr. Kessler would consider a preliminary meeting between the four German members of the committee as extremely desirable. Perhaps Friday afternoon would be convenient for you?

Hoping that you will not consider my claims on your time as too burdensome, I remain,
Yours sincerely,

The following quoted letter, dated November 24, 1939, was received by Von Trott from an individual who signed his name as "A. B.", probably identical with Professor Branning at Harvard University:

"My dear Trott:

I thank you very much for your letter of the 16th and for the replies to my questions.

"I hope that you arrived safely at Va. Beach in the morning. I cannot imagine how a bathing resort could be very inviting at this season of the year. I hope that you have very interesting people invited. Is your conference successful (?)".

Today I again have something of which to inform you, even though it is limited and I also have something to ask of you. I am dividing my material into groups and assigning a number to each group or paragraph in order that you may give the answers by merely referring to the numbers.

1. I received a letter from Mr. Allen of Oxford which was written in response to a letter I sent to him shortly after the outbreak of the war. He stated in his letter that he had heard that you were intending to leave for the United States but that he could not imagine how you could possibly do this. He further reported that he had received a telegram from Lyndette which informed him that Jensen has been employed by the Harvard Law School. Jensen soon thereafter came to America. Allen stated that he had also heard that certain difficulties had arisen and that he had been approved on the part of the Law School by someone who did not have authority. That will become of this, I do not know, but I cannot imagine that the difficulties are very serious, since Jensen has sufficient finances.

2. In the morning I have received from England a great number of nice and reasonably exciting letters. The general theme of the letters may best be stated in the following sentences: 'I hope and trust we shall soon be sitting together again talking about how foolish we have all been in the past.' I seriously fear that this self critical opinion is not favored by the administrative circles of England.

3. Have you followed the newspaper reports concerning the visit of Churchill in England? It was reported in them in a very serious tone that the present Polish warships in the British Fleet indicate that Poland is given the possibility of being a superpower. Of special significance in this regard is a report by 'Angus' appearing in the New York Times and in the Boston Herald in which it was indicated

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"that Sikorski is negotiating in London for the resurrection of Poland and that the question as to the outlet to the sea plays a vital role. It is mentioned that the previous outlet to the sea was too limited. 'Angus' who with H. V. is either of Polish or Russian birth has as such a peculiar propensity as to the Polish situation. On the other side one may say that this sounds sensational and not very dependable. He originated the stupid story about the leaving out of Trieste to Germany and has (either on his own or with the permission of the Polish Government) intended to launch his grand experiment. It is a shame that no replies for the correction of such articles are ever made which would further our objective. The general silence is then considered as consent. The publishers of the N. Y. Times are either in the dark with reference to the perilous situation or intentionally do not desire to do anything because as a rule in such matters they must state their editorial positions.

4. What was the outcome of your interview with Dorothy Thompson? What kind of an impression did her attitude make upon you? In this land actually very little publication work is done without her and much is done with her.

5. My Angola - Portuguese Friend of London who is Beverbrook's Protégé has recently left Berlin and is now in Lisbon. That has the advantage that he may be contacted in an undisturbed manner by air mail. Should you desire the experiment appropriate to introduce your ideas to the English Press in this manner, I shall be glad to try it. This man is my best friend, very reasonable and absolutely dependable.

6. I had a very brief conversation with Wheeler-Summitt in the home of Bruce Hopper. He had been well informed about us from various sources and exhibited great interest and led the conversation. He requested me and also others to come to Virginia at the conclusion of the American Political Science Association Conference at Washington during the latter part of December, which I believe I shall do. I spoke to him with reference to the objectives of the war to which he replied that he would like to know himself and he does not consider the state-

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"made heretofore made public as being conclusive and brands Churchill's speech as being dreadful. I did not conceal the fact from him that Churchill by his speech placed himself upon the same level as that of Hitler. I especially attempted to impress upon him which is that on the side of England one mistake to be avoided, which is that Germans like myself who very definitely and often negligently held themselves aloof from national socialism, demonstrate their lack of interest in the welfare of Germany. I explained the point that I could not imagine how a European federation could exist without giving Germany the same power as other nations. He made the impression upon me that he was in a receptive mood for such ideas and stated in response to a direct question propounded by me with reference to Austria the following opinion: 'The most we want in that direction is a free plebiscite under the supervision of the Great powers. When I expressed my fear in that regard to him that now in London and in Paris various promises are made to all kinds of people just like during the World War as for instance Storchberg in Paris and Stiffl Behnlecke in London he said, 'but we wouldn't allow it'. As to how far he is aligned with certain London interests I was not able to determine.

7. In conjunction with my work, which I have completed, I recently had a brief conversation with Allen as to the objectives of the war. Contrary to Wheeler-Bennett (this was however prior to his visit) he shared with me my initial fear and was of the opinion that the attitude of London has become bad and that there has been a definite beginning in the mistreatment of the anti-Nazi Germans (From Fre.). During this conversation very unexpectedly his strong Catholic and regional antipathy against North East Germany was expressed. With reference to the plebiscite in the East he was of the opinion that the results would be doubtful and that an 80% majority would probably be against Germany. The people want to have a Habsburger-Danish State and it is not certain whether Bavaria, the remainder of South Germany and the Rheinland would not want to participate. Of course I may be misled but I had the impression that in this respect he was under-estimating the state unifying process of recent years. On the other side it gave my views in the support (I had previously spoken to him about this) that one must guard against a plebiscite after the overthrow or failure of a government. Yes, a plebiscite, and it is good, but only after a period of one to three years has elapsed.

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"8. For a few moments I received the impression that Allen was not unsympathetic with reference to the split between the Catholic Rhein-Roman Germany and the Protestant Rhenish Germany. However, I believe I was in error because I meant that it would probably be better for Germany if it would permit East Prussia to secede rather than to let Austria be covered. To this he stated that if Poland once had East Prussia it would let the Polish influence have free play there and would never relinquish it, while one could certainly always entertain the hope to regain Austria.

9. Allen recently conducted a lecture here in the Dunster House which exhibited to me his strong and weak points. His lecture certainly made a good impression in which he brought out in bold relief the fallacy of the reparations politics. He also said that by means of force and a triumph of armaments no permanent peace could be established in Europe which has been expressed to Hitler as well as to his English and French enemies. He also recognizes a European Federation but he failed to describe it. With all respect for him in the following matters, I was less well impressed (as has been the case previously).

- a. With his academic suspension of certain matters which at most only give the impression that they are not convincingly weak.
- b. His tendency to view political matters which are of most importance often as economic problems and thereby lose sight of their real character. This criticism could also be applied to his administrative functioning in his office.
- c. The fact that he has had many unfavorable instances with his political friends.

After the downfall of the German-Austrian joint customs union plans for an Austrian-Hungarian-Czechoslovakian customs union were brought up which made the impression upon some men that he (Allen) was in favor of a German Federation. Evidently this impression is false, but

Allen had to illustrate the matter in such a manner as to prevent such confusion, because he well understood he is known for those people who recognized an American action (the Senator of sentimental irritation, lawless and libelous French politicians).

10. I consider the report of great dignity- comes therein it is stated that the President will have a personal conference with the European ambassadors with reference to his statements regarding the establishment of peace by next spring. Is that a turning toward one of our rulers? Maybe F.D.R. is more friendly than we believed him to be.

11. While you were in Washington were you able to kindly send me

a. People who were in close contact with Hall and F D R?

b. L. L.

c. Mr. Stephenson or General Sargent.

12. Should Mr. Bullitt come to this country for this conference it is necessary that we contact him because his word bears much weight with the President. For one thing he was on very good terms with Mrs. Tye and Allen and his position in Paris must be considered highly. It is of great significance to me that in Paris the U.S. is taking noticeable steps as far as further international division plans are concerned.

13. Would you please read as soon as possible a book entitled "Nationality and the War" by Arnold Toynbee, or at least the preface. It was written in 1915 and contains word for word with the present theme. One could actually cite certain sentences from it. It should make greater use of L. L. (?) (General Sargent's name) in our discussions as well as that argument which deals with the regulations of the Vienna Congress and the results. Europe after the fall of Napoleon was in a similar position as it will be after the fall of Hitler. It that time we observed very closely the political movements of France even though France had been for a decade the chief discussion as far

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"as peace was concerned. The result was that since then France, except for a brief interval under the reign of Napoleon III, conducted itself peaceably and took the side of those powers which desired to establish the status quo. Should Germany desire to have a similar history in the future one must guard against creating new grievances in which there is the purpose, sooner or later, to kindle the destruction of the status quo. It is regrettable that we do not have a Tallyrand, or do you feel that you are a match for that role?

14. What do you mean when you refer to the 'internal exchange of ideas of the General Staff' and designate it as 'far reaching?' or

- a. Inter-ally exchange of ideas which are far reaching as far as suppressing or dividing Germany is concerned.
- b. Or German-English and German-French exchange of ideas which is far reaching as far as bringing about an annihilation is concerned.

15. Have you had any luck in establishing French contacts?

16. Do you have a contact with St. Quentin in Washington? I believe that I became acquainted with him very hastily in Paris. I shall write today to my friend Ballouin in Paris and discuss with him the matter of ascertaining other peoples' attitudes.

17. I shall also write to Mr. Bryan. He will also soon be in Washington in order to participate in the American Political Science Conference in December.

18. With reference to a trip to England, we shall speak to each other personally. I necessarily do not object to it in the event I am considered as being capable for the task by you and other people.

19. I am glad to hear of Mr. P. S.'s (probably Mr. Paul Schaeffer) visit from New York and hope that he

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"shall come soon. I shall also be glad to converse with someone who at one time was connected with the S F D and who is well acquainted with the German working class.

20. The letter of your German friend which you enclosed with your letter was very interesting to me. Many thanks. He indicates a plausible and pleasant attitude even though from the professional standpoint I have a leaning toward your view. Your friend should first of all gain control of his obsolete vocabulary (which is seemingly one of his characteristics). Our viewpoint, if I understand it correctly, absolutely does not have anything to do with men's clubs and general club discussions and is absolutely in no way paternalistic. What makes the cooperation between the working class and the upper strata so necessary and vital is really the debasing of the German citizenry (which after this war will still be closer to the working class than before) and the dwelling upon its (working class) inability by those who are instinctively of political leadership. The attempt of the Weimar Republic of Germany to be governed by the intelligence of the citizenry and also others failed to such an extent that the expression 'citizenry and intelligence' has a bad reputation in Germany. At this time it is not to be a question of the classes but it is to be a personal question and there it appears to me that from the old aristocracy as not insignificant (even though rather small as a group) number of promising people who are sufficiently broadminded to see our problem with reference to the working class who could give that class a leadership which it could not so readily develop from its own ranks considering the fact that the working class element of Central Europe is not to be based upon class distinction. Fundamentally the problem of the working class is a national one of the first order and is therefore not strictly limited by class distinction. Finally, the entire world will be confronted with this problem after it has fully developed and a movement consisting of the joint efforts of the conservative and socialist - and certain personalities will be attached to it (New Deal, Chiang Kai Shek, National Government). Just like in the 19th Century numerous hopeful proposals were made concerning democratic conservatism (Marsali, Bismarck, Lassalle, etc.), likewise today there are the proposals for a conservative socialism or a socialistic conservatism if we so desire to have it. The great question is whether we

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*can transform these proposals into active politics as it has been done in the case of Roosevelt.

21. When will we again speak to each other in December? I am very much broke. When will you come to Cambridge?

22. Adolph Schlappaywall who is in Montreal made inquiry concerning your address. I will only give him your address after you have given me your permission. At this time I am addressing him in a letter that I do not know your address.

23. The Propaganda Ministry in Berlin seemingly no longer functions. Its discoveries concerning the English Secret Service with reference to the attempted murder at Munich seem to me to be childish and poorly invented. It makes me very doubtful if after all the Gestapo did not lay the foundations for it. On the other side, the silence of the Dutch Government is painfully obvious.

24. Dr. F. (probably Fields) is not a confidential friend of Allen even though I did not receive that impression. I do not converse with him very much and I never mention names.

25. Regarding a proposed Russian Secret Service, while you were in N. Y. C. did you ever run across a man by the name of Gumpers who formerly was editor of the Marxist publications. He lives in great luxury at Central Park West (near 65 Street) and either (as he claims) became a stock market speculator and finally a capitalist, or he must work for some capitalistic power. I ran into a very intelligent man here by the name of Dr. Epstein, whom one does not exactly know whether he is a German or whether he is a Russian. I shall try to question him very cautiously.

26. The flight of Mr. Thymann to Switzerland is a good indication to me that the 'Rats leave the ship'.

Let me hear from you soon

Heartly greetings

Always yours

A. B.*

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The following is an unfinished letter dated November 2, 1939, written by Von Fretz, which is of interest inasmuch as it sets forth pertinent information regarding his departure from Germany in connection with his visit to the United States:

"November 2, 1939

My dear Gustav

Marga probably has written you about my only wish which was that I left about three weeks after the outbreak of hostilities in order to represent Europe in the Pacific meeting which is being held here in America. I, as a temporary member of the Secretarial staff of the Institute in Germany have been granted a military furlough to extend until next June and through the will and effort of the German and American foreign officials I was permitted to cross the borders. Some difficulty was encountered at Brest (??) in Gibraltar even there I was successful without embarrassment. In anticipation I wish to state that toward the end of December I will embark upon my home voyage via East Asia and I hope very much, if I do not go by way of South Asia and fly to Moscow, that an opportunity will arise which will give me an opportunity to see you. There shall be more to say than I dare to confide in this letter, and seeing you Vetch, (or has there been an estrangement?) Stula and Riddler, and our dear friends on Pharing Street will reward me one hundred fold for the inconvenience I have encountered. However I shall only be able to stay for about 4 to 8 days and it would be a sudden arriving and equally sudden departure. You will certainly drop me a line as to this.

You have in your mind our dear Jehlanski who during September encountered much hardship but you have been able to maintain a friendly demeanor during these cranking events and you have not permitted yourself to be either spiritually or physically, to be swayed into making an adverse decision. Nothing has — been lost yet. We shall continue to think of Jehlanski, and more than that and there still is no basis to become despondent with reference to Germany and to Europe. Now, of course, everything is open to decision and every reserve group is thus subjected to the test of deciding —" (unfinished)

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The following is a letter received by Von Trott from an individual signed "Hans" who is believed to be identical with Arthur (Hans) Von Seebach, German refugee and friend of Von Trott in New York City:

"The Graydon
12 East 86th Street
New York

Saturday morning

Dear Adam:

You know that I am professionally at your disposal to as great an extent as I possibly can be and that I have unlimited confidence in you. I am therefore now taking the liberty of applying unlimited criticism where it is necessary. According to my opinion you made two mistakes. One. You submitted a document to Washington which is incorrect and politically, at least, subject to misinterpretation. I understand that H and W on the basis of your document and certain agents' reports received an erroneous impression. You should not have forwarded this document to Washington without having given us an opportunity to examine it thoroughly. You failed to give us all the information, for instance, when you presented the document to us you did not disclose to us your intentions. Should you have submitted your document after the receipt of my note then your actions are still more unjustifiable because then you could have recognized the professional differentiations in mental concepts or at least certain overlapping which would have made obvious to you the theme I expressed. Two, you should have, prior to your commencing to work here, advised the State Department in an appropriate manner in fullest detail with reference to your views and intentions. Then, you could have established confidence and the accusation that you are an agent and similar reports would not have arisen.

According to my well established idea conducting political work along our lines in the States is only possible when the United States Government has complete information as to us. Therefore I suggest without any reservation Mr. Drumming's technique. Permit Drumming, Rieckler, Lehman and me to submit to the Government a document prepared by us expressing our views and purposes and state that this document supports your document.

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"Since I am not well known at the State Department, it would be highly desirable if Hissler, Simons and I would prepare a statement supported by proper documents regarding their personal status, political activity and other necessary details. I am now giving these details with reference to these matters in Washington as I would in any other kind of work.

Heartly Greetings.

Yours Sincerely,

The following is a letter postmarked November 24, 1939, at Bloomfield, New Jersey, bearing the return address of Dr. E. Hehle, 18 Carrington Place, Bloomfield, New Jersey, which was received by Von Trott:

"My dear Adam

We are now returning to Germany and that may indeed be a very dangerous undertaking and who knows if we will ever see each other again.

As far as our purpose is in America and indirectly in England and France we desire that you in Germany should have a possible arrangement and that you should have an enlightened internal system of thought.

In the foregoing paragraph I have outlined to you in detail what my view are and what some of the limitations are as to German politics.

I have not stressed the military angle but have voiced the principles that prevail among Democratic groups and I have not at any time expressed anything that is favorable to the Rohmshellen and Hakenberg regime. The holy alliance is now being attacked here.

And now let us get to the point which is stated by Raymond Spring that the invasion of Holland and Belgium by the Germans has been hindered by the party movement there as well as the march on Prague during the coming Spring. Should one consider the Reichstag fire which has been attributed not to any act on the part of Moscow but to that of London,

"We can say that neither view is justified. From this standpoint it is necessary for us to be still more careful with reference to a military push. Furthermore the objective of the war are standing out in bolder relief and it is the purpose of the French and English governments to restore Poland, Czech and Austria. This view however appears to be rather Utopian to me. If we consider the English view which would give Poland a strong position on the Baltic Sea then your view with reference to establishing the boundaries of Germany through ethnographic standards is a fallacy and could not be accomplished under any conditions.

It seems to me if possible under any circumstances at this time to bring about a revolution in Germany with the resulting peaceable settlement of more than a temporary nature. You know that I am not merely saying this as a result of my own mental process but that I have contacted French and English confidentially informants, who have lead me to my conclusion.

However it may be too late at this time to propose a peace plan which could be acceptable by the German military authorities and especially is this true after the United States has seemingly taken the side of the Allies and that the proper boundaries of Germany would be those in existence in 1932 but who would dare to set forth this proposal.

However, if Germany is willing to make a sacrifice of its territory at this time the materializing of our peace plan would not be far afield.

Of course that may be favorable at the present time inasmuch as Russia is exhibiting a kind of passive attitude, but the Allies from day to day are becoming more and more aware of their power. The cleft is becoming more and more prominent from day to day and it will be soon necessary for this to be energetically handled by the German military authorities.

As a result of the German, a military revolution the end result would be that the German securities would literally have to be struck off the books.

Your view with reference to the German people that they would be willing to stand to the last man where German

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"peace plan is actually false and I do not understand how you could justify other than to say that you probably made this statement in a tactful military sense.

The German revolution cannot be brought about exclusively by the action of outside forces. The revolution must come at any price from a movement of a national political nature originating on the interior.

That is what you and your military friends must propose to bring about.

However in this regard I have very little hope for you.

As in 1918 such men as Hindenburgs and Ludendorfs will make their appearance and again put in their bid.

However in this revolution it is necessary that the inheritance of power in those who are to be put into control must be liquidated.

For this purpose we must do everything possible from a military standpoint to organize the various classes of society and we must especially see to it that the working class has a clear understanding of what our purpose is.

However, I fully realize that this is not a matter to be undertaken today and tomorrow but it is a program which is to be instituted now and which is to materialize in many years in the future.

The revolution on the part of the military branch of the government which will take place simultaneously with the civil would make the matter more complete and would involve much less time.

Every delusion would end indisputable in a period of restoration despite the views of Brüning and Heinl (or Heinl) and would indeed be unfortunate if there would be such a complete subdivision of Germany which would eliminate this period of restoration.

I am not writing this as an indication of my frivolous thoughts but I actually believe that the restoration will

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"give a great opportunity to England and France to decrease Germany's power.

However, Germany will still occupy the position of being a buffer state for Russia's aggressive action and this strictly in line with the holy alliance with Hitler as proudly champions. However the socialistic revolution threatens this arrangement to as great an extent as it did in 1918 and 1919. The separation of the communist and socialistic elements would greatly hinder the progress of the revolution. The German revolution thus stands between two great imperial powers - one in the west and one in the east and as long as Roosevelt is in Washington there is a good basis for the procedure.

However, we are not in favour of establishing a military regime in Germany and it is at this point that which both of us seemingly agree.

As you will notice from the foregoing statements that there is very little in common between myself on the one side and Irving and Hitler on the other.

I feel as though I am not in a position to take up the cudgels with them. It is therefore necessary that you do the following two things:

That you designate me to your American friends as your legitimate agent who may be considered in discussion circles as the confidential man of the Germans. The basis of a political financial fund must be fully assured for me prior to your departure from the United States. Without the above I absolutely cannot promise myself any degree of success.

I, therefore, suggest that you utilize the limited number of days that you have here not in idle talk with me but with serious discussions with Simon in the event you do not have to Irving to be present.

Naturally I will always be at your disposal and I will serve in a professional capacity in any discussion that may take place in the German and in the American circles.

However, I will feel as though I have been relieved of the obligation of being the instigating force in these discussions with reference to introducing the subject matter with hearty greetings, your

The following quoted letter was received by Von Trost on November 29, 1939, apparently from Van Seebach:

My dear Trost:

Many thanks for your exceedingly interesting letter. I am writing this letter in a great hurry and not intentionally for the purpose of making it brief. The reprehensible circumstances expressed by H (Hitler?) have long been dealt with. There there is a man who is a secret agent of Von Otto and he states that Otto's brother is also 'speaking' with Da, in Paris. In a very laudacious and reprehensible manner he and Da, declared there that they were forming a German Federation with reference to the Rhein province. That is the destruction of Germany. This system, however, still incorporates some selfish principles as to whether the confederation is to be a monarchy or something else. In this manner he is informing them of the confederation at the expense of Germany which may not be paid.

It is like this, that the next worry for the Allies is what the real objectives of peace are, and that England and France are fully in opposition to each other in this matter and that England could not accept such a proclamation even if it so desired. Chamberlain's erroneous conclusions expressed in his radio addresses are a product of worry and by others are considered worthless.

The worry about a new Munich I consider as being senseless. I would say that if such intentions still prevail in England, then it certainly has the upper hand in such meetings. I cannot imagine myself being in the position of the English people, in which the human nervous system, as the reports from various incidents, would not seek the less gruesome way, if the practical opportunity would permit it. (The nervous system alone cannot do that, - I know it.)

There is reason to believe that the publication is successful. I shall consider all the viewpoints you convey to me. As I have said, I consider them as having

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"been repeated. It all depends on whether we can make it clear to the gentlemen on both sides of the Channel that they are in error if they consider the victory of 1918 as the basis. The bird in the hand is not even certain, even if we consider a complete victory because it would have been obtained in such a destructive manner that it would not be worth it.

I could send you the manuscript. I am doing everything for it.

Heartily yours,

S. (probably Seeshach)*

It has been ascertained that Mr. Edward C. Carter, an official of the Institute of Pacific Relations, on October 25, 1939, directed letters to Mr. Charles Mays of the New York Times and Mr. Carroll Rinder of the Chicago Daily News, these letters being identical. This letter is quoted as follows:

"I need your advice. Would it be feasible for me to write to the principal metropolitan editors and the national news agencies describing the purposes of a small Study Meeting which the I.P.R. is holding at Virginia Beach at the end of November, requesting that no attempt be made to cover the proceedings in the press?

The meeting is entirely of a research and discussion nature, held to advance a series of scholarly studies on problems arising from the war in the Far East. After these studies have been reviewed they will ultimately be made public and I will see that the New York Times gets copies. But the day by day work at Virginia Beach which will be attended by scholars from several of our National Councils will be much more successful if the members can feel free to express their opinions privately without danger of public quotation.

Several of those who are coming from abroad will have other missions to this country besides the I.P.R. and their presence here of course can naturally be a matter of newspaper comment. Following the Study Meeting the Institute's governing board, the Pacific Council, will meet and the results of its administrative decisions can, of course, be communicated to any newspapers which may be interested in the scholarly program of the Institute."

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The statement in this communication "several of those who are coming from abroad will have other missions to this country besides the I.P.R. --" seems to be quite indicative of a contention that Von Trott is undoubtedly in the United States for a purpose other than his part in the conference of the Institute of Pacific Relations.

Information has been received indicating that Dr. Von Trott is planning to leave New York City shortly for the West Coast where he will depart for the Orient on or about January 12, 1940.

As a matter of possible assistance in gaining a clearer picture of the individuals mentioned in this memorandum, the following facts concerning the individuals with whom Von Trott has been in contact since his arrival in the United States are set forth hereinafter in alphabetical order.

HAMILTON FISH ARMSTRONG

Editor of foreign affairs magazines, New York City

ALEXANDER BAKER,
also known as Debar

Dunster House, Cambridge, Massachusetts; tutor at Harvard University; formerly attended Corpus Christi College, Corpus Christi, Texas.

ROGER N. BALDWIN

31 Union Square, New York City; affiliated with the American Civil Liberties Union.

JOHN W. BENNETT

3132 O Street, N.W., Washington, D. C.; believed to be connected with the Washington Post and whose address is in Von Trott's possession.

MRS. CHARLES V. BOWMANQUET

Leesat Valley, Long Island, New York, Post Office Box 563; daughter of Schiaffello; her husband left on August 4, 1939, for England to enter the services of His Majesty's Government.

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EDWARD C. CARTER

Member of the Board of Trustees of the American Council of the Institute of Pacific Relations, New York City.

JAMES E. CANNON

President, James E. Cannon and Company, Inc., 63 Wall Street, New York City; wholesaler and retailer of investment securities.

ANN CHAUPINAT

18 East 60th Street, New York City; apparently connected with the Swiss Bank Corporation, Wall Street, New York City.

JOHN G. CRAWFORD

Bachelor of Economics, University of Sydney, 1931; Walter & Eliza Hall Research Fellow in Economics, Sydney University, 1933-35; Lecturer in Rural Economics, Sydney University, 1936; Economic Advisor to Rural Bank of N.S.W., Sydney, 1935; Commonwealth Fund Service Fellow, United States, 1938-40. Joint author of "National Income of Australia" and contributor to the Institute of Pacific Relations and the Institute of Political Science studies on "Australia and the Far East" and "Australia's Foreign Policy".

G. N. EUSTATHIOPOULO

142 East 71st Street, New York City; office, 6 Rockefeller Plaza, New York City.

FREDERICK VANDERBILT FIELD

Secretary, Institute of Pacific Relations; residence, 24 West 55th Street, New York City.

LEON TRASTER

Vice President of the First National Bank of the City of New York, New York City.

OTTO REINIS

German financier who in June 1939 appointed General Partner in the firm of Lazard Freres and Company.

PHILIP C. JESSUP

Chairman of the Pacific Council, Institute of Pacific Relations; member of Arts, Hamilton College, 1919, Doctor of Law, 1937; member of Law, Yale, 1934; member of Arts, Columbia, 1924, Doctor of Philosophy, 1927. Admitted to District of Columbia Bar, 1925; New York Bar, 1927; now member firm partner, Pinley, & Sonnet; lecturer International Law, Columbia, 1925-27; assistant Professor, 1927-29; associate Professor 1929-35. Professor since 1935. Was assistant solicitor United States Department of State 1924-25; assistant to Elihu Root, Conference of Justice on Permanent Court International Justice, 1929; lecturer leading International Law, The Hague, 1929; legal adviser to American Ambassador to Cuba, 1930; served with American Expeditionary Forces, World War, member executive committee Harvard Institute in International Law, trustee and Chairman of American Council, Institute of Pacific Relations; member Board of Directors, Council on Foreign Relations, American Society International Law, American Branch of International Law Association, American Bar Association, American Law Association of the United States, leading of Political Science, American leading Political and Social science authors. The Law of International Waters and Maritime Jurisdiction, 1927; The United States and the World Court, 1928; American Neutrality and International Politics, 1928; International Security, 1935; Neutrality, The Fishery, Neutrality, and Law, Volume I, the Oregian (with Francis Peak), 1935; Volume IV, Today and Tomorrow, 1936. Editor, Columbia University Studies in History, Economics and Public Law, 1929-33; member Board of Editors American Journal of International Law, authors. The Life of Elihu Root, 1936.

ALVIN JOHNSON

Director of the New School for Social Research, New York City.

FRITZ LERNER

Professor of Money and Banking and Business Economics at the New School for Social Research; assistant in the Seminar on Banking at the University of Cologne, who participated as an expert in the government inquiry for the reform of Corporation Law and Statutes; author of "Law Forms and Economic Types of Private Enterprises" and of numerous articles dealing with corporation finance, business management and monetary theory; co-editor of "Political and Economic Democracy", 1937.

WILLIAM T. LOCKWOOD

Research secretary of the American Council of the Institute of Pacific Relations.

GENERAL FRANK RICE HUGH

United States Army, retired; President of the Foreign Policy Association, 8 West 40th Street, New York City.

G. E. WOEKY

Bachelor of Arts, University College, London. Student at Institute of Historical Research, 1930-39. Librarian and Information Officer, Australian Institute of International Affairs, Brisbane, Australia. Attended conference at Virginia Beach, Virginia.

FELIX WORLEY

Washington Post, Washington, D. C.

MRS. ELIZETH PRATT

1 East End Avenue, New York City; country estate, New Milford, Connecticut; frequent contact of Von Trott and formerly connected with the Foreign Policy Association.

KURT RICHNER

Professor of philosophy in the "Philosophy of History" at New School for Social Research; former member of the Foreign Service of Imperial and Republican Germany; Professor of Philosophy and Chairman of the Board of the Goethe University at Frankfurt; author of "Faith and Law", 1925; "Parmenides", 1933 and "Lawlist of Protection", 1935 and numerous articles on the basic problems of philosophy and science. He is a Ph.D. graduate of the University of Munich.

PAUL SCHEFFER

Former Editor-in-Chief of Berlin Tagblatt, 1936, at which time German Minister of Propaganda Goebbels ousted him because of liberal and anti-Nazi sympathies. Scheffer then came to New York as correspondent. His name was mentioned in the Moscow trials in the spring of 1938 by M. A. Chornoff, former Commissioner of Agriculture, as the man through whom German Intelligence Officers gave Chornoff instructions for sabotage. This accusation has been denied by Scheffer.

ARTHUR SIEBACH,
also known as Van Seebach

German refugee befriended by authoress Julia Brown; resides at Croydon Hotel, Room 1531, New York City; accompanied Von Trott on his trip from New York City to Washington, D. C. via automobile on November 17, 1939.

WHITNEY E. SHEPARDSON

Treasurer of the Council of Foreign Relations, 45 East 65th Street, New York City; residence, 213 East 61st Street, New York City; office, 52 Wall Street, New York City.

JAKE SHEPPARD

Australia; active in affairs of Institute of Pacific Relations and holder Schiff Graduate Fellowship at Columbia University, 1939-40.

HANS SIMONS

Professor, New School for Social Research, of Post-War European International Politics, The U.S.S. International Affairs, The International Scheme, International Relations. He is also professor of International Law, International Relations and Public Administration. He was General Secretary of the League of Nations Union, 1919-22 and was on the staff of the Peace Delegation at Versailles; served in the Reich as the Prussian Minister of the Interior, 1922-23 and 1928-30; director and lecturer, German Political Academy, Berlin, 1924-30; adviser to the German Committee for Reich Reform, 1928-30; Government representative at International Conferences, Paris, Geneva and Warsaw; President of Liegwa Government, 1931-32; guest lecturer at New York University, 1936-37 and throughout the United States and Canada under the auspices of the Carnegie Endowment for International Peace, Foreign Policy Association, League of Nations Association and the Canadian Institute of International Affairs; editor of the Political Monthly - Reconstruction, 1921; author of "The Evils of the Press of League of Nations Constitution"; chairman of the New School Faculty Council.

MRS JANE SCHMIDTKE

Member of the American Council of the Institute of Pacific Relations, New York City.

JANE V. WHEELER-JENNETT

Founder of Bulletin of International Law, 1924; Assistant Publicity Secretary, League of Nations Union, 1923-24; Founder and Exec. Secretary of the Information Service on International Affairs, 1924-30; Exec. Information Secretary Royal Institute of International Affairs, 1927-31. Publications: Information on the Permanent Court of International Justice, 1924; Information on the Election of Ambassadors, 1925; The Work of Negotiations, 1928; Hindenburg, The Nation Times, 1926; The Forgotten Peace, 1929; Editor since 1929 of annual volume of Documents on International Affairs.



TREASURY DEPARTMENT

220

WASHINGTON

December 28, 1939.

Memorandum on Lampblack

Lampblack is elemental carbon of intense black color, varying from brown to a bluish shade, and used primarily in paints and inks.

Blacks are generally produced by the incomplete burning of carbonaceous materials. It has been generally understood, in the past, that when a liquid or a solid material, such as oil, fat, resin, or tar was burned with a deficiency of air the products so formed were lampblack; when a gas, such as natural gas, was burned in an insufficiency of air the product was known generically as carbon black. These distinctions have not been clean-cut and they have been variously interpreted at different times. Generally, however, lampblack is soft and flocculent and blacks which conform in general physical characteristics to typical lampblacks are accepted as such. Carbon blacks tend to be harder and are generally more brilliant. There is a third classification of blacks, made from acetylene gas, which are apparently distinct in physical characteristics from either of the other two.

Uses

Lampblack and carbon black are employed primarily for their coloring characteristics. Carbon black is extensively used in the pigmenting of automobile tires where it affects the workability and cure of the rubber latex. It is extensively employed wherever black pigments are needed. Where intense black color is desired carbon black has replaced lampblack. There are, however, other considerations involved. In some instances, where physical characteristics of inks and paints so demand, lampblack alone is frequently used. The reverse instance is also frequently encountered.

As a result of the lack of agreement in the use of the words lampblack and carbon black it is difficult to ascertain the relative quantities of each of these two classifications of products in the various fields.

Figures on importations for uses are as follows:

Lampblack

<u>Year</u>	<u>Pounds</u>
1938	129,037
1937	199,624
1935	375,345
1934	326,136
1933	199,987
1932	219,638

Domestic sales of carbon blacks for 1931 (I believe this definition includes lampblacks):

To rubber companies	134,315,000 pounds	
To ink companies	15,184,000	"
To paint companies	6,760,000	"
For miscellaneous purposes	5,453,000	"
Exported	<u>96,714,000</u>	"
Total	258,426,000	"



E. J. Wollner,
Consulting Chemist.

Note: Additional information is being obtained from the Department of Commerce.

NC

GRAY

PARIS

Dated December 28, 1934

Rec'd 5:20 p.m.

Secretary of State

Washington

3045, December 28, 5 p.m.

FOR THE TREASURY FROM MATTHEWS.

The Senate Finance Committee completed its report on the 1940 civil budget and consideration of the bill was initiated in the upper house on December 26. The committee report presented by Senator Abel Gardey emphasized that there should be no illusions concerning the "balance" of the civil budget in view of the vastly superior military expenditures uncovered by revenue. Gardey said that as far as one could tell at this time total public expenditures during 1940 would amount to some 300,000,000,000 francs. In discussing ways and means to raise this sum he recalled that the French cost of the world War was borne 20% by taxation, 68% through loan issues and 12% by inflation. As to the 1940 expenditures it appeared that they would be covered up to 26% by tax receipts -- a figure which Gardey considered too low if the "financial errors" of the last war are to be avoided. He felt, however, that under war conditions tax receipts should increase substantially without the necessity of imposing new higher taxes.

(END SECTION ONE)

BULLITT

Regraded Unclassified

NC

GRAY

223

PARIS

Dated December 28, 1939

Rec'd 4:45 p.m.

Secretary of State

Washington

3045, December 28, 5 p.m. (SECTION TWO)

On the question of loan financing he stated that in 1914 public credit was better than today but there are now a number of favorable conditions namely: important repatriations of capital since 1938; dehoarding of substantial quantities of banknotes and gold; satisfactory functioning of the capital circuit; restriction of consumption and control of prices. As to the capital circuit, however, Garday found that it presents certain inconveniences. It leads, he said, to a rapid increase in the public debt and is not sufficient to assure the financing of the war; therefore it will be indispensable for the government to carry out consolidation operations to the greatest extent possible. He terminated by emphasizing the necessity of avoiding excessive inflation and expressing satisfaction at the measures taken for the Government to limit the currency issue.

BULLITT

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GRAY

224

PARIS

Dated December 28, 1939

Rec'd 6:46 p.m.

Secretary of State

Washington

3045, December 28, 5 p.m. (SECTION THREE)

His report on the 1939 budget situation pointed out that up to August 31 tax revenue was about equal to estimates. For the whole year 1939 he predicted revenue, in view of the dislocation of the early months of the war, will fall short of estimates by 9,000,000,000 francs and that expenditures under the ordinary budget will total 106,850,000,000 or about 49,500,000,000 more than actual revenue. (1939 expenditures under the special armament budget add approximately 79,000,000,000 to this year's outlay. .

Paul Reynaud delivered this morning in discussing the 1940 budget before the Senate another strong address much of which in every particular was in the nature of a paraphrase of his speech before the Chamber reported in my telegram Number 2976, December 14, 5 p.m. He reviewed again the remarkable improvement in French finance and economy in the ten months preceding the war and emphasized that present "molech state" was all-consuming and completely altered peace time tenets. As to payment for the war one

must

must distinguish between internal expenditures and those to be made abroad. As to the former he denounced "the solution of inertia" namely the printing of bank-notes by the billion by the Bank of France and the devastating effects of inflation.

BULLITT

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GRAY

PARIS

Dated December 28, 1939

Rec'd 7:35 p.m.

Secretary of State
Washington

3045, December 28, 5 p.m. (SECTION FOUR)

He emphasized that "a rise in prices is much harder on the poor than on the rich. To make a chop cost 500 francs would be to strike a serious blow on the social structure of the country. There have already been democracies which died of it". He praised the return flow of "volunteer capital" and boasted that "a government is never wrong which places confidence in France". He urged "voluntary privations" i.e. savings and the investment of these savings in armament bonds. But "voluntary savings are not enough and the public's purchasing power must be systematically reduced by the fiscal measures already taken" (new taxes, maximum wages, etc.) He denounced the slogans in store windows to buy and his own previous peace time plea to that effect thus definitely opposing the school of thought which holds that purchases by French in war time will keep the wheels of the country's economic (wheels?) turning. "The counsel to buy must be addressed to foreigners today to bring about a return of tourists.

BULLITT

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GRAY

227

PARIS

Dated December 28, 1939

Rec'd 6:50 p.m.

Secretary of State

Washington

3045, December 28, 5 p.m. (SECTION FIVE)

For in time of war for a Frenchman to make any needless expenditure is a crime against the country". In this matter of private spending, he said, there is a venial sin and a mortal sin against the country's economy. The former he feels consists in buying more wine than needed instead of purchasing an armament bond or to buy a pleasure automobile the money for which could not only be better expended on armament bonds but the labor of the skilled workman who makes the car could be better utilized in building tanks -- not to speak of the steel which should be employed in the manufacture of arms. "The mortal sin," he said, "would be to buy a foreign touring car because that involves an outflow of gold. I hasten to tell you that my administration will wisely oppose such purchase by means of exchange control".

BULLITT

EMB

NC

GRAY

228

PARIS

Dated December 28, 1934

Rec'd 7:40 p.m.

Secretary of State

Washington

3045, December 28, 5 p.m. (SECTION SIX)

Turning to the second problem of purchases abroad he said that the first way to find the necessary foreign exchange is to export as much as possible and to import as little as possible. The second is to use the gold of the Bank of France -- a "patrimony" which will be spent to the least possible degree. "But gentlemen if we look at the world which will we see? It is now divided for us into two zones, that where we can only buy by handing over a part of our gold stock and the immense zone where we can buy with pounds". He then proceeded to dwell on the advantages of the Franco -- British financial agreement and to ridicule German propaganda which, he said, had with some contradiction accused him simultaneously of going to London to cry poverty and of having saved the British currency with the gold of the Bank of France. He likewise found it necessary again to explain (in the face of some misunderstanding and criticism) that the agreement for common expenditures of the two countries in the ratio of 3 to 2 only applied to certain specified expenditures.

BULLITT

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NC

GRAY

PARIS

Dated December 28, 1939

Rec'd 7:45 p.m.

Secretary of State
Washington

229

3045, December 28, 5 p.m. (SECTION SEVEN)

He closed with an appeal for a return to a liberal economy once the war has been successfully concluded and he said: "To those who declare that time works for us I reply: 'Time is a neutral which will join the strong'. It is up to us to win it over".

The Senate this afternoon approved the civil budget by the unanimous vote of the 303 present.

Today's Journal Officiel publishes a decree providing for notification of merchandise seized at sea by the French Navy under a procedure similar to that adopted during the last war for bringing cases before a prize court and the presentation to the Blockade Ministry of demands for release. The decree provides that seizures shall be notified to those concerned through advertisements inserted in two commercial or maritime publications of the port where seizure is made. Two insertions will be mailed at intervals of forty-eight hours. They will be communicated by the Ministry of Foreign Affairs to the Embassy or Legation of the national interests concerned. The

parties

parties involved must present requests for release to the Blockade Ministry within a time limit of thirty days from the date of publication of the announcement of seizure. If no request is received within this time limit the merchandise is to be sold or requisitioned. If goods seized are subsequently released or if seizure is subsequently invalidated those concerned may not claim damages because of such sale or of requisition.

BULLITT

EMB