

JT

GRAY

PARIS

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Dated December 28, 1939

Rec'd 9:10 p.m.

Secretary of State,
Washington.

3045, December 28, 5 p.m. (SECTION EIGHT)

They may, however, then request reimbursement of the price of sale or requisition value. The Journal Officiel likewise carries an instruction and circular relating to the administration of maritime prizes and their cargoes.

During the period December first - fifteenth deposits in ordinary savings banks totalled 237,000,000 francs and withdrawals 22,000,000.

The securities market was weak at the opening but firmed somewhat in the course of the session. Rentes were strong partly because of Reynaud's speech, gaining from 1.05 francs to 2.20 francs. Most chemical and metallurgical issues were up 2 to 3 %.

The state drew another 1,400,000,000 on its advance account with the Bank of France during the week ending December 21 bringing the total to 11,800,000,000.

(END OF MESSAGE)

BULLITT

EMB

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 28, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Erickson, Commercial Attache of the Swedish Legation, called today. He gave me a report of the visit which Minister Boström and he made at the Federal Reserve Bank of New York, which corresponded closely with the attached account provided us by Mr. Knoks.

Mr. Erickson let me know that they had been courteously received by Mr. Warren Pierson, with whom I had made an appointment for them. They think some arrangement, possibly for a \$25,000,000 credit, can be made with the Export-Import Bank provided the latter receives new funds after Congress convenes. Unless new funds are voted, there is no help to be expected from the Export-Import Bank.

Private banking friends whom the Swedish representatives visited in New York discouraged them strongly from attempting any Swedish public loans on the American market, pointing out that in present circumstances such a loan would be very costly, even if it could be floated, and would reflect unfavorably on the credit of Sweden. Furthermore, the private bankers discouraged the idea of the formation of a banking pool to grant a credit to Sweden in present circumstances unless this proved urgently necessary. They confirmed the information which I had given the Swedish Minister, namely, that collateral would be required.

In talking with me by telephone this afternoon, after Mr. Erickson had left me, Mr. Knoks told me that his bank had cabled Governor Hootth last night, letting the latter know that his proposition was being studied by the bank at New York, and would be referred to Washington. Furthermore, Hootth was informed that it was not the practice to accept gold abroad as collateral; and further details in regard to his needs were requested.

Mr. Erickson delivered to me the attached personal letter dated December 11, from Governor Hootth, which deals largely with subjects already discussed, but provides some interesting observations.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE December 28, 1939

TO Secretary Morgenthau
 FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was dull. In New York sterling opened at 3.9¹/₂ and appreciated to 3.95-1/4, where it closed.

Sales of spot sterling by the four reporting banks totaled £404,000, from the following sources:

By commercial concerns.....	£ 70,000
By foreign banks (Europe and Far East).....	£ 334,000
Total.....	£ 404,000

Purchases of spot sterling amounted to £483,000, as indicated below:

By commercial concerns.....	£ 288,000
By foreign banks (Far East and Europe).....	£ 195,000
Total.....	£ 483,000

The other important currencies closed as follows:

French francs	.0223-3/4
Guilders	.5320-1/2
Swiss francs	.2243-1/2
Canadian dollars	11-3/8 ¹ / ₂ discount

We sold gold valued at \$2,150,000 to the Bank of Brazil as fiscal agent of the Brazilian Government. This makes a total of \$11,220,000 in gold sold to that Bank and earmarked under the arrangement of July 15, 1937.

We purchased \$340,000 in gold from the earmarked account of the National Bank of Belgium.

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

- \$ 2,881,000 from the Netherlands, shipped by the Netherlands Bank to the Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
- 2,563,000 from Norway, shipped by the Bank of Norway to the Federal Reserve Bank of New York, to be earmarked for the account of the Bank of Sweden.
- 2,500,000 from Hongkong, shipped by the Chase Bank, Hongkong, to the Chase National Bank, San Francisco, for sale to the U. S. Mint at San Francisco.

2,453,000 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 Norway.
 2,252,000 from England, shipped by the Bank of England to the Federal Reserve Bank of New York for account of the National Bank of Switzerland, the disposition of which is unknown at the present time.
 1,079,000 from England, representing two shipments by Samuel Montagu & Co., for account of the Amsterdam Bank, to the Guaranty Trust Company, New York, for sale to the U. S. Assay Office at New York.

113,728,000 Total

The London fixing prices for spot and forward silver were both up 3/16d, at 22-11/16d and 22-7/8d respectively. The U. S. equivalents were 40.28¢ and 40.20¢. The Bombay silver price was slightly lower at 42.6¢.

Sandy & Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢. We made four purchases of silver totaling 511,500 ounces. All of this silver was new production from foreign countries and was purchased for forward delivery.

Mr. Knoke told me by telephone that the balance of the State Bank of Russia with the Chase Bank today amounted to \$3,300,000, as compared with \$6,000,000 on December 22; its confirmed credits were \$4,900,000 as compared with \$5,200,000 on December 22; and deposits of the Amtorg with the Chase Bank amounted to \$1,500,000, as against \$1,300,000 on December 22. During the period under reference the most important payments from the Russian State Bank account were as follows: \$2,000,000 to Amtorg; \$200,000 to Banco di Roma (presumably to cover freight on a Russian gold shipment to the U. S.); \$200,000 to the Bank of Foreign Trade (a Russian institution in Paris); \$100,000 to a Brussels bank; and \$100,000 to Lloyd's Bank in London. The only big in-payment was \$1,000,000 from the Rotterdam Bank. Mr. Knoke was informed that the Amtorg is no longer buying and shipping copper via Vladivostok direct, but is now making such shipments to Mexico in transit to Vladivostok.

The Canadian Minister, Mr. Christie, telephoned this forenoon to the effect that Colonel Ralston, the Canadian Minister of Finance, is obliged to return directly to Ottawa from Florida, and consequently will not be able to stop off in Washington and to accept the Secretary's invitation for another informal visit at this time. Mr. Christie was most appreciative of the welcome extended Colonel Ralston by the Secretary a few days ago.

H.M.F.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

MA
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DATE December 28, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me at 3:20 this afternoon. He stated that he had received an interim reply for the Embassy's background, in answer to the question which he had placed before the Chancellor of the Exchequer at Mr. Morgenthau's request. This interim reply does not confirm that there has been any change in British policy. Pinsent is not yet in a position to know when the definite reply will be received, but understands that his Government is in touch with the French Government on this point, and that the reply may come quite early in January.

J. M. F.

December 28, 1939.
11:52 a.m.

H.M.Jr: Hello.

Operator: Mr. Welles.

H.M.Jr: Hello. 236

O: Go ahead.

H.M.Jr: Hello.

Sumner
Welles: Hello Henry, Good morning.

H.M.Jr: How are you?

W: I'm fine. I hope you are.

H.M.Jr: I'm very well. Sumner, two things. Number one: Have you had any contact, since we met in the office, with the representative of Columbia?

W: Yes.

H.M.Jr: You have.

W: A funny thing - another one of these coincidences, I was just about to call you.

H.M.Jr: Yes.

W: I've seen the Ambassador this morning.

H.M.Jr: Yes.

W: The Ambassador tells me that there's obviously a complete misunderstanding with regard to that message that he received from his Government.

H.M.Jr: Yes.

W: That he maintains one hundred per cent intact the proposals which he outlined to Mr. Traphagen. That he has been expecting to hear from Mr. Traphagen during the last two weeks and has heard no word from him.

H.M.Jr: You know why?

W: Yes.

But I think the time has now come when it would be very desirable if Mr. Traphagen did see him.

H.M.Jr: Well Sumner, I'd like very much to sit down with you on this thing sometime tomorrow. Are you very busy?

W: Tomorrow, Friday.

H.M.Jr: Yes, there's no Cabinet tomorrow.

W: Can you hold the wire just a minute?

H.M.Jr: - in the afternoon.

W: I'll tell you in just a second. I'll send for my book. - (My engagement book for tomorrow please.) I'm afraid it would have to be fairly late, Henry, around four o'clock.

H.M.Jr: Four o'clock.

W: Is that all right?

H.M.Jr: Just a minute, let me look.

W: All right.

H.M.Jr: Four o'clock tomorrow would be perfect.

W: All right, I'll be at your office at four.

H.M.Jr: Four o'clock and - there won't be anybody else.

W: All right now, what material do you want me to have?

H.M.Jr: Well unless you want to bring somebody, I'm very much interested in this proposal of Riefler, that the amount of payment should be a fixed amount and then go - increased depending upon their exports. Have you seen that?

W: I know of it in principle. I agree with you. I haven't seen it in detail.

H.M.Jr: Well I didn't know - I'd like to talk with you about fifteen minutes alone and then if you want your people to come in, how would that be?

W: I don't really want any people at all.

H.M.Jr: Well I've got that memorandum.

W: Yes.

H.M.Jr: I've got Jones' letter.

W: Yes.

H.M.Jr: And that's all, and then I just want to talk to you as to how we should go ahead.

W: All right.

H.M.Jr: And I also want to talk to you about these lawyers who keep butting in all the time, on this thing.

W: Yes.

H.M.Jr: Which is just an extra spoke to the wheel.

W: Yes, it just confuses.

H.M.Jr: And now they say that they've sent word to me through Cochran that they had misquote themselves when they saw Duggin. Well I don't see what the Colombian Government has to pay a lot of lawyers for. If - here, you and I and Jones are trying to do a job for them for nothing.

W: Quite true.

H.M.Jr: And I don't - it seems to me the lawyers just make it that much more difficult.

W: Yes, there's been a lot of confusion created, there's no doubt about it.

H.M.Jr: And that's one of the thing I'd like to talk to you about.

W: All right Henry, well I'll -

H.M.Jr: Well now the other thing, while I have you - Captain Collins tells me that the Embassy, the British Embassy, and the French Embassy have not yet been notified by the State Department that this Board exists.

W: Why, you know what's happened on that don't you?

H.M.Jr: Only that the President had Collins and me over, told us to go ahead.

W: Well after that was done, the War and Navy wanted to make an amendment to that.

H.M.Jr: Yes.

W: And they've been in touch with the President directly about it and there's been nothing further from him on the subject.

H.M.Jr: Well I - Collins and I saw him last week, I saw him this morning. He told me that he told Johnson that the thing was going to go through as is.

W: Well that's - that's all right then.

H.M.Jr: If you would - are you going to see the President and talk to him the next twenty-four hours?

W: Going to see him tonight, yes.

H.M.Jr: Tonight?

W: Yes.

H.M.Jr: Well get the clearance from him direct, will you?

W: I will Henry.

H.M.Jr: And then if - I'm sure he'll confirm what I say and then if you could notify these two embassies tomorrow.

W: All right I'll do exactly that.

H.M.Jr: I'd be very much obliged.

W: All right, Henry.

H.M.Jr: Thank you.

W: I'll see you tomorrow then. Many thanks.

H.M.Jr: Thank you.

W: Goodbye.

December 28, 1939.
3:55 p.m.

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H.M.Jr: Hello.

Operator: Captain Collins. Go ahead.

H.M.Jr: Hello.

Captain Collins: Good afternoon, sir.

H.M.Jr: Hello Collins. Two things, I thought would interest you and please you. I stayed behind at Cabinet and asked the President, would he please say something to Sumner Welles tonight about informing the embassies about your committee.

C: Yes, sir.

H.M.Jr: And he said he would.

C: Yes, sir.

H.M.Jr: Number two, I asked the President whether I could bring you tomorrow to the White House in order to give you the prestige publicly and he said yes.

C: Thank you very much indeed, sir.

H.M.Jr: So come to my office at eleven when the other two gentlemen are here.

C: Thank you sir, I shall be there.

H.M.Jr: And we'll all go over to the White House.

C: Thank you sir.

H.M.Jr: Righto.

C: Thank you. Goodbye sir.

December 28, 1939.
4:04 p.m.

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H.M.Jr: Hello
Senator Wm. H. King:

H.M.Jr: Good morning my dear friend.

H.M.Jr: How are you?

K: I called you for two purposes.

H.M.Jr: Please.

K: First to wish you a Merry Christmas and a very very Happy New Year.

H.M.Jr: Thank you.

K: And to thank you for the fine record which you've made and for the - what shall I say, the commonsense which has been exhibited by you in contradistinction to the lack of commonsense in so many of the activities of the Federal Government.

H.M.Jr: Well I'm glad you like me anyway.

K: Well I do and I'm for you. Now and for ever and I hope the Lord you stay there.

H.M.Jr: Thank you.

K: And the next thing is I'm afraid we've got to raise some taxes and I want to talk with you and Brother Hanes and see just what - I've been working on it, and I don't know where we're going to raise another billion. I think we've got to do it, and if you brethren down there have any views, I'm working on the tax bill, I should be very happy to have them if you feel disposed to advise me.

H.M.Jr: Well of course. Could we get together early next week.

K: I shall be at your service and will await any suggestions from you as to the time and place.

H.M.Jr: All right, I wish you all a very happy New Year.

K: Thank you very much.

December 28, 1939

MEMORANDUM FOR THE SECRETARY:

In response to your request there is attached a memorandum on "The Distribution of the Burden of the Proposed Income Certificate Plan for Agriculture," which indicates reasons for believing that the net effect of the plan would not be appreciably "progressive" if at all.

It would seem that emphasis should not be placed on the "progressiveness" or "regressiveness" of the plan as a whole, since the fiscal problem of agricultural benefit payments is not substantially different from that of any other type of governmental service or expenditure. Emphasis might properly be placed rather on the burden of the tax itself as is the case in considering taxes for other purposes. Our original memorandum pointed out the high degree of regressiveness of the income certificate tax. No one has denied this conclusion.

RB/ann
12/28/39

Treasury Department
Division of Tax Research

Date 12/28 1939

To: Miss Chauncey

Mr. Schwarz was to give the Secretary
the original of this memo in the
press conference about 10:20 this A.M.
You may want this copy.

CGHumphries

MR. BLOUGH

The Distribution of the Burden of the Proposed
Income Certificate Plan for Agriculture

The proposed income certificate plan for agriculture is a combination of processing taxes and farm benefit payments. Certificates would be employed to collect taxes on the occasion of the first domestic sale of certain agricultural commodities in processed condition, for the purpose of distributing benefit payments to the producers of these commodities.

The plan is a device to provide one type of agricultural benefits - parity payments - outside the Budget, without direct recourse to the general fund of the Government, and without annual appropriation by the Congress. The method is such that it can be applied successfully to only a few agricultural commodities. The Department of Agriculture has proposed to make the plan applicable to wheat, cotton and rice.

The certificate plan would impose a tax on certain necessities. It would tax the consumption of wheat, cotton and rice. Experience with the processing taxes under the Agricultural Adjustment Act of 1933, invalidated in 1936, indicates that the burden of taxes on these commodities would fall, in large part, on consumers. Inasmuch as the consumer expenditures for the products of these agricultural commodities account for a much greater proportion of the total

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expenditures of individuals and families with small incomes than of the total expenditures of those with larger incomes, the burden of the tax would be regressive. It would bear more heavily on those with small incomes than on those with larger incomes.

The tax would be unusually regressive for it would be imposed on physical units of an agricultural commodity, without regard to the price of the product consumed. Unlike a sales tax which is imposed on the basis of value, the certificate tax would be imposed on the basis of weight or volume. Low income consumers purchasing low-priced articles, such as overalls would pay a higher tax with each dollar spent than higher income consumers purchasing high-priced cotton articles.

It may be that in some cases processors would find it necessary and practical to transfer some of the tax burden from their low-priced to their high-priced products. Under the invalidated processing taxes cigarettes, for instance, appear to have borne more than their share of the tobacco taxes. This type of adjustment, however, is very uncertain and cannot be predicted as a likely occurrence in the case of other products.

The rate of taxation contemplated by the proposed certificate plan would be far heavier than the rates which in the

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past usually have been applied to necessities in the United States. The general sales taxes imposed by States in no instance exceed 3 percent of the amount of the transaction, and moreover, in many cases exempt food items from taxation.

The rate of the tax under the proposed certificate plan would be equal to the difference between estimated parity prices and the average farm prices of the particular agricultural commodities affected. In some instances, the rates of these taxes would be even higher than those imposed under the invalidated processing taxes. A 6-cent tax on 9-cent cotton, for instance, would be equal to 66 percent of the selling price. The imposition of indirect taxes of this magnitude, superimposed on an already regressive Federal-State-local tax system, would severely affect the already limited purchasing power of the low-income families. They would bear a large part of the heavy burden which a tax on wheat would impose annually on domestic consumption of bread and other wheat products.

The effects of the certificate plan would be especially burdensome to those who, just like wheat, cotton and rice farmers, are receiving less than "parity" incomes. There are large numbers of other persons on farms and in the cities who have incomes and standards of living as low as the growers of

wheat, cotton and rice. The whole body of the unemployed and the under-employed laborers in all industries have less than "parity" incomes and would be subjected to a heavy burden on account of the tax.

There is general agreement that the adoption of the certificate plan would constitute, in effect, a tax on consumption. It, nevertheless, has been maintained that the regressive effects of the tax would be offset by the "progressive" effects of the expenditures and that the net result would be "progressive." Underlying this position is the assumption that the plan would benefit a low-income farm group largely at the expense of a higher-income non-farm group.

At the outset, it should be noted that this distinction between farm and non-farm population is not relevant to the issue at hand. The certificate plan has been designed for the benefit of wheat, cotton and rice (and possibly some tobacco) growers only. It cannot be employed successfully, and it is not proposed, for the benefit of the growers of the many other farm commodities. In consequence, the plan does not propose to benefit the entire farm population at the expense of the entire non-farm population. It proposes, rather, to benefit wheat, cotton and rice growers as distinct from all other farm groups as well as all the non-farm groups.

There are at present in the United States approximately 7 million farm families. About 3 million of these are engaged, to a small or large extent, in the growing of wheat, cotton and rice. Thus, even if all wheat, cotton and rice growers cooperated in the AAA production and soil conservation program and were eligible for parity payments, the certificate plan would benefit not more than 3 million farm families, at the expense of another group consisting of 4 million farm families and more than 22 million non-farm families, not to mention several million single individuals.

Moreover, the plan, if adopted, may not be of much help to some wheat and cotton growers. That likelihood is indicated by the fact that a portion of these 3 million wheat, cotton and rice growers produce these commodities in such small quantities that the benefits they would receive from their share of the certificates, if they complied with the farm program would be offset largely by their share of the tax burden as purchasers of wheat, cotton and rice products.

The certificate plan is said to have progressive effects because the average income of the farm population which would be benefited is lower than the average income of the non-farm population which would be taxed. However a comparison between farm and non-farm population on the basis

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of per capita income is subject to misinterpretation. The incomes of the two groups are not comparable. A dollar of income in a rural area is something entirely different from a dollar of income in an industrial area. Its purchasing power is different because the cost of living generally is lower in rural than in urban areas. For those on farms, food and clothing, two important elements in the budget of the low-income groups, require a smaller expenditure than for those in the cities.

In comparing the income of the farm and the non-farm population it is emphasized that a larger proportion of the farm population falls in the low-income group than is the case in the non-farm population. It is pointed out, for instance, that a considerably larger percentage of the families on cotton farms have low annual incomes than is the case with an industrial population. Such use of percentages, however, does not bring out some of the important aspects of the low-income problem. The percentages relate to entirely different magnitudes. In 1935/36, one-third of American families are estimated to have had incomes of less than \$750. No information is available on the income distribution among wheat, cotton and rice farmers. However, in that year, 37.6 percent of all non-relief farm families

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were estimated to have had annual incomes under \$750. For all non-relief families, the corresponding proportion was only 23.5 percent. However, in actual numbers, almost 6 million non-relief families had incomes less than \$750. Non-relief farm families accounted for a little over 2 million of the six. However, families of wage earners also accounted for over 2 million. Even if the percentage of wheat, cotton and rice growers falling in this low income group were much larger than that reported for all farm families - an extreme assumption - the adoption of the certificate plan would result in the taxation of at least 5 million non-relief families with incomes of less than \$750, for the benefit of wheat, cotton and rice growers, only part of whom have such low incomes. In other words, it is at least not evident that the net effect of the plan would be a distribution of income from higher to low income groups.

Moreover, we are here dealing with families whose incomes range from minus quantities upward. In consequence, even if, on the average, the families taxed had a higher income than those which received the benefits, the families taxed would still include a number whose incomes would be lower than the incomes of many receiving the benefits. In

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other words, despite the fact that on the average farm families have lower incomes than urban families, the plan would tax some consumers with little or no income for the benefit of farmers with relatively larger incomes. This is the converse of progressiveness.

Finally, it should be noted that the benefits under the certificate plan would be distributed among farmers approximately in proportion to the present distribution of incomes. Wheat, cotton and rice growers would benefit in proportion to their normal production. Therefore, in general, farmers with large farms, producing large amounts of wheat, cotton or rice would receive more money from the plan than small farmers producing smaller amounts.

This analysis indicates that the certificate plan would not have progressive effects. The cost of the plan would be distributed inversely to tax paying ability. The benefits of the plan for these commodities would be apportioned roughly according to the present distribution of incomes among the growers. Moreover, some purchasing power would be transferred from low income families to higher income families. At all events, if the effects of the certificate tax on consumers for the benefit of producers would have progressive effects, then the degree of that progressiveness certainly would be less than could be achieved by the use of almost any other taxing device.

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These conclusions, however, concern only the distribution of the burden of the proposed certificate plan and, of course, have no necessary bearing on the case for increased parity payments to farmers. These conclusions do imply that if the Congress elects to make additional appropriations for such parity payments, it would be undesirable to finance such appropriations from taxes falling exclusively on the consumers of necessities.

ER/asm
12/26/39

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 28, 1939

TO Mr. Thompson

FROM Miss Michener *AMM*

In response to your request of December 26, 1939, there is submitted herewith a memorandum listing, with brief descriptions, the studies or projects completed and under way in the Division of Research and Statistics since the adjournment of the last regular session of Congress on August 5, 1939, together with the names of the persons working on each study or project.

Attachments

Report of Studies or Projects Completed and Under
Way in the Division of Research and Statistics
from the Adjournment of Congress on August 5,
1939, to Date, and the Names of Persons
Working on Each

For convenience of reference the studies listed are grouped under general subject heads. Because the Division functions as a unit, however, and many of its problems involve consideration from a variety of angles with participation to varying degrees by different members of the staff, it is not possible to indicate exactly the part played by each in producing the final results. Mr. Haas, for example, gives general supervision to all of the work of the Division, but participates more directly in analyses in connection with Treasury financing, economic conditions, revenue estimates for budgetary and operating purposes, and other special studies as the occasion arises.

Within this framework, responsibility for the supervision of financial analyses, with varying degrees of direct participation, rests with Mr. Murphy. In a similar way, that for supervision of revenue estimates rests largely with Mr. O'Donnell except for certain miscellaneous taxes for which Mr. Daggit supervises the estimates; that for economic conditions rests with Mr. Daggit; and that for actuarial problems rests with Mr. Reagh. Miss Michener is responsible for supervision of general correspondence, editing of the Annual Report, and miscellaneous administrative and other matters, and she also assists the Director in specific ways as required in connection with the work of the Division.

The listing below, under each study, of the names of persons who worked on it, therefore, includes only those who participated fairly directly. No attempt has been made to cover also those whose responsibility was mainly in planning, supervising or consulting, in each particular case.

Financial analysis

Periodic reviews of current developments in the high-grade securities markets. Memoranda were submitted on the following dates: 9/11/39, 9/19/39, 9/26/39, 10/3/39, 10/10/39, 10/17/39, 10/24/39, 10/31/39, 11/7/39, 11/20/39, 11/29/39, 12/14/39, 12/21/39 - Mr. Haas, Mr. Murphy, Mr. Tickton, Mr. Lindow, Mr. Turner, Mrs. Wadleigh, Miss Eyre, and Mr. Conrad

In connection with these reviews a number of special studies were made and incorporated in the reviews of the dates listed, as follows:

Changes in the distribution of ownership of Treasury bills (10/3/39) - Mr. Lindow

Comparative study of New York City bank statements for September 30, 1939, and selected prior dates (10/10/39) - Mr. Tickton

Study of the composition of the assets of selected large New York City banks for September 30, 1939 (10/17/39) - Mr. Lindow

Effect of the decline in prices of United States securities on the capital of 20 selected National banks (10/24/39) - Mr. Tickton

Effect of the "Ham and Eggs" proposal on the yields of California State securities (11/7/39) - Mr. Lindow

Comparison of British war finance during first months of present war with that during the corresponding period of the World War (11/20/39) - Mr. Turner

Interest cost on new local Housing Authority notes compared with cost to other borrowers for short-term money (11/20/39) - Mr. Tickton

Longer-term perspective of high-grade securities markets (12/14/39) - Mr. Lindow

Changes in the maturity distribution of the Federal Reserve portfolio of Government securities (12/21/39) - Mr. Tickton

Life Insurance Company investments in 1939 (12/21/39) - Mr. Tickton

In connection with specific Treasury financing proposals, memoranda were prepared as follows:

"Setting for September financing" (8/31/39) - Mr. Haas, Mr. Murphy, Mr. Tickton, Mrs. Wadleigh

"September financing" - Memorandum analyzing the prospects for the September financing and recommending that it be omitted (8/31/39) - Mr. Haas, Mr. Murphy

"Proposed note issue" - Memorandum recommending that the refunding of the notes due in December be further deferred (9/18/39) - Mr. Haas, Mr. Murphy

Table - Theoretical prices and actual opening quotations on last four issues of Treasury notes (10/2/39) - Mr. Murphy

Table - Estimated yield basis and prices on new issues (10/7/39) - Mr. Tickton

Table - Estimated yield basis and prices on Treasury notes (10/9/39) - Mr. Murphy, Mr. Lindow

Table - Estimated prices on proposed RFC note issue (10/26/39, 10/27/39) - Mr. Lindow

Table - Estimated prices on proposed Treasury bond (11/25/39) - Mr. Lindow, Mr. Tickton

"Setting for the RFC financing" (10/30/39) - Mr. Haas, Mr. Murphy, Mr. Lindow, Miss Eyre

"Setting for the refunding of the March notes" (12/6/39) - Mr. Haas, Mr. Murphy, Mr. Tickton, Mrs. Wadleigh, Miss Eyre

"An important technical consideration in connection with the refunding of the March notes" (12/6/39) - Mr. Haas, Mr. Murphy

"Selection and pricing of issues for the refunding of the March notes" (12/7/39) - Mr. Haas, Mr. Murphy, Mr. Tickton, Mr. Lindow

Table - Probable premiums on new issues (12/12/39) - Mr. Lindow, Mr. Tickton

Table- Selected issues for refunding the March notes (12/12/39) - Mr. Tickton

Table - Interest cost on March notes and on proposed securities to be issued in exchange (12/12/39) - Mr. Tickton

A chart book and tables showing the monthly range of high and low prices and the monthly average of yields on each outstanding issue of direct and guaranteed obligations of the United States since the beginning of 1933, and the daily prices and yields of each such issue since the beginning of August 1939 was prepared, and these are brought up to date after the close of the market each day. A table recapitulating the prices and yields on all issues for that day together with changes since the preceding day, and price range since issue and for the current year, is prepared at the same time, for use at the opening of business on the following morning - Mr. Haas, Mr. Murphy, Mr. Brown, Mr. Tickton, Mr. Moody, Miss Eyre, Miss McCoy

Other studies were made as follows:

Tables and charts showing estimated cash income and outgo of the Federal Government are prepared each month - Mr. Tickton

A table showing the amount of food-order stamps issued by the Federal Surplus Commodity Corporation is brought up to date bi-weekly - Mr. Tickton

Chart, together with annotations, showing selected economic indices in the United States during the World War and post-War period (1914-1921) - Mr. Murphy, Mr. Turner, Mrs. Wadleigh

Financial developments during the crisis (9/2/39) - Mr. Haas, Mr. Murphy, Mr. Tickton, Mr. Lindow

A proposal to meet a wartime crisis in the Government bond market if new legislation should be considered (9/2/39) - Mr. Murphy

Explanatory note on high-grade corporate bond yield index (9/5/39) - Mr. Murphy, Mr. Tickton

Comparison of Treasury and Moody indices of high-grade corporate bond yields (9/7/39) - Mr. Murphy

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Recent changes in prices of United States securities (9/20/39) - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Tickton

Effect of the decline in the market value of United States securities upon the capital of all insured commercial banks (9/15/39) - Mr. Tickton

Effect of the decline in the market value of United States securities on insurance companies (9/27/39) - Mr. Tickton

Comments concerning remarks by Mr. Bodfish with respect to treatment of Federal Savings and Loan associations in the Treasury's combined statement of assets and liabilities of governmental corporations and credit agencies of the United States (10/24/39) - Mr. Lindow

Comments on proposed Treasury press release with respect to United States Savings bonds (11/8/39) - Mr. Murphy

Information on Intermountain Building and Loan Association (11/10/39) - Mr. Tickton

Comments on the new financing plan inaugurated by the United States Housing Authority (11/22/39) - Mr. Lindow

The debt limit and the provision of resources outside of it (11/27/39, 11/28/39) - Mr. Haas, Mr. Murphy, Mr. Tickton

Analysis of proposal for the sale of voluntary annuities by the Federal Government (12/7/39) - Mr. Reagh, Mr. Brown, Mr. Murphy, Mr. Turner, Miss Eyre

Table - Comparison of the President's January budget message estimates of receipts, expenditures, and gross deficit with actual receipts, expenditures and deficit, fiscal years 1934-39 (12/14/39) - Mr. Tickton

Tables - "Estimated amount of non-Federal securities interest on which is exempt from Federal income tax, 6/30/39" and "Principal classes of holders of direct and guaranteed Government obligations, and estimated amounts of their holdings on 6/30/39," requested by Mr. D. W. Bell (12/16/39) - Mr. Tickton

Studies under way in this field are as follows:

Charts and annotations with respect to economic conditions during the last World War - Mr. Murphy, Mrs. Wadleigh, Mr. Turner

Statistical (graphic correlation) analysis of factors affecting high-grade interest rates - Mr. Turner

Memorandum comparing and contrasting war and depression deficit-financing - Mrs. Wadleigh

Study of the relationship between the yields and maturities of high-grade securities immediately preceding prior major bear markets in such securities - Mr. Lindow, Mr. Conrad

Comparison of relative amplitude of price fluctuations of long-term and short-term securities - Mr. Lindow, Mr. Conrad

Memorandum discussing various problems encountered and solutions devised in connection with war borrowing - Mrs. Wadleigh

Study of the effect of the size of the issue on the prices and yields of United States securities - Mr. Conrad

Preparation of summary data and charts on United States securities and on the relationship of the market for United States securities to that for other high-grade securities, to preface the charts on the prices and yields of individual issues of United States securities - Miss Eyre

Study of changes in the maturity distribution of the direct and guaranteed public debt since June 30, 1916 - Mr. Conrad

Revenue estimates

The Social Security Act amendments of 1939 which were approved August 10, 1939, were analyzed and estimates were made of the revenue effects of these amendments - Mr. Wilson

Analysis and comparison of the actual revenues with the estimates of revenues are prepared each month for the current month and the fiscal year to date. The comparison is made in the detail shown on a daily Treasury statement basis on or about the third day of the ensuing month and in the full detail of the alignment sheet on or about the twentieth of the ensuing month - Mrs. Stanley

September-October 1939 revision of estimates of revenue for the fiscal year 1940 in connection with a proposed Budget summation (10/30/39) - Mr. Haas, Mr. O'Donnell, Mr. Daggit, Mr. Driver, Mr. Leahy, Mrs. Stanley, Mr. Wilson

Distribution of the Budget estimates of revenues and receipts to indicate how much may be collected in each month. This seasonal distribution of estimated revenues has to be made whenever the Budget estimates are revised and is for use in making plans for Treasury financing - Mr. O'Donnell, Mr. Daggit, Mr. Driver, Mr. Leahy, Mrs. Stanley, Mr. Wilson

Study of the sources of customs revenues to ascertain the effect of the European War on these revenues. Arranged for preparation of statistics of imports and calculated duties by leading countries and by schedules under the Tariff Act of 1930. This study was needed in preparing subsequent revenue estimates - Mr. Wilson

As of the last day of each month revised estimates of the expectations of revenues for the balance of the current fiscal year are provided the Office of the Commissioner of Accounts and Deposits in connection with financing plans. These estimates are not fundamental revisions but are modifications based on collection experience of previously made Budget estimates - Mrs. Stanley

Preparation in October 1939 of preliminary estimates of revenues for the fiscal year 1941, for use in connection with the 1941 Budget - Mr. Haas, Mr. O'Donnell, Mr. Daggit, Mr. Driver, Mr. Leahy, Mrs. Stanley, Mr. Wilson

Preparation of new techniques for estimating the revenues from the Carriers Taxing Act of 1937. This was necessary because the tax is a relatively new one and the accumulated experience made revision desirable - Mr. Wilson

Because the statistical series of factory payrolls was revised by the Bureau of Labor Statistics to adjust it to the 1937 Census of Manufactures it was necessary to revise all correlation charts which utilized a factory payroll series in determining revenues. This was particularly important in the case of the estimates of revenues under the Federal Insurance Contributions Act, formerly Title VIII of the Social Security Act - Mr. Wilson

From the General Committee on Statistics of Income, which is engaged in making recommendations as to the type of statistics to be compiled from the returns made by taxpayers, a request was received for a report on the concept of income which should be used for size classification in order to make the statistics most beneficial for revenue estimating purposes (12/26/39) - Mr. O'Donnell, Mr. Driver, Mr. Leahey

In connection with the preparation of the 1941 Budget Message of the President, to be delivered to the Congress at the beginning of the session in January 1940, estimates of the revenues to be received in fiscal year 1940 and fiscal year 1941 were prepared (12/16/39, 12/26/39) - Mr. Haas, Mr. O'Donnell, Mr. Daggit, Mr. Driver, Mr. Leahey, Mrs. Stanley, Mr. Wilson

An explanation of the changes in the estimated revenues of the fiscal year 1940 and a comparison with estimates for the fiscal year 1941 and with actual receipts in the fiscal year 1939 was prepared for inclusion in the text portion of the Secretary's Annual Report and for inclusion in the Budget of the United States Government for the fiscal year ending June 30, 1941 - Mr. Haas, Mr. O'Donnell, Mr. Daggit, Mr. Driver, Mr. Leahey, Mrs. Stanley, Mr. Wilson

Estimates of population of States and territories as of June 30, 1939, were requested by and supplied to the Public Debt Service, the Treasurer's Office and the Office of the Comptroller of the Currency, for use in calculating per capita data (11/18/39) - Mrs. Stanley

Estimates of the population of the continental United States by months, from December 31, 1939 to November 30, 1940, were prepared for similar Treasury purposes (11/8/39) - Mrs. Stanley

In connection with fiscal policy, a project was started to determine the relative strength of the present tax structure as compared with that in effect during the World War. This project has not yet been completed - Mr. O'Donnell, Mr. Daggit, Mr. Driver, Mr. Leahey, Mrs. Stanley, Mr. Wilson

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Many revenue estimates are prepared in connection with proposed revenue legislation prior to the actual consideration of such legislation by the Congress. All such revenue estimates must be integrated with and consistent with the latest Budget estimates. Specific estimates have been prepared as follows:

Estimate of the effect on (1) number of taxable returns, and (2) revenue (broken down into revenue from new taxpayers and revenue from existing taxpayers) which would result from changing the personal exemptions, married couple exemptions and credit for dependents to the following schedule: Single person \$500; Married couple or head of family \$1,000; Credit for each dependent \$500. Work requested by and completed for Mr. Blough (9/20/39) - Mr. Driver, Mrs. Stanley

In connection with the estimates relating to personal exemptions, credit for dependents and the earned income credit, Mr. Blough requested estimates listed below which were completed and furnished to him; the information was requested separately for single persons and for married persons, by net income classes, and under a series of varied assumptions (11/ 8/39) - Mr. Driver, Mrs. Stanley

The estimates requested were as follows:

1. Number of returns, total
 - (a) Taxable, total
 - (i) returns taxable under present law.
 - (ii) nontaxable returns filed under present law that would become taxable under the lowered exemptions.
 - (iii) number of added returns filed.
 - (b) Nontaxable, total
 - (i) returns filed under present law that would remain nontaxable under the lowered exemptions.
 - (ii) number of added returns filed.

2. Revenue, total
 - (a) returns taxable under present law.
 - (b) nontaxable returns filed under present law that would become taxable under the lowered exemptions.
 - (c) number of added returns filed.

The above schedules of estimates were prepared on the assumption that the personal exemption for a "single person" (and an estate) was lowered from \$1,000 to \$500 and for a "married person" (or head of family) was lowered from \$2,500 to \$1,000, combined with each of the following proposals:

1. No change in earned income credit, with credit for dependents -
(a) unchanged, (b) \$500, (c) \$200.

- II. Change in the present earned income credit to a deduction allowable for the purpose of arriving at net income equal to 10 percent of earned income (1) as now defined, and (2) actually earned but not in excess of \$1,500, with credit for dependents -
(a) unchanged, (b) \$500, (c) \$200

- III. Elimination of the earned income credit and reduction of the normal tax rate on (1) the first \$1,000, and (2) the first \$2,000 of normal tax net income from 4 percent to 3 percent, with credit for dependents -
(a) unchanged, (b) \$500, (c) \$200.

Estimates of the revenue effects of calendar year 1939 income levels if the tax on dividends received by corporations were eliminated. Work requested by and completed for Mr. Blough (11/20/39) - Mr. Leahey

Estimates of the revenue effects of eliminating the tax on dividends received by corporations and restoring the privilege of filing consolidated returns. Work requested by and completed for Mr. Blough (11/20/39) - Mr. Leahey

Estimates of revenue effects, at calendar year 1940 income levels, if the age limit of dependent children were raised from 18 to 20 years in connection with the credit for dependents. Work requested by and completed for Mr. Blough (11/20/39) - Mr. Driver

Estimates of revenue effects, at calendar year 1940 income levels, of changing the earned income credit so that instead of accounting the first \$3,000 as earned whether earned or not the allowance be made only with respect to amounts actually earned, the other limitations (10 percent of net income, and maximum of \$14,000) remaining unchanged. Work requested by and completed for Mr. Blough (11/20/39) - Mr. Driver

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Estimates of revenue effects, at calendar year 1940 income levels, of allowing corporations to file consolidated income tax returns. Work requested by and completed for Mr. Blough (11/28/39) - Mr. Leahey

A variety of proposals made by Mr. Randolph E. Paul for changing the revenue laws, some of which tended to increase and some to decrease the prospective revenues, were analyzed and estimates of the revenue effects were made and submitted to the Secretary (12/4/39) - Mr. O'Donnell, Mr. Driver, Mr. Leahey, Mrs. Stanley, Mr. Wilson

In considering six alternative ways of raising a half billion dollars, some estimates previously made and some currently made were utilized for preliminary discussions - Mr. O'Donnell, Mr. Driver, Mr. Leahey, Mrs. Stanley, Mr. Wilson

In connection with more refined proposals for raising a half billion dollars, several estimates have been requested by Mr. Blough and are in process of preparation. These requests include estimates of the revenue effects of two different schedules of increasing the rates on estate and gift taxes (Mrs. Stanley) and two schedules of increasing the individual income tax rate schedules (Mr. Driver)

A number of studies are maintained or have been completed for the development of improved methods of estimating revenues from various taxes

The tabulations of Statistics of Income from returns filed in calendar year 1938 and such preliminary material from returns filed in the calendar year 1939 as has been received were analyzed for the light which the results would cast on subsequent revenue estimates - Mr. O'Donnell, Mr. Driver, Mr. Leahey, Mrs. Stanley, Mr. Wilson

Revision was made in the technique of estimating the current corporation income tax by estimating separately the income of the public utility and finance groups of corporations, the profits from which had not been following the historical relationship to business patterns - Mr. Leahey

Improved methods have been developed for various excise and miscellaneous taxes, as listed below, and

studies are in progress for a number of others

Fermented malt liquors - Miss Rastall
Tobacco, chewing and smoking - Miss Rastall
Gasoline - Mrs. May
Electrical energy - Miss Rastall
Transportation of oil by pipe line - Mrs. May
Oleomargarine - Miss Rastall
Coconut and other vegetable oils - Miss Rastall

Improved methods of estimating the monthly distribution of revenues throughout the fiscal year have been developed for most of the important taxes - Mr. O'Donnell, Mr. Daggit, Mr. Driver, Mr. Leahy, Mrs. Stanley, Mr. Wilson

For the purpose of making estimates of revenue from all of the various taxes, after deciding upon the basic FRB production index and BLS price index, it is necessary to make forecasts of various subsidiary business indices on which individual tax estimates are based. These include forecasts of factory payrolls, stock prices, bank debits, volume of stock sales, salaries and wages, etc. Improved methods have been developed in recent months for forecasting certain of these factors. - Mr. Daggit, Mrs. May

Economic conditions related to fiscal and revenue matters

Notes on the business situation were mailed abroad to the Secretary on the following dates: 8/11/39, 8/18/39, 8/25/39 - Mrs. May

Periodic memoranda on the business and price situation were prepared on the following dates: 8/31/39, 9/4/39, 9/11/39, 9/18/39, 9/25/39, 10/2/39, 10/9/39, 10/17/39, 10/23/39, 10/30/39, 11/7/39, 11/20/39, 11/27/39, 12/4/39, 12/11/39, 12/18/39 - Mr. Haas, Mr. Daggit, Mrs. May, Miss Rastall

Report on the business outlook (11/30/39) - Mr. Haas, Mr. Daggit

At irregular intervals memoranda are prepared summarizing reports from the Federal Surplus Commodities Corporation on wheat export sales and market data - Mrs. May

A chart and table are brought up to date weekly showing employment under the Works Projects Administration - Miss Rastall

Comment was made on a reported plan of Great Britain to purchase huge food supplies in the United States (9/20/39) - Mr. Haas

In connection with memoranda on the business situation and for other purposes, a number of studies have been made as listed and described below:

Study of price trends and related price factors during World War and immediate post-War period (1913 to 1922, inclusive). This project was designed to determine the principal price factors associated with the war-time rise and subsequent collapse in commodity prices. A memorandum dated October 20 details by years the movement of commodity prices and price factors during this ten-year period, and refers to significant changes in prices, industrial production, exports, sterling exchange, bills discounted by Federal Reserve Banks. - Mr. Haas, Mr. Daggit, Mrs. May

Study of freight car situation, with reference to possible shortage. This project was designed to indicate how near we were to a freight car shortage in the fall of 1939. A chart showed the downward trend in freight cars owned by railroads from 1924 to 1939, associated with a declining trend in the amount of freight carried during this period, despite a general improvement in the volume of industrial

production. A second chart showed the relation between the volume of freight carried and the net freight-car surplus, by years from 1917 and by months from 1932. (Discussed in Business Memorandum of October 9) - Mr. Haas, Mr. Daggit

Calculation of sales equivalent of national income. This project was designed to measure one type of business maladjustment, that resulting from too high a volume of consumer expenditures in relation to earnings (due to buying on installments, on credit, etc.). The normal relationship between national income payments and our "index of sales," in dollar values, was determined by a correlation comparison over a period of years. From this we are able to determine currently the extent to which sales are running above or below normal as compared with the current level of national income payments, as discussed in Business Memorandum of November 20 (Chart C-291). - Mr. Daggit, Miss Rastall

Calculation of approximate index of unfilled orders. This project was designed to develop some means of measuring the current backlog of unfilled orders, and to indicate how long they would continue to support industrial production after new orders fell off. The normal relationship between our index of new orders and the FRB index of industrial production over a period of years was first established by a correlation study. Monthly deviations between industrial production and the "production equivalent of new orders" were then cumulated to give an approximate index of unfilled orders. Memorandum of November 27. - Mr. Daggit, Miss Rastall

Project to determine how high the FRB index would have to go to reduce unemployment to "normal." This project involved estimating the employable population in 1940 and determining, from an historical relationship between industrial production and nonagricultural employment, the level of industrial production which would make full use of the available labor supply. - Mr. Daggit, Miss Rastall

Suspension of sugar quotas. This involved a description of the situation with respect to available supplies of sugar in this country following the President's suspension of sugar marketing quotas. (9/12/39) - Mr. Daggit, Mr. Wilson

Corn marketing quotas. This involved a summary of the provisions of the Agricultural Adjustment Act relating to corn marketing quotas, and their application to the present situation. (9/12/39) - Mr. Daggit

Possible reductions in Federal expenditures for agriculture due to rise in agricultural prices. This project involved a separate examination of each of the major activities of the Department of Agriculture to determine whether scheduled expenditures in the 1940 fiscal year might be susceptible to reduction owing to the rise in prices. (9/15/39) - Mr. Daggit, Mr. Lindow

Cotton and wheat export subsidies. This involved a statement of the current status of the export subsidies on cotton and wheat, amount of subsidies, and probable costs for the current fiscal year. (9/22/39) - Mr. Daggit

Wheat owned by Federal Government and available for sale. This involved obtaining information on wheat holdings of the Government, under outright ownership or in other capacities, from various Government agencies handling wheat. (12/19/39) - Mr. Daggit

Additional studies for similar purposes are under way, as listed and described below:

Study of forces determining trends of basic commodity prices. This project is directed toward providing answers to such questions as: What are the determining forces in commodity price trends? What basic factors are responsible for current price movements? Is inflation getting under way? It involves individual price studies for various basic commodities, a number of which have been completed, which are intended eventually to be combined into a general index representing the basic price trend, after allowance for the effect of supplies, industrial demand, and other separable factors. - Mr. Daggit, Mrs. May, Miss Rastall

Trends of individual commodity prices and price factors during the World War period. This project is patterned after the general study of prices and price factors, 1913 to 1922, previously described, but deals with six individual basic commodities - wheat, cotton, hogs, steel, copper, and zinc. - Mr. Daggit, Mrs. May

Index of commodity stocks. This project is designed to develop a composite index of basic commodity stocks, as a measure of one important price factor. Stocks of 12 important industrial materials are being compiled for this index. - Mrs. May

Index of inventories. This project is designed to develop a better index of inventories of finished goods, as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. - Mr. Daggit, Miss Rastall

Index of unfilled orders. An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index based on data from individual industries. - Mr. Daggit, Miss Rastall

Index of buying on deferred payments. We have nearly completed a study of the volume of installment buying and consumer credit, designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. - Mrs. May

Estimate of Government revenues if Revenue Act of 1918 were in effect. Partially completed. - Miss Rastall, Mrs. May

Indications of business maladjustment. Various indications of business maladjustments, shown in graphic form, are being brought together for convenient reference. - Mr. Haas, Mr. Daggit

Study of export trends. Since the trend of exports is likely to be an important business factor during the coming year, we have started a project designed to interpret export movements in terms of their business significance. - Mrs. May, Mr. Chevreux

Actuarial problems

Calculation of joint and survivorship annuity tables.

A recent amendment to the Civil Service retirement law permits retired employees to elect a joint and survivorship annuity in lieu of a single life annuity. The Board of Actuaries has submitted a new mortality table for use in computing the amount of the joint and survivorship annuities payable under the amended law. Extensive tables required for this purpose are being prepared - Mr. Reagh, Mr. Brown

Preparation of interest tables for use by the State Department under the Foreign Service retirement law. The Foreign Service retirement law requires that records of contributions with interest be maintained in respect to each individual coming under the retirement law. Interest tables are being prepared to facilitate the maintenance of these records, and to record the data in a form suitable for use in actuarial valuations of the fund. (Under the recent amendment to the Foreign Service retirement law actuarial valuations are made by the Treasury Department.) - Mr. Brown

Estimates of appropriation required for Foreign Service.

Retirement Fund for fiscal year 1941 (9/14/39) - Mr. Reagh

Estimated cost of lowering optional retirement age of Foreign Service Officers from 60-55 years. In process. - Mr. Reagh, Mr. Brown

Retirement Subcommittee of the President's Committee on Civil Service Improvement. This Subcommittee is making a comprehensive study of the Civil Service retirement law. Its report will recommend several changes designed to improve the present service. In connection with this study a number of tables have been prepared and the major portion of the report has been drafted - Mr. Reagh, Mr. Brown

Study of horse race results. This study was undertaken at the request of the Legal Division, for use in connection with the Annenberg case. The results of some thirteen thousand horse races have been recorded on punch cards, which will be tabulated to show the financial results of betting under various systems and of following the selections of different expert handicappers. The results are expected to prove that it is impossible to exercise skill to any important extent in betting on horse races - that is, that such betting is primarily a matter of chance rather than of skill - Mr. Reagh, Mr. Brown

Annual report of the Secretary

Certain portions of the annual report have been written and others have been reviewed, as indicated below:

Sections written -

Receipts - Mr. Tickton, Mr. Turner
Expenditures - Mr. Tickton
Deficit - Mr. Tickton
Estimates of receipts - Mr. Haas, Mr. O'Donnell,
Mr. Daggit, Mr. Driver, Mr. Leahey, Mrs. Stanley,
Mr. Wilson
Emergency legislation - Mr. Turner
Treasury activities under the Social Security Act
and actuarial valuations of Old Age Reserve Account -
Mr. Haas, Mr. Reagh
Treasury activities under the Emergency Relief
Appropriations Acts - Mr. Lindow
Administrative report of the Division of
Research and Statistics - Miss Michener

Sections reviewed -

Estimates of expenditures - Mr. O'Donnell
Public debt - Mr. Tickton
General fund - Mr. Tickton
Securities owned by the United States and
proprietary interest in governmental corporations
and credit agencies - Mr. Murphy
Securities guaranteed by the United States - Mr. Murphy
Monetary developments - Mr. Murphy
Revenue legislation - Mr. O'Donnell
Bureau of Customs administrative report - Mr. Wilson

Editing of the entire manuscript and preparation of copy for the printer, reading of proof and routing of manuscript and proof for comment and approval have all been handled, and the report for the fiscal year 1939 is almost ready for publication - Miss Michener, Miss Westerman

Treasury Bulletin

Data for the Treasury Bulletin are prepared each month, as follows:

Average yields of long-term Treasury bonds and high-grade corporate bonds - Mr. Lindow

Data for the Treasury Bulletin are reviewed each month as follows:

- Amount of interest-bearing debt outstanding, the computed annual interest charge and the computed rate of interest - Mr. Lindow
- Estimated customs duties and taxes, and value of dutiable and taxable imports, by tariff schedules - Mr. Lindow, Mr. Wilson
- Estimated receipts from taxes imposed by various revenue acts on imports - Mr. Lindow, Mr. Wilson
- Computed duties collected, by countries - Mr. Lindow, Mr. Wilson
- Treasury criminal cases - Miss Michener, Mr. Lindow

Other material for publication

Data for the monthly Treasury publication "Market prices and yields of outstanding bonds, notes, and bills of the United States." - Mr. Moody, Miss McGoy

Data for the monthly Treasury mimeograph "Interest-bearing debt outstanding, classified according to kind of security and callable period or payable date" - Miss Westerman

Articles and data were prepared as requested for publication in Moody's Manual of governments and in the Encyclopedia Britannica - Mr. Murphy, Mr. Tickton

Correspondence

Replies are prepared to letters of inquiry on subjects relating to the work of the Division, and letters drafted elsewhere are frequently submitted to the Division for review - Miss Michener, Miss Ziegler; with review in certain cases by appropriate members of the staff.

A statistical report on correspondence handled since the beginning of August is given below:

	Aug.	Sept.	Oct.	Nov.	Dec. (1-26)
Received	196	194	214	240	222
Disposed of	284	199	210	230	204

Charts

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith

work is carried on. This is done in the graphic section under the supervision of Mr. Banyas. A statistical report on the work of the graphic section since the beginning of August is attached.

Statistical Report on Work Completed by the
Graphic Section, Division of Research and Statistics, by months,
beginning August 1939

Type of work	Aug.	Sept.	Oct.	Nov.	(Page)
A. Graphic					
New charts completed	21	29	37	94	34
Charts brought up to date	357	650	801	685	649
Miscellaneous jobs completed	52	87	91	74	32
Bond books brought up to date				13 days	22 days
B. Photographic					
<u>Photographs:</u>					
Total jobs	52	77	75	73	52
Number of -					
Negatives	115	123	147	18	123
Contact prints	154	161	496	253	160
Enlargements	42	148	150	90	101
<u>Photostats:</u>					
Total jobs	87	112	139	147	106
Number of -					
Letter size copies	804	670	2,228	771	979
All other copies	1,143	561	1,033	686	1,021
<u>Multilith:</u>					
Total jobs	11	10	3	9	4
Number of -					
Zinc plates	72	81	58	97	83
<u>Miscellaneous:</u>					
Total jobs	3	4	9	7	7

Treasury Department
Division of Tax Research

Date 12/29/ 1959

To: Miss Chamcey

This is the same report submitted to the Secretary as of Dec. 20 - but we have added the names of the men doing the various jobs-- as per the Secretary's request after seeing the original memo submitted.

This will be a monthly report, hereafter, at the Secretary's request.

CGE:umpries

MR. BLOCH

December 28, 1939

MEMORANDUM FOR THE SECRETARY.

In response to your request transmitted through Mr. Thompson, the summary report of the projects worked on in the Division of Tax Research since the adjournment of the 1939 regular session of Congress, submitted to you on December 20, has been revised to indicate the names of the persons who worked on the various projects. The revised report is transmitted herewith.

RB

Attachment

Report on projects in the Division of Tax Research

July 11 to December 19, 1939

1. Taxpayers' opinions

At the invitation of Under Secretary Hanes, taxpayers conferred with Treasury representatives during the months of September, October and November. Members of the Division of Tax Research participated in these conferences and are preparing a report summarizing the major recommendations submitted. This report, which is in final stages of review, is to be submitted by Mr. Hanes to the Subcommittee on Taxation of the House Ways and Means Committee. (Mr. Shere and Mr. Atlas)*

2. Cosmetics tax

The Subcommittee of the Ways and Means Committee has requested that the Treasury prepare a report on the cosmetics tax. Accordingly Mr. Hanes directed this Division to make the study. A report is in final stages of preparation. (Mr. Farioletti and Mr. Campbell)

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

3. Certificate plan for a processing tax

A report has been completed covering the economic, financial and tax aspects of the income certificate plan for agriculture, an Agriculture Department proposal contained in several bills introduced in the 76th Congress, 1st Session. (Mr. Ecker-Racz)

4. War-profits and excess-profits taxes

Several memoranda were prepared on the problems of taxation during a period of neutrality and time of war, together with a list of questions to be answered before a war-profits or excess-profits tax statute can be drawn. Other memoranda are in preparation. (Mr. Shoup)

5. Wartime taxes

A report was prepared for the Under Secretary on wartime taxation. In this connection an historical tabulation of all Federal taxes in effect during the period 1914-18 was made. Brief memoranda have also been prepared on wartime taxes in Canada and Great Britain. (Mr. Shere and staff members)

6. Income tax study (W. P. A.)

Since October 1938 a study of income tax returns has been carried on at Philadelphia with W. P. A. funds. The study is continuing and the tabulations are nearing

final stages of preparation. (Mr. Blough. The study is operated by a special administrative staff in Philadelphia, headed by Mr. Thomas Rhodes; financial control is by Mr. John A. Wylie.)

7. Shipping taxes

In connection with a report to the President on the taxation of shipping by a Joint Committee of the Treasury, War and Commerce departments on Tonnage Taxation (Mr. Philip Young and Mr. Blough were members of the committee) a report was prepared on the financial condition and the taxpaying ability of the shipping industry and an analysis was made of the taxes paid by the shipping industry. This study was used as a confidential document by the Committee but is to be revised for future reference. (Mr. Ecker-Ract and Miss Wells)

5. Chart of Federal, State and local revenues and expenditures

An estimate was made of Federal, State and local taxes and expenditures for the year 1938, and published in the August Treasury Bulletin. On the basis of these data a chart, "Estimated Flow of Federal, State and Local Government Funds, Fiscal Year Ending in 1938," was prepared in color and distributed to Congressional

members, important Federal, State and local officials, and to others especially interested in tax conflicts. (Mr. Ecker-Racz and Mr. Kilpatrick)

9. Possible revenue sources

Memoranda have been prepared on various methods of raising additional revenue. The most recent report completed shows the possibilities of increasing the revenues from the income, estate and gift taxes. A report is in process describing a large number of possible sources of increased revenue. (Mr. Shere and staff members)

10. Chronological table of Federal tax rates, 1928-1939

The chronological table of Federal taxes which has been brought up to date several times has been further expanded and now shows comparative Federal tax rates for the period 1928-1939. (Mr. Shere, Miss Hughes and Mr. Atlas)

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(a) In accordance with annual practice, there was prepared for publication in the Annual Report of the Secretary of the Treasury for 1939 an estimate of Federal, State and local tax-exempt securities outstanding as of June 30, 1939. Summary data for 1939 will be published in the Treasury Bulletin.

(Mr. Ecker-Racz and Mr. Mannen)

(b) A report is being prepared to show the distribution of tax-exempt securities by net income brackets with particular reference to holdings of such securities by persons in high income brackets.

(Miss Coyle)

13. Data on public employees

In connection with studies relating to the exemption of salaries of public employees prior to the Public Salary Tax Act, a report was prepared showing the number and compensation of Federal, State and local public employees. (Mr. Kilpatrick)

14. Income tax

(a) Personal exemptions, credit for dependents and the earned income credit.

The levels of personal exemptions, credit for dependents and the earned income credit have

- 6 -

been analyzed and a report prepared on the economic and social bases for such allowances and the effects of various methods of changing them. The memorandum will be completed shortly. (Mr. Shere, Mr. Atlas, Miss Coyle, Mr. Mills and Miss Hughes)

(b) Capital gains and losses

Studies have been made of available statistics relating to capital gains and losses and also of the desirability of changing the holding periods by shortening the period for long-term capital gains and losses to one year. (Mr. Shere and Miss Coyle)

(c) Deductions

A report has been prepared on a proposal of the staff of the Joint Committee on Internal Revenue Taxation to allow individuals with net incomes of less than \$5,000 a deduction of 10 percent of gross income in lieu of present statutory deductions. (Mr. Shere and Mr. Atlas)

(d) Consolidated returns and intercorporate dividends

Memoranda were prepared on the economic problems relating to consolidated returns and the taxation of intercorporate dividends. Also, a state-

- 7 -

ment on these subjects was prepared for the use of Mr. Hanes before the Subcommittee on Taxation of the Committee on Ways and Means. (Mr. Shere and Mr. Ecker-Racz)

(e) Undistributed profits tax

Analyses of statistics relating to the undistributed profits tax have been undertaken. The completion of the report awaits the availability of 1937 income tax statistics (Mr. Shere and Mr. Zorach)

15. Estate tax

A report on the possibilities of excluding from gross estate (a) insurance used in payment of taxes and (b) special securities issued by the United States Government used in payment of tax, is in final stages of preparation. In this connection the general problem of liquidity of estates and hardships imposed under present law were studied. (Mr. Shere and Mr. Mills)

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19. Articles, speeches, etc.

The Division has prepared material for the use of the Under Secretary in addresses. Articles on taxation have been prepared for publication in the Britannica Year Book and the National Encyclopedia. (Mr. Blough and Mr. Ecker-Racz)

20. TNEC studies

Pursuant to an agreement with Mr. Willard L. Thorp of the Department of Commerce, the Division of Tax

Research is reviewing the TNEC studies on corporation taxes. (Mr. Shere)

21. Effects of taxation on national income

The theoretical effects of taxation on national income have been analyzed from time to time during the past year. The project was originally suggested by Mr. Harry White, as one in which the Fiscal and Monetary Committee was interested. (Mr. Blough; Mr. Shoup; in the early stages Mr. Shere)

22. Review of publications, etc.

The Division of Tax Research reviews Treasury Department publications, releases and tax forms. Among those recently reviewed were Statistics of Income for 1937 and the preliminary reports for 1938, the Annual Report of the Commissioner of Internal Revenue for the fiscal year ending June 30, 1939, and Statistics on Wine for the year ended June 30, 1939, and the 1939 individual and corporation income and other tax returns and instructions. (Miss Hughes, Mr. Zorach, Mr. Mills and Mr. Atlas)

23. Statistics

The Division supervises and participates in the planning of the statistical work of the Bureau of Internal

- 10 -

Revenue. In this connection it is advised by an intra-departmental committee on Statistics of Income. (Mr. Shere and Mr. Campbell)

24. Correspondence

The Division of Tax Research handles correspondence pertaining to tax problems. (Staff members)

December 28, 1939

MEMORANDUM FOR THE SECRETARY

In response to your request transmitted through Mr. Thompson, the summary report of the projects worked on in the Division of Tax Research since the adjournment of the 1939 regular session of Congress, submitted to you on December 20, has been revised to indicate the names of the persons who worked on the various projects. The revised report is transmitted herewith.

Attachment

ER/am
12/28/39

Report on projects in the Division of Tax Research

July 11 to December 19, 1939

1. Taxpayers' opinions

At the invitation of Under Secretary Hanes, taxpayers conferred with Treasury representatives during the months of September, October and November. Members of the Division of Tax Research participated in these conferences and are preparing a report summarizing the major recommendations submitted. This report, which is in final stages of review, is to be submitted by Mr. Hanes to the Subcommittee on Taxation of the House Ways and Means Committee. (Mr. Shere and Mr. Atlas)*

2. Cosmetics tax

The Subcommittee of the Ways and Means Committee has requested that the Treasury prepare a report on the cosmetics tax. Accordingly Mr. Hanes directed this Division to make the study. A report is in final stages of preparation. (Mr. Fariolotti and Mr. Campbell)

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

3. Certificate plan for a processing tax

A report has been completed covering the economic, financial and tax aspects of the income certificate plan for agriculture, an Agriculture Department proposal contained in several bills introduced in the 76th Congress, 1st Session. (Mr. Ecker-Ross)

4. War-profits and excess-profits taxes

Several memoranda were prepared on the problems of taxation during a period of neutrality and time of war, together with a list of questions to be answered before a war-profits or excess-profits tax statute can be drawn. Other memoranda are in preparation. (Mr. Shoup)

5. Wartime taxes

A report was prepared for the Under Secretary on wartime taxation. In this connection an historical tabulation of all Federal taxes in effect during the period 1914-18 was made. Brief memoranda have also been prepared on wartime taxes in Canada and Great Britain. (Mr. Shere and staff members)

6. Income tax study (W. P. A.)

Since October 1938 a study of income tax returns has been carried on at Philadelphia with W. P. A. funds. The study is continuing and the tabulations are nearing

final stages of preparation. (Mr. Blough. The study is operated by a special administrative staff in Philadelphia, headed by Mr. Thomas Rhodes; financial control is by Mr. John A. Wylie.)

7. Shipping taxes

In connection with a report to the President on the taxation of shipping by a Joint Committee of the Treasury, War and Commerce departments on Tonnage Taxation (Mr. Philip Young and Mr. Blough were members of the committee) a report was prepared on the financial condition and the taxpaying ability of the shipping industry and an analysis was made of the taxes paid by the shipping industry. This study was used as a confidential document by the Committee but is to be revised for future reference. (Mr. Ecker-Racz and Miss Wells)

8. Chart of Federal, State and local revenues and expenditures

An estimate was made of Federal, State and local taxes and expenditures for the year 1936, and published in the August Treasury Bulletin. On the basis of these data a chart, "Estimated Flow of Federal, State and Local Government Funds, Fiscal Year Ending in 1936," was prepared in color and distributed to Congressional

members, important Federal State and local officials, and to others especially interested in tax conflicts. (Mr. Ecker-Racz and Mr. Kilpatrick)

9. Possible revenue sources

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December 28, 1939

The Secy was not at all satisfied with the transportation and other charges which Keeshin billed the Universal Trading Corporation; when Mr. Keeshin called the Secy today and asked for his picture, HM, Jr said he would have to think about it; that he felt badly about the \$900.00 charge.

ANALYSIS OF SALARIES AND EXPENSES OF MESSRS. KEESHIN,
SHEAHAN AND BASSI, INCURRED DURING CONSULTATIONS WITH
OFFICIALS OF UNIVERSAL TRADING CORPORATION.

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EXPENSES

Trip to Washington, D. C. by
Messrs. Keeshin and Sheahan
on June 14, 15 and 16, 1939.

	<u>Billed</u>	<u>Actual</u>
Round trip rail and pullman fare	\$ 99.35	\$ 99.35
Carlton Hotel bill	32.00	87.17
Expenses of Messrs. Keeshin and Sheahan	75.00	185.00
	<u>\$ 206.35</u>	<u>\$ 371.52</u>

Trip to Washington, D. C., and
New York City, by Messrs. Keeshin
and Sheahan on June 20 and 21, 1939.

Round trip rail and pullman fare	\$ 59.85	\$ 59.85
Carlton Hotel bill	21.00	64.92
Expenses of Messrs. Keeshin and Sheahan	50.00	137.00
	<u>\$ 130.85</u>	<u>\$ 261.77</u>

Trip to New York City by
Messrs. Keeshin, Sheahan and Bassi
on June 28, 29 and 30, 1939.

Round trip rail and pullman fare	\$ 245.65	\$ 245.65
Park Lane Hotel bill	15.00	40.56
Expenses of Messrs. Keeshin, Sheahan and Bassi	105.00	245.00
	<u>\$ 365.65</u>	<u>\$ 531.21</u>

Trip to Washington, D. C. by
Messrs. Keeshin, Sheahan and Bassi
on July 25 and 26, 1939.

Round trip rail and pullman fare	\$ 144.75	\$ 144.75
Carlton Hotel bill	16.00	49.13
Expenses of Messrs. Keeshin, Sheahan and Bassi	70.00	167.00
	<u>\$ 230.75</u>	<u>\$ 360.88</u>
TOTAL	<u>\$ 933.60</u>	<u>\$ 1,625.38</u>

SALARIES

Salaries of Messrs. Keeshin and Sheahan
paid by Keeshin Motor Express Co., Inc.,
for time spent on Universal Trading
Corporation matter.

E. E. Sheahan 16 days @ \$31.95	\$ 511.20	
	<u>\$ -</u>	<u>\$ 511.20</u>
GRAND TOTAL	<u>\$ 933.60</u>	<u>\$ 2,036.58</u>

December 29, 1939

9:00 am

Present:

Mr. Leroy-Beaulieu
Mr. Cochran
Mrs. Klotz

HM,Jr: I did want to see you, because I had two sets of messages that I want you to take across the Atlantic for me.

Mr. Leroy-Beaulieu: Yes.

HM,Jr: One was to your Minister of Finance. You see?

Mr. Leroy-Beaulieu: Yes.

HM,Jr: That I am still waiting to hear from the French Government as to what their plans are for this coming year as to the amount of money they are going to spend in the United States and how much is going to come from gold and how much from securities.

Mr. Leroy-Beaulieu: Yes.

HM,Jr: Now, at first, you know, I thought that the British were going to cooperate.

Mr. Leroy-Beaulieu: Yes.

HM,Jr: And they had these two gentlemen here, you know.

Mr. Leroy-Beaulieu: Yes; I know.

HM,Jr: And we came to an agreement

Mr. Leroy-Beaulieu: Mr. Gifford and Mr. Whigham.

HM,Jr: and everybody agreed that they were going to take title, and then nothing happened. And,

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as I explained to Mr. Pinsent, it left a very bad taste in my mouth. Now, I have not even had a taste from the French Government and don't know what it tastes like.

Mr. Leroy-Beaulieu: And you don't know whether it's bad.

HM, Jr.: Exactly! I hope it's going to be good.

Mr. Leroy-Beaulieu: Yes.

HM, Jr.: But when you are over there, and since you now have a joint mission, financial, it would be very helpful to me and in the long run helpful to the English and French if they could indicate to me and, through me, to the President what they propose to do.

Mr. Leroy-Beaulieu: Yes.

HM, Jr.: Now, we have no idea what your Government proposes. You see? And if it is convenient and if they know, I would like to know when you come back.

Mr. Leroy-Beaulieu: Yes.

HM, Jr.: That's the principal thing I would like you to give to Mr. Reynaud.

Mr. Leroy-Beaulieu: When Mr. Cochran told me about it, the other day, I immediately called to Paris telling them what you have told me. The answer I had was that they asked me to make, first, a very close schedule of what our monthly requirements were going to be, owing to the contracts which we had already passed and which you know are over \$50,000,000, of course not entirely paid. And to make a monthly schedule of that is really a very difficult job, because you have so many uncertain elements. But I think the chief trouble just now, from what I heard, is that they have not yet set up completely, their program of purchases and the different Ministries in France -- what we call the spending Ministries, the Finance Ministry having to provide for their needs -- have not yet given the Minister of Finance himself

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what their program of purchases were going to be, but I feel sure that as soon as they know it, and I think they will be able to know it now, they will let you know and I suppose that when I come back I will have an answer from that point of view.

As far as the other part is concerned, whether we will use gold or securities, I don't know. I think that in September the plan was to use first the Stabilization Fund gold and then when we would have vesting of securities into the Treasury then to use funds from that, but they have not yet said what appropriation will be used.

HM, Jr: I think France and England might give some indication to us and the rest of the world how much value they place on gold after this war is over.

Mr. Leroy-Beaulieu: Yes. I know what you have in mind.

HM, Jr: See?

Mr. Leroy-Beaulieu: Yes.

HM, Jr: You understand me?

Mr. Leroy-Beaulieu: Yes. I understand very well.

HM, Jr: All right. That's that!

Now, chapter #2. I am going to cable Ambassador Bullitt that immediately upon your arrival, at your earliest convenience, I would like him to see you.

Mr. Leroy-Beaulieu: Yes.

HM, Jr: (To Cochran) Will you take care of that?

And this is for Bullitt, you see?

Mr. Leroy-Beaulieu: Yes.

HM, Jr: That, as I understand it, you people have an order here, I think it is 100 of these P-40 with the

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new Allison motors.

Mr. Leroy-Beaulieu: Yes.

HM,Jr: You never had them on the other side.

Mr. Leroy-Beaulieu: No.

HM,Jr: And if I am correct, I want to ask Capt. Collins, I think they only have one which is completed, which is the one they brought here a year ago to show over at Anacostia. Our own Government has them on order. This is the thing for Bullitt. You people are just switching in. But this is all for Bullitt. Your mission that is over here now. This is the point. During this past week, since Plevel has arrived, and Purvis, for the first time they seem to have some direct orders. They seem to know much more where they are at. And they seem to be enthusiastic. But it's the same situation that we had last January and February. They don't know what plane they want; what engine they want, and you remember, in January and February and March, back and forth and back and forth; months went by.

Mr. Leroy-Beaulieu: Yes.

HM,Jr: Now it looks as though it is going to be the same thing over.

Mr. Leroy-Beaulieu: I see that.

HM,Jr: The message that Mr. Bullitt sent over that time is the essence

Mr. Leroy-Beaulieu: Yes.

HM,Jr: Now, in the first place, what they are asking American industry is almost impossible.

Mr. Leroy-Beaulieu: Yes.

HM,Jr: But it can be done.

Mr. Leroy-Beaulieu: I see.

HM,Jr: Provided that the French Government will say to us "We want one or two bombers at the most."

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Mr. Leroy-Beaulieu: I see.

HM, Jr: It will be much better to say "We need" if they want a light bomber or if it is to be a long distance bomber, "We want this type"; if it is to be a short distance bomber -- but it would be much better if you would say one kind of bomber with one kind of engine; one kind of pursuit plane with one kind of engine. If you could get it down to two or three planes at the most, because our engine capacity now is full.

Mr. Leroy-Beaulieu: I know that.

HM, Jr: And it means doubling it.

Mr. Leroy-Beaulieu: But in 1940 it could be done? In 1940?

HM, Jr: I think so, if you people will make up your mind. Now, they say to us again, "What do you think we need?" We don't know what you need.

Mr. Leroy-Beaulieu: I thought they had made up their mind, at least for the engine of the Pratt-Whitney one and the Wright.

HM, Jr: If they have, Capt. Collins did not know it yesterday.

Mr. Leroy-Beaulieu: I may be wrong.

HM, Jr: This is for Bullitt, because I don't want to get mixed up, because I feel sure they are not going to make up their mind unless Mr. Bullitt, through the President again putting pressure on me -- and I want to tell him I can do this thing.

Mr. Leroy-Beaulieu: Yes. I see.

HM, Jr: I can't do this thing unless the French make up their mind.

Mr. Leroy-Beaulieu: And that you think if we do that, we might have a chance in 1940.

HM, Jr: Yes! It is perfectly possible. And

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that's why I say on this P-40, I don't blame you for saying "We don't want to order 1,000 or 2,000 and we don't know" Therefore, what I am saying is if your Government would ask us for three, for immediate delivery, I think we could get them. Then you take them over there and try them out under war conditions and then you know. Then you know whether the Allison motor is any good or not. I am not going to ask you or wouldn't want you to buy something you have not tried.

Mr. Leroy-Beaulieu: Do you think you could have three prototypes of the P-40 to send over and see what they are like with the Allison motor?

HM, Jr: Yes, and then you would know because I think in the case of the Allison motor there is a good chance of increasing production there.

Mr. Leroy-Beaulieu: Yes, because that's General Motors.

HM, Jr: What I have in mind, that if you people say, "All right; this is the motor" or "We want two different kinds of motors," I hope to be able to take, whether it's Pratt-Whitney or whatever it is, and Allison, it to other companies

Mr. Leroy-Beaulieu: and that will be the thing to do if you can put pressure on the company to do it.

HM, Jr: That's the only way I can do it. But then the French Government has to say "We want 5,000 motors. We want 10,000 motors," then I can say to whatever this company, "All right, we will see that you get paid a royalty" which you will have to pay, but we will see that it is not too much. I found three small companies that make airplane engines that have no business at all. There are three. And who have made engines, good engines, but they have no business whatsoever. Now you don't want to buy their engines because they are for small sports planes, but if we could say "it's to be that" -- or we go to Chrysler, go to Ford Company, and say, "Here's the Pratt-Whitney engine. We are going to get Allison for you to make it." That's

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the only way we could do it, but your Government has to say what they want and as of yesterday, as far as I know, your Government did not know.

Mr. Leroy-Beaulieu: Well, Mr. Secretary, I had a long talk with Mr. Plevin yesterday evening and what I thought was that he came to see, to hear, what he could get, but they did not tell them before "We want this or that", but "What do you think we can get here?".

HM, Jr.: We want your Government to say what you want. Then it is up to us to see if we can get it.

Mr. Leroy-Beaulieu: We appreciate it very much.

HM, Jr.: Do you see the difference?

Mr. Leroy-Beaulieu: Yes; very well.

HM, Jr.: Because if you leave it on what can you get, you get nothing because you have bought up all our surplus engines as it is and you say to me "What can I get", the answer is nothing, but if you say, "I want 10,000 engines of this kind," then it's up to us to see whether we can do it. And I think we can.

Mr. Leroy-Beaulieu: And you think a good chance in 1940.

HM, Jr.: I am only talking 1940.

Mr. Leroy-Beaulieu: That is very, very interesting, because I thought from what I had seen

HM, Jr.: This is my own idea.

Mr. Leroy-Beaulieu: I had thought for 1940 there was not a great chance.

HM, Jr.: There is no chance. There are no engines. You are lucky if you get what you have ordered in 1940, but give me that you want this or that, give me two or three different kinds of engines, and we figure you need 23,000 motors, what you need, in addition, which means

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doubling our plant capacity, but I can only do it on a licensing basis.

Mr. Leroy-Beaulieu: I think that's a good idea.

HM, Jr.: But I want Mr. Bullitt to know this.

Mr. Leroy-Beaulieu: Well, I will tell him, Mr. Secretary.

HM, Jr.: But doesn't it sound practical?

Mr. Leroy-Beaulieu: Oh, very! Oh, completely!

HM, Jr.: But if Mr. Plevin is going to sit back and say, "What have you got, Mr. Morgenthau," I have nothing.

Mr. Leroy-Beaulieu: I see very well. Yesterday he told me that he had been charged to make an inquiry for ten days to see how it could be increased.

HM, Jr.: It's a waste of time.

Mr. Leroy-Beaulieu: Yes.

HM, Jr.: I tell you now you can't get anything, but I am talking generally. There is nothing. It's a waste of time. Unless you people concentrate on one, two or three different kinds of engines.

Mr. Leroy-Beaulieu: For the Allison they were not very keen -- our technical people -- on it first, because we could buy little more than we bought and the Air Ministry seemed to be -- not to have made up his mind about it because they had not tested it.

HM, Jr.: Exactly! Get three of them out there and see whether they could -- how they fought.

Mr. Leroy-Beaulieu: And you think they can be sent immediately?

HM, Jr.: I am -- I think there is a 75% chance.

Mr. Leroy-Beaulieu: Yes. In the next month?

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HM, Jr: Well, yes. I believe the first are coming off now, in a couple of weeks. I tried to get them the three and I think the thing to do would be to put them on the first boat that sails and put them on the front and try them out.

Mr. Leroy-Beaulieu: Sure!

HM, Jr: But I would do everything I could to see you got the first three out of the first six.

Mr. Leroy-Beaulieu: That's very important.

HM, Jr: But there is a company that could increase very rapidly.

Mr. Leroy-Beaulieu: I know that. Yes. Because that's General Motors.

HM, Jr: Now, do we understand?

Mr. Leroy-Beaulieu: Very well.

As far as gold is concerned, I think the French are the last people who would go out of gold. We will have to change the minds of 40,000,000 Frenchmen.

HM, Jr: 40,000,000 Frenchmen can't be wrong.

Happy New Year!

oOo-oOo

December 29, 1939

Mr. Purvis, Mr. Plevin and Capt. Collins were in today just before the Secretary took them over to the White House to meet the President.

EM, Jr inquired of Mr. Plevin if he knew, as yet, what they wanted. Plevin replied that he was ready to say just what airplanes they needed. He said that if they started with 10,000 planes they would want one-third to be pursuit and two-thirds bombers. He said this division is what they wanted for engines. For bombers there were two kinds of engines that they wanted the Pratt-Whitney #2800 and the Wright #2600.

The Secretary then asked, "Have you decided on what bombers you want?" and Plevin answered, "We want the DV-7 Glenn-Martin #167. These are fast medium-range bombers. This is what is wanted for a base in France. It would be helpful to have long-range bombers, but unfortunately we do not know what you have in this country. If the secrets could be lifted, it would help us very much."

When EM, Jr asked Mr. Plevin, "What about the pursuit planes," Mr. Plevin said, "There are two engines. One, the Pratt-Whitney #1840. We must have these right away. Then there is the Allison. One of these two would be all right for us. The pursuit P-46 is very good, but it could be superseded by the Germans at any time, we are afraid."

The Secretary then said, "Well, you have given me the answer that I asked for."

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~~MM~~
December 29, 1939

MEMORANDUM FOR THE SECRETARY

In accordance with your request I have examined the story by Mr. Bernard Kilgore appearing in yesterday's Wall Street Journal and stating that the Treasury Department has completed and is scheduled to submit to Congress tax studies which will point to the advisability of important changes in corporation, personal income and other taxes.

Last July the Subcommittee on Internal Revenue Taxation of the Ways and Means Committee asked the Treasury Department to study certain features of the tax system. This was done, but nothing has been submitted to the Committee or Subcommittee.

The Treasury Department also agreed to secure tax suggestions from the public and report on them to the Committee. It is this latter report containing a summary of tax suggestions received from the public which is now being prepared for submission to you. Mr. Hanes on November 7 promised the Subcommittee that such a report would be sent to it when Congress reassembled.

The Wall Street Journal story apparently relates to the first group of studies mentioned above. I have not heard since November 3 any talk of submitting these studies to Congress with or without recommendations. I think there is nothing in the story which could not have been written on the basis of other items appearing in the press about November 1 or earlier.

RB

Tax Relief

Treasury Report to Favor Changes in Both Personal, Corporation Schedules

Department's Study of Business "Deterrent" Levies Ready, For Congress

Action Next Year in Doubt

BY BERNARD KILGORE

Staff Correspondent of THE WALL STREET JOURNAL

WASHINGTON—Treasury Department tax laws law studies, which have been completed and are scheduled to go to the House ways and means committee after Congress begins its 1940 session, will point to the advisability of important changes in both the corporation and personal tax systems.

Prospects for legislation next year along these lines are believed to be highly uncertain, however, even by Administration officials who are strongly in favor of approaching a balanced budget by removing what they call "deterrents" to business recovery in Federal revenue statutes.

Treasury experts based their investigation in part upon the recommendations of many business men and other taxpayers who wrote or came to Washington in response to a general invitation to relate their tax troubles. Much of this basic material is expected to be made public next year.

Business Tax Proposals

It is likely that the survey will point to the advisability of permitting all corporations to file consolidated income tax returns. Repeal of the intercorporate dividend tax is also a probable suggestion. While no further major changes in the capital gains tax system will be proposed, there are indications that the Treasury would look with favor on a reduction in the time limits which determine whether profits on the sale of an asset are to be taxed as regular income or, at a lower rate, as a capital gain.

Previous suggestions that no further issues of tax-exempt government securities be permitted will, of course, be renewed in 1940 according to present plans.

Reduction in gift and estate taxes also has been under study by Treasury experts, who are inclined to look favorably upon such revision. The same is true of the high-bracket personal income tax rates.

Problem of Overlapping

In all probability, the Treasury will draw attention to the need for some sort of a commission or agency to consider the problem of overlapping Federal, state and local taxes.

Besides such problems of major individual importance, Treasury technicians also have devoted a great deal of attention to possible technical changes in the Federal tax statutes. Officials believe that about fifty doubtful points in the present laws are responsible for most of the tax litigation, and they believe that many causes for dispute could be eliminated if Congress would simply clear up certain ambiguities.

There also have been discovered a number of actual hardship producing sections in the tax laws. For example, under existing statutes, if a man borrows \$100,000 from a friend, and finds himself later in financial straits, he may persuade his friend to write down the debt to \$7,000 and call it square. But the government would then put the unfortunate borrower right back into bankruptcy again by claiming about \$45,000 tax on the "forgiven" portion of the debt.

May Be Lost in Shuffle

Earlier this year, Congress changed the corporation tax laws so that a railroad, for example, could buy up its own bonds at a discount without having to pay a tax on the resulting paper "profit", but no relief was given to individual taxpayers in the same position.

The Treasury's tax statutes may be completely lost in the third shuffle or they may be

Please turn to page 8, column 2.

Tax Relief

Continued from First Page

overshadowed if the President, contrary to present indications, sends specific suggestions for new taxes to Congress.

But there remains the possibility that congressional leaders who oppose new taxes in 1940 may seize upon the Treasury studies as a means to help improve the government's revenue by stimulating business. This is the theory on which John W. Hanes, retiring Undersecretary of the Treasury, has frequently asserted a better fiscal picture might be achieved without boosting any tax rates and with, in some instances, actual tax rate reductions.

Mr. Hanes has had charge of the Treasury's tax studies, but their presentation to Congress next year will depend entirely on Secretary Morgenthau and his other official aides.

Budget Message Due Soon
In the meantime, of course, the President's budget message will go to Capitol Hill early next month. Mr. Roosevelt conferred at length yesterday with Budget Director Harold Smith and White House Administrative Assistant Lauchlin Currie.

Mr. Currie, formerly a Federal Reserve Board economist, has long been an active advocate of government spending-leading for recovery and the taxation of "excessive" savings.

In most official quarters here, however, it is considered unlikely that the President would include specific new tax recommendations in his budget message.

Officially, Secretary Morgenthau has said that the Treasury has no tax program. President Roosevelt has hinted recently that he will suggest that Congress raise additional funds to meet agricultural benefit payments and national defense costs. Other New Deal advisers of the pump-priming school have been working on plans to place heavier taxes on income which, to them, represents "unnecessary savings".

Even though the Administration's exact position on tax proposals is still unknown and the willingness of Congress to tackle revenue

law changes in an election year is likewise an uncertain element, the Treasury's studies probably will prove to be of considerable long-range significance. In the hands of the House ways and means committee, the forthcoming report will at least be available for consideration even if the elections next year result in a substantial political change.

Weather Forecast

New York City and Vicinity: Fair today with little change in temperature. Saturday cloudy with snow and continued cold. Yesterday's temperature range is 10 P. M.: High 35, Low 12.

VOL. CXIV. NO. 140

More Than Memory

Treasury Charged With Keeping Alive Theory Of Expiring Profits Tax

Ignores Protests From Business And Congressmen Against Section 102 'Instructions'

One Official for Revocation

BY GEORGE B. BRYANT, JR.

Staff Correspondent of THE WALL STREET JOURNAL.
WASHINGTON—Although the undistributed profits tax will expire at midnight, December 31, its principle will linger on as much more than a mere memory unless the Treasury Department modifies its "instructions" for enforcement of Section 102 penalty tax on unreasonable accumulation of earnings by corporations.

Business and members of Congress, too, have protested vigorously that the Treasury, through its 102 instructions, is attempting to keep alive the theory of the undistributed profits tax, notwithstanding the fact that Congress voted to end this controversial levy with the corporate tax year beginning after December 31.

Thus far, the Treasury, it was disclosed yesterday, has ignored these protests, although one high Treasury official is known to have proposed that the instructions be revoked, since, in his opinion, they constitute one of the so-called business irritants which the last revenue act sought to eliminate from the tax laws and regulations for their enforcement.

Criticized at Hearings

It was also revealed that the 102 instructions came in for much criticism during the tax hearings held by the Treasury as a part of the general tax study which it plans to submit to the approaching session of Congress if and when the House ways and means committee calls for it. The hearings were under the direction of John W. Haney, undersecretary of the Treasury, who will quit his post at the end of the year.

Two provisions of the 102 instructions constitute the main basis for the objection. One of these provides that internal revenue examiners shall recommend application or non-application of the section 102 penalties in all cases where a corporation fails to distribute at least 70% of its earnings as dividends. The other calls for a recommendation in all cases where a corporation's stock is owned by a family, a small group or trust for benefit of such groups.

In the first instance, the protesters contend, the instructions retain the principle of the undistributed profits tax by bringing the 102 penalties into the picture merely because a corporation retained more than 30% of its earnings. In this connection, it is recalled that during congressional consideration of the undistributed profits tax the Treasury estimated that the average corporate distribution was about 70%.

Suspicion of Tax Avoidance

While the instructions do not mean that a corporation which distributes less than 70% of its earnings will have to pay the 102 penalties, amounting to 25% on the first \$100,000 and 35% on the remainder, the objection contented that they place all corporations falling in this category under suspicion as tax avoiders.

As in the second objection, which calls for a recommendation for application or non-application of 102 in all instances where a corporation's stock is held by a family or a small group, the protests declare the Treasury is attempting to do by regulation what Congress refused to do by law.

In 1938, the Administration proposed, with the support of President Roosevelt, that a penalty tax be levied on all so-called "loosey held" corporations. This tax was approved by the House ways and means committee, but was rejected by the House on the floor.

May Come Into Open

Unless the Treasury takes action to modify its 102 instructions, it is highly likely that this issue will be pushed into the open on Capitol Hill after Congress convenes next week. At least one of those members of Congress who protested to the Treasury was a Democrat on the special House Ways and Means Committee on Taxation.

It is considered of considerable interest in Congressional quarters that the 102 instructions were prepared back in the summer while Mr. Haney was away from Washington. Another interesting sidelight is that after the instructions were drawn, Treasury officials attempted to get Chairman Doughton of the House Ways and Means Committee and Chairman Harrison of the Senate Finance Committee to give their joint approval. The two chairmen decided to leave the instructions alone, since they are administrative rather than a legislative matter.

Tax Rule Changes

Regulations for Surtax On Accumulated Profits Likely To Be Modified

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Call See Journal — NOV 15 1938
Enforcement Methods Held "Business Irritant" of Type Congress Wanted Removed

Aimed at Large Shareholders

BY GEORGE B. BRYANT, JR.

Staff Correspondent of THE WALL STREET JOURNAL.

WASHINGTON—Treasury Department instructions for enforcement of the heavy penalty surtax on "unreasonable" accumulations of corporation earnings probably will be modified to remove another of the so-called business "irritants" from the federal tax machinery.

Regulations for enforcement of the surtax, provided in Section 102 of the Revenue Code, and designed to prevent corporations from retaining earnings so that wealthy shareholders may escape the high surtaxes on individual incomes, were tightened up after the last session of Congress agreed that the undistributed profits tax should expire at the end of this year.

Business Interests Complain

It was disclosed yesterday that business interests have complained to members of the House and Senate and to the Treasury, that the new "102" instructions are so broad that they are tantamount to retention, by regulation, of the principle of the undistributed profits tax, notwithstanding the action by Congress.

Inquiry at the Treasury Department revealed that a reexamination of the instructions is underway and that modifications are to be expected. Just what form these revisions will take, however, was not indicated.

The instructions now provide that the Treasury's staff of examiners shall recommend application or non-application of Section 102 in all cases where a corporation fails to distribute at least 70% of its earnings to shareholders. A higher rate of distribution, however, is not considered as an automatic exemption from the 102 penalties, which amount to 25% on the first \$100,000 of undistributed profits and 35% on undistributed profits in excess of this amount.

Inasmuch as the law provides that, once the Commissioner of Internal Revenue determines a corporation has been used to enable its shareholders to escape individual income surtaxes, the burden of disproving this determination is on the corporation, business interests foresee considerable trouble in instances where their dividend policies failed to conform to the ideas of the tax collectors.

Principle Seen Retained

Complaints were made at the Capitol that the regulations had the effect of retaining the principle of the undistributed profits tax, since they placed all corporations distributing less than 70% of their earnings in a position where they might be required to go to considerable trouble and legal expense in order to show that funds retained were necessary to business operations.

There now seems to be a disposition in the Treasury to agree that the instructions were drawn badly and that they constitute a business "irritant" along the lines which the tax revision bill of the last regular session of Congress sought to remove from the federal revenue structure.

The situation has come to the attention of Undersecretary John W. Haney, who, for a long time, has been trying to clear Treasury regulations of sources of legitimate complaint by taxpayers.

It was reliably reported at the Capitol that the Section 102 instructions were prepared and issued while Mr. Haney was away from the Treasury on vacation last summer and that they did not have his approval.

December 29, 1939.
2:30 p.m.

RE UNDISTRIBUTED PROFITS TAX

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Present: Mr. Foley
Mr. Schwarz
Mr. Blough
Mr. Sullivan
Mr. Duffield
Mr. Bell
Mr. Tarleau
Mrs. Klutz

H.M.Jr: Who knows this story?

Foley: Did you see the story which appeared in the Wall Street Journal on the 15th of November, which is quite similar to the one that appeared this morning?

H.M.Jr: No, I did not see this.

Duffield: That is the one I spoke to you about this morning.

Foley: They are practically the same thing. I don't think there is anything new. I think that what is here is a republication of that story they got last November and in the November 18th Kiplinger letter which came out at the same time there is also a reference to it.

Tarleau: Mr. Treadway, speaking on the Republican side on the 8th of November, wrote in about the T.D. and we replied to him on the 14th, in which letter - copy of which I have here. Mr. Hanes signed it. He told him that the T.D. - that we intended to follow section 102. The other letter, the one to Mr. Boehne, has not been signed. It is still inside.

H.M.Jr: I see.

Tarleau: There is only one other matter I would like to call to your attention, Mr. Secretary, as it bears on this. In 1938 when this - when section 102 was strengthened by the Senate, the Committee was presented the Finance Committee report stating that their Committee was dealing with this problem, namely, the

problem of corporations which avoids taxes by unreasonable accumulation of surplus and the incorporated pocketbook etc. They said to deal with this problem where it should be dealt with, namely in section 102 relating to corporations and property accumulating surplus. Proposals to strengthen this section by requiring the taxpayer by a clear preponderance of the evidence to prove the absence of any action to avoid surtax. The Committee believed substantial revenue would result from this change, although no exact estimates have been made by that body. They believed it would increase the revenue from sources where there is ability to pay. I just cite that, because evidently Senator Harrison's Committee felt in 1938 when this Act was passed that there would be some attempt to go on out and apply section 102.

H.M.Jr: Well, do we know yet how well it has worked?

Sullivan: Yes, sir. Out of a total of thirty-two thousand six hundred odd cases that were examined in the four months ending November 31st, there were selected sixteen hundred seventy-seven cases which raised doubt in the minds of the agents as to whether or not this section 102 applied. Upon examination, out of the more than thirty-two thousand, the agents recommended that the provisions in section 102 be applied to thirteen. They have not yet been applied. They were recommended to us and final action has not yet been taken on it. I understand, although we haven't the figures complete for the month of December, that out of more than fifteen hundred which were reported as needing to be investigated, they recommend that about twelve of those be subjected to the provisions of section 102.

Foley: Twenty-five --

Sullivan: That would be twenty-five out of a little over three thousand.

Foley: No, thirty-nine thousand.

Sullivan: Oh, yes, out of the total, but out of those that - where a doubt was raised, there would be over three thousand.

H.M.Jr: Are those cases in the field, those twenty-five cases?

Sullivan: Yes, sir, but they are reported in to us and we have the figures.

H.M.Jr: Have you got - you haven't had a chance to study them?

Sullivan: I have. You mean the individual cases?

H.M.Jr: Yes.

Sullivan: I have not.

H.M.Jr: Could you take them home with you, I mean to read on the train?

Sullivan: If the cases are here.

H.M.Jr: What I am getting at is, Tuesday or Wednesday could I have some kind of an analysis or description of what these cases - could these men maybe do that while you are away?

Sullivan: Oh, yes sir. I didn't know but what you wanted to make something public this afternoon.

H.M.Jr: I would rather go slow. I have cooled off. Our file shows quite a record of discussion about this very thing. I think the thing of it is to let it go and let somebody shoot off his mouth a little bit more. I think we have got a wonderful record. I think that is perfectly amazing that there are only twenty-five cases out of forty thousand that we have questioned.

Schwartz: Under those instructions, too.

H.M.Jr: When I think the question - how much revenue did we get, more than if we hadn't had it, and so forth. Could that be ascertained?

Sullivan: Yes, sir.

- H.M.Jr: How much extra revenue was produced?
- Sullivan: I can tell you right here. The thirteen cases, up to the first of December, carried a proposed tax of one hundred thirty-six thousand five hundred eleven dollars and eighty-six cents.
- H.M.Jr: I mean on the other forty thousand that didn't, how much extra dividends did they declare?
- Sullivan: About seventy-one percent of the returns examined declared dividends of less than seventy percent of their earnings and these - of these thirteen where the agents have recommended that the return be subjected to the provisions of section 102, eight of the thirteen paid no dividends, one paid two and a half percent, one two percent, one eight percent, one forty percent, and one sixty percent.
- H.M.Jr: I tell you what we will do. If you have this thing so that you can handle it, maybe some time next week you will come to my press conference, you see, and we will let you handle the thing. There is no use my assimilating it as long as you evidently have it.
- Sullivan: All right, sir.
- H.M.Jr: Be prepared, let's say for next Thursday. At a press conference I will have you here and let you hold forth. How would that be?
- Tarlean: The Republican National Committee sent a man around on this, as you know, this afternoon.
- H.M.Jr: All the better. As long as it is as good as this --
- Foley: Get rid of the undistributed profits tax position because 102 is adequate and if you enforce 102 you can get everything under that that you can get under an undistributed profits tax position. Now, they start in on section 102

after they get the undistributed profits tax out of the law.

H.M.Jr: I want to come out with a statement saying that this so-called Harrison Plan, the '38 tax Bill - Harrison's plan was so good and the Oliphant Plan and the Roosevelt Plan were terrible. If I said that, it would be bad for all of us. Therefore, I have kept my mouth shut. Give them until next Thursday and give the Republican National Committee a chance - are there any Republicans around?

Schwarz: Mr. Secretary, next Thursday is the budget story. All the special writers will be writing budget.

H.M.Jr: We can have a special meeting maybe Friday night for Monday morning release. Let that Republican National Committee do their damndest and then we can come along. How does that sound to you, Gene?

Duffield: Sounds fine. I think that is right. I think those figures are a good record and will make a good story.

H.M.Jr: I will say, "Well, I am the guy that signed those T.D.'s," instead of saying, "No, I didn't."

Sullivan: We were asked by Mr. Hanes to prepare an answer to a very fiery letter by Congressman Boehne.

H.M.Jr: Which was prepared?

Sullivan: We were asked to prepare it and instructed to have it for him not later than today and in the manner of the answer we have prepared, we set forth these facts and figures.

H.M.Jr: But you say he hasn't signed it?

Tarlean: My letter had no figures but just stated the purpose of the --

Foley: What did you do with your letter, send it over to the Bureau?

Tarleau: It is still in his office.

Sullivan: I have his right here.

H.M.Jr: And he asked you to give it to him?

Sullivan: Yes.

H.M.Jr: I would give it to him.

Foley: That will have the facts and figures that you want to hold for your press conference.

H.M.Jr: And if Hanes wants to sign them, swell. Let him have them.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 29, 1939

OFFICE OF THE DIRECTOR

MEMORANDUM FOR THE SECRETARY

A meeting was held with the President this morning at 11:45. In addition to the Secretary of the Treasury, there were present Mr. Purvis, M. Plevan, and the Director of Procurement.

The President stated that his insistence on coordinated action on all war purchases between the Allies was based on his desire that two main ends of importance to the United States should be attained:

1. That of avoiding Allied purchases interfering with the United States preparedness program.
2. That of avoiding a general rise in prices.

Mr. Purvis explained to the President the organization which had been set up to create a united Allied front regarding purchases in the United States and explained briefly the situation with relation to certain critical materials. He further discussed the general question where, in order to meet Allied requirements in certain materials, new plants would have to be built and financed by the Allies which would create assets of national strategic value for the defense of the United States. Mr. Purvis mentioned the case of explosives for which new plants had to be created. He asked whether consideration would be given to the United States's taking back such plants at a fair value at the conclusion of the war.

The President answered that on specific questions of explosives it was his impression that at least the United States Navy was well provided for but that there would be other materials higher up on the priority list and that he did not see any objections to the Anglo-French Board's taking up with Captain Collins such matters which were obviously of interest. The President suggested to Captain Collins that examination might be made of the present availability of explosives which might be in the course of being reworked, with the thought that such explosives might be released to contractors for disposition to the Allies. He further suggested that inquiries might be made of the possibility of extending the nitrate plants at Mussel Shoals for the production of explosives, with particular reference as to the availability of such extensions for the use of the manufacture of commercial nitrates after the war.

Mr. Purvis expressed to the President the thanks of both Governments, as expressed by Mr. Monnet in his cables, for the spirit in which the control of certain essential

alloys is being approached, as such a control might well shorten the war considerably without in any way adding to the sufferings of the German people. It was understood that the matter would be further discussed with the Secretary of the Treasury.

M. Flevan expressed to the President a desire that, if possible, some P-40s might be released for immediate combat trials. It was explained to the President that there is existent a contract for 100 of these ships and that the request was merely to get an expedited delivery of a sufficient number to be used for test purposes in actual combat. To this the President agreed.

In a further discussion M. Flevan explained to the President that their plan for aviation procurement is based on the idea of obtaining 10,000 planes; two-thirds of them to be two-motor bombers and one-third single-motor pursuits. He further explained that a program of this size would unquestionably require 20,000 motors. The President expressed a desire that there be investigated the question of taking advantage of existing facilities of manufacture in the smaller plants which are apparently not being used to their full capacity today.

A discussion was had as to the possibility of examining the newer prototypes of combat planes. The Secretary pointed out to the President that over a year had elapsed since the present contracts for planes were made and that it might be helpful to all concerned if some of the developments which have taken place during the past year might be released. The President stated, entirely off the record, that he could see no objection to such examinations being made.



Director of Procurement



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

December 29, 1939

MEMORANDUM FOR THE SECRETARY

With reference to M. Plevan's talk this morning, the French want 10,000 planes; 6,666 to be two-engine bombers, both Douglas and Martin, powered with 2,600 Wright motors generating approximately 1,500 horsepower; and 3,334 single-engine Curtiss pursuits P-36, powered with 1830 Pratt & Whitney engines and Allison engines.

If possible, it is desired later that the 2600, 1,500 horsepower Wright be used on pursuits.

It was stressed by M. Plevan the desire that all of the foregoing planes be delivered during the year 1940.


Director of Procurement

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE DEC 29 1939

TO Secretary Morgenthau
FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, there is attached a summary report of studies or projects which have been carried on in the office of the General Counsel since the adjournment of the first session of the 76th Congress.

E. W. F. H.

SUMMARY REPORT ON STUDIES OR PROJECTS IN
THE OFFICE OF THE GENERAL COUNSEL -
AUGUST 5 TO DECEMBER 26.

1. Monopoly Study. In connection with the work of the Temporary National Economic Committee, O'Connell, Kades, and Handler are carrying on a study of the substantive and procedural aspects of the antitrust laws, the twofold aim of which is to increase the effectiveness of such laws and to meet, to the extent possible, the present complaint that the business community does not know what it may and may not lawfully do under such laws. This study involves exploring (a) the extent to which it is possible or useful to go in enacting detailed prohibitions of specific forms of monopolistic organizations and specific types of undesirable competitive practices, and (b) the merits of the claim commonly made that a procedure for passing on the legality of particular organizations and competitive practices in advance of their use by the business community is needed. This project will be completed by February 1, 1940.

2. Customs Litigation Study. We are engaged in a detailed study of the processes under which customs duties are assessed and reviewed by Treasury officers, and litigated in the United States Customs Court. The purpose of this study is to develop the best possible technique by which the Treasury may assist the Department of Justice in preparing cases for litigation with a view toward better success in the Court. The project is being carried on by Mr. Agee in New York under the supervision of Mr. Cairns. Agee is now engaged in the preparation of a preliminary report to Cairns.

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3. Duty of Executive Departments to Disclose Confidential Information to Congress. As a result of the repeated demands of Congressman Thomas for the Department's files in the Canadian Distilleries cases, we made an exhaustive study of the whole question of the authority of Congress, one House of Congress, a congressional committee, and an individual member of Congress to require an executive department to make disclosure of information in its files which the head of the department involved considered to be confidential. This study was performed by Mr. Feidler under the supervision of Mr. Cairns.
4. Translation of Foreign Income Tax Laws. We have been continuing our work on these projects. During the past six months we have received and edited material relating to both the French and Dutch systems. Mr. Cairns is supervising these projects.
5. Compilation of Legislative History of Neutrality Act of 1939. In order to facilitate the handling of questions arising under the Neutrality Act, we compiled in logical order all of the legislative history of the Act. The extent of the work involved on this project is indicated by the fact that four large volumes of material were collected and arranged. The compilation has proved extremely helpful in the disposal of many of the questions already presented. This work was done by Mr. Feidler of Mr. Cairns' staff.
6. Federal Depository System. At the request of Mr. D. W. Bell a study is being made of the depository system with a view toward legislation

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which would bring it up to date. The principal problems under consideration are (1) the feasibility of designating banks other than members of the Federal Reserve System to act as depositaries and financial agents of the United States, (2) clarification of the situation with respect to the giving of security by banks for deposits of funds of the United States, (3) the inclusion as "funds of the United States" of all moneys held by any instrumentality, agency, or wholly owned corporation of the United States, and (4) the granting of authority to the Secretary of the Treasury to enable him to uniformise procedures relating to the deposit in the Treasury of the United States of funds collected by any agency. We expect to complete our study and have a bill prepared for submission to Congress by February 1. This project is being carried on by Mr. Reeves under Mr. Bernard's supervision.

7. Codification of Anti-Counterfeiting and Related Laws. Mr. Koken of Bernard's staff is making a study, with a view to their revision and codification, of all laws relating to counterfeiting and the reproduction of stamps and coins. The existing statutes on the subject are, in many cases, very old and contain a vast amount of duplicatory and overlapping material which makes their interpretation by the Government, the courts, and affected citizens a difficult matter. The principal purpose of the project, therefore, is to recast these statutes into simple, readily understandable form. A preliminary draft of a bill and related memoranda are almost completed.

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8. Streamlining Procedure for Paying Old Checks. For some time we have been studying the operation of section 21 of the Permanent Appropriation Repeal Act which provides the manner of payment of checks not presented for payment within one year of the fiscal year in which issued. As a result we have drafted a bill to provide for a special deposit account with the Treasurer of the United States in lieu of the trust account in the Treasury now used for paying such checks, and for the payment of such checks from the special deposit account without settlement and adjustment by the General Accounting Office. This procedure would greatly expedite the handling of these checks. The legislation is now being put into final form for submission to Congress by Mr. Reeves in Bernard's Legislative Section.

9. Harrison Narcotic Act Amendments. At the request of the Bureau of Narcotics we are making a study and drafting a number of miscellaneous amendments to the Harrison Narcotic Act for submission to the next session of Congress. The amendments under consideration relate principally to the classification for tax purposes of certain individuals and institutions. The spade work is being done by Miss McDuff of Bernard's staff.

10. Bond Survey. For some time we have been making a study of bonds and other conditional obligations in the nature of bonds exacted by the Department to determine whether economies can be effected. We have canvassed all affected branches of the Department in connection with this study which, it seems likely, will eventually result in legislation. Our research so far indicates that a revolving fund might be set up in

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connection with fidelity bonds and supported by assessments on bonded officers which would save such officers considerable amounts in premiums now being paid private surety companies. The indications are that the premiums now being paid on these bonds are totally disproportionate to the losses which have been incurred. Mr. Groman is handling this study under Bernard.

11. Assignment of Claims Against the United States. Section 3477 of the Revised Statutes prohibits the assignment of claims against the United States except under certain conditions and in conformity with certain procedures which are designed to protect the United States against frauds in these matters. This antiquated statute, however, has been largely undercut and whittled away by judicial construction and the protection which it is designed to accord the Treasury and the United States has been greatly impaired. In cooperation with the office of Assistant General Counsel Tietjens, Mr. Groman of the Legislative Section (Bernard's office) has been studying this subject and preliminary drafts of legislation to remedy the situation have been prepared.

12. Compilation of Monetary Statutes. This office is preparing a compilation of the various statutes relating to monetary matters so that these will be accessible in convenient form to persons whose work requires them to consult them. Miss McDuff is doing the work under Bernard's supervision.

13. Compilation in Annotated Form of Laws and Regulations Affecting Government Personnel. At the request of Mr. McReynolds, we are preparing

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an annotated compilation of the various statutes, rules, and regulations affecting Government personnel. Aside from the civil service laws and rules, this will include such annotated material as the laws and regulations relating to retirement, classification, annual and sick leave, political activity, and other miscellaneous matters. The purpose of this present work is to compile all of this material in up to date form and completely annotated in a single volume so that all Federal personnel material will be conveniently accessible to personnel officers and others who work on these matters. All the attorneys in the Legislative Section are working on this project under Bernard's supervision.

14. Flexible Interchange of Personnel Between Treasury Enforcement Agencies.

At the request of Mr. Irey, this office made a study of ways and means of arranging a flexible interchange of personnel between the various Treasury enforcement agencies. Thus, under this proposal Alcohol Tax Unit personnel, for example, would be used, when available, on secret service or customs matters. This study, which was prepared by Spingarn of Bernard's staff, has now been completed and a memorandum report was sent to Mr. Irey.

15. Reorganization Plans. We had several projects involving proposed reorganization plans:

(a) Federal Alcohol Administration. Last April the Department recommended to the President a reorganization plan to abolish the Federal Alcohol Administration and transfer its functions to the Alcohol Tax Unit. This proposal was

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not incorporated in either of the two omnibus reorganization plans submitted to Congress by the President last spring but a Bureau of the Budget investigator has recently contacted us for the purpose of giving further study to the advisability of this proposal. At his request we are furnishing him with a large amount of additional supporting data and material otherwise pertinent to the Budget's study of the matter. Spingarn of Bernard's force handled this matter.

(b) Centralization of Financing Control. Last April the Department also recommended to the President a reorganization plan to centralize in the Secretary of the Treasury the final approval of the issuance, redemption, etc., of obligations or securities by any agency of the Government as well as final approval of the sale of any securities or obligations held by any agency. This proposal was not submitted to Congress by the President last spring but the Budget investigator referred to above is also interested in it and we are furnishing him additional supporting and factual material on the subject. As the result of recent conferences with Mr. Bell and officials of the office of the Commissioner of Accounts and Deposits, this proposal is also being somewhat revised. Mr. Reeves did the work on this matter under Bernard's supervision.

(c) Distribution of Functions of the Bureau of Navigation and Marine Inspection. Among the plans recommended to the President by the Department last spring was a Coast Guard proposal to abolish the Bureau of Navigation and Marine Inspection of the Department of Commerce and distribute its functions among the Coast Guard, the Bureau of Customs, and the Maritime Commission. This plan was not sent to Congress. Coast Guard is now proposing certain revisions in this plan and this office has cooperated with that Service in drafting the revised plan and supporting data for resubmission to Budget and the President. Koken of Bernard's staff worked on this.

(d) At the request of the Secretary, through Mr. McReynolds, we made a study during the summer and fall and drafted a proposed reorganization plan to reestablish the Farm Credit Administration as the independent establishment which it used to be and transfer to it the true agricultural credit functions of the Government, such as the activities of the Rural Electrification Administration and the lending functions of the Farm Security Administration. An appropriate presidential message of transmission to Congress was also prepared. Bernard and Spingarn handled this.

16. Codification of Federal Regulations. A 1937 statute provided for a codification of all Federal regulations of general applicability and legal

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effect, similar to the Code of Federal Statutes now in use. The Treasury's share in this work was greater than that of any other agency. Mr. Bernard has acted as Chairman of the Treasury Codification Committee which has handled this work for the Department, and the Legislative Section has generally acted as the coordinating, reviewing, and supervising agency in connection with codification matters. While the Code is now almost completed, there is a considerable number of matters connected with it requiring the attention of this office. Notably, for the past several months we have been reviewing and proof reading the final page proof of the Treasury portion of the Code. Springarn has handled all the work on Codification under Bernard's supervision.

IV. Cooperation with Attorney General's Committee on Administrative Procedure. At the request of the Attorney General's Committee on Administrative Procedure the Legislative Section collected a very considerable amount of information relating to the procedures followed by the various bureaus and divisions of the Treasury Department in connection with adjudication, licensing, or rule making, affecting individuals outside the Government. This material is for the use of the Committee in connection with the comprehensive study of existing administrative practice and procedure in the various departments and agencies of the Federal Government which it has undertaken at the request of the President. In the same connection, we prepared, in compliance with a request of the Attorney General, a rather lengthy statement of the Department's views as to the practical effects of certain administrative

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law bills pending in Congress last session on the operation of the Treasury Department and its various branches. Mr. Reeves of Bernard's staff has done most of the work on this.

18. Alien Fishing Problem. Chairman Hland of the House Committee on Merchant Marine and Fisheries has recently asked the Department to cooperate with other interested agencies of the Government and his Committee in considering the various problems raised by the operations of alien-owned and alien-manned fishing boats particularly on the Pacific Coast. The Coast Guard and Customs services are interested in this matter from an enforcement standpoint. The Legislative Section is supervising and coordinating the Department's study of the problems and its contacts with Mr. Hland. Bernard, with Spingarn assisting him, is handling this.

19. Narcotics Studies. A study was made of the circumstances under which harvested hemp fiber is transferred tax free from the farmer-producer to the decorticating mill. This matter has been under consideration for about two years, but has developed rapidly within the past few months, due to a question arising concerning the specific transfer of some 18,000 tons of harvested hemp in Illinois to the Illinois Hemp Company. The Commissioner intends to call a conference, after the first of the year, of interested hemp growers and millers, in an effort to arrive at a determination of this important question.

We have also had under consideration for some time certain problems relating to the importation of a supply of poppy heads to enable the importing manufacturers to test a method for the direct extraction of morphine therefrom. While this matter is of long standing, we recently prepared an

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opinion which envisages alternative methods by which the importation may be accomplished in accordance with the law, and the method eventually chosen, if any, will be subject to confirmation, in so far as the legal phases are concerned, by the office of the General Counsel. Both of these studies were conducted by Mr. Tennyson of the Narcotics Section of the office.

20. Currency Conversion for Tariff Purposes - Currency Manipulation.

Mr. Dwan, under Cairns' supervision, completed a detailed study of the laws pertaining to the proper rate of conversion for use by the Customs Service in converting three South American currencies into United States dollars when the Federal Reserve Bank of New York had certified more than one rate. He also made a special study of the relation of the provisions of law respecting countervailing and dumping duties to various forms of foreign currency manipulation.

21. Duties of Customs Officers Under Neutrality Statutes. In connection with the preparation and legal review of general and specific instructions to customs officers with respect to the enforcement of the neutrality laws, it has been found necessary to make careful studies of the statutes and their legislative history. This work was performed by Mr. Dwan of Cairns' staff.

22. Discriminating Duties. During the fall was made an exhaustive study of the history and operation of the discriminating duty statutes, regulations, proclamations, and relevant treaties. This study was made by the Customs legal staff under the supervision of Dwan and Cairns.

23. Supplement to Compilation of Public Debt Laws. Mr. Hill, under Mr. Tietjens' supervision, recently completed a supplement to the compilation of laws relating to the Public Debt which we prepared about two years ago. This supplement brings the compilation completely up to date.
24. Collection of Taxes from Bankrupts and Corporations in Reorganization or Receivership. Several special studies relating to the above subject have been made. Mr. Hill, under the general supervision of Mr. Wendel, coordinated this work.

(a) Attorney General's Committee on Bankruptcy. An exhaustive study of a proposed report of the Attorney General's committee on bankruptcy has been made by the Reorganization Section of the office of the Chief Counsel of Revenue and we are now prepared to recommend to the committee what we consider to be the most desirable subjects for detailed investigation by the committee, and the most appropriate methods of investigatory procedure.

(b) Treasury-R.F.C. Relationship. The relationships between the Reconstruction Finance Corporation and the Treasury Department, with reference to the Federal tax liabilities of proposed borrowers from the Corporation was the subject of another study. As a result of this study, and of conferences between representatives of the Reorganization Section of this office and of the Reconstruction Finance Corporation, a program of more specific cooperation and

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exchange of information, applicable to all proposed borrowers, has been worked out. The detailed mechanics of the new procedure have also been developed and the program is now in full operation.

(c) Essential War Materials. Upon the development of the present European situation in September 1939, the corporations as to which reorganization cases were pending were studied, on the initiative of Mr. Hill, to determine whether essential war materials were being produced by any of such corporations and whether, through the suggestion of possible loans to Reconstruction Finance Corporation or otherwise, any special governmental assistance to corporations producing such material might be desirable. The results of this investigation are available in detail at any time.

(d) Pending Case Study. A detailed study was made of the 1603 reorganization cases pending in the Reorganization Section of the office of the Chief Counsel for the Bureau of Internal Revenue on July 1, 1938. The study involved economic as well as legal analysis of the cases. A full report, with statistical tables annexed, has been submitted to Mr. Eames.

25. New Procedure in Board of Tax Appeals Cases. In cooperation with Mr. Harris and Mr. Graves, Mr. Wenzel has inaugurated a procedure for the field staff divisions which is designed to provide a steady flow of defense cases to the counsel's office immediately following the conclusion of a Board calendar. Heretofore following the conclusion of a Board calendar,

the emphasis was placed by the staff upon the consideration of promptly-day cases. This resulted in defense cases being too long delayed for adequate preparation by the division counsel's office previous to trial. Under the new arrangement, the staff divisions will take up immediately following the conclusion of a calendar the approximate number of cases which are ordinarily set by the Board in the particular division. The staff consideration should, therefore, be concluded in ample time to provide a steady flow of cases to the counsel's office for defense, which will provide time for better preparation of the cases which are presented to the Board.

During the twelve months' period ended November 30, 1939, the Appeals Division has reduced the total cases pending before the Board of Tax Appeals from 7,805, as of November 30, 1938, to 6,217, as of November 30, 1939, a net reduction of 1,588 cases.

The following schedule shows the total cases closed during the same period:

Cases on hand November 30, 1938	7,805
New cases received	<u>4,449</u>
Total	12,254
Cases on hand November 30, 1939	<u>6,217</u>
Total cases closed	6,037

26. Closing Agreements. To insure prompt and orderly administration of section 606(a) of the Revenue Act of 1928, as amended by section 801 of the Revenue Act of 1938, which made provision for closing agreements as to future tax liability, we set up a special committee in the office of the Chief Counsel for the Bureau of Internal Revenue to handle these cases,

with the result that applications for such closing agreements are being handled with the least possible delay. Somewhat the same procedure has been adopted for handling closing agreements under the Vinson Trammel Act. A special committee, two of which are members of the Chief Counsel's office, consider all closing agreements or other questions relating to the administration of this Act. A similar procedure is followed by the Processing Tax Section of the office of the Chief Counsel for the Bureau of Internal Revenue with respect to closing agreements proposed under the provisions of section 506 of the Revenue Act of 1936.

27. Chief Counsel's Daily Digest. To keep attorneys in the field offices currently advised of rulings of the Bureau, General Counsel memorandums, briefs, and other matters of a technical nature, Mr. Wenchel inaugurated the Chief Counsel's Daily Digest. Advice received from the field offices indicates that this Daily Digest is of material assistance in keeping the field offices advised daily regarding the position of the Bureau, as reflected in the rulings, memorandums, and briefs reviewed, or prepared, by the Chief Counsel's office.

28. Coordination of Work of Appeals and Interpretative Divisions. In order more efficiently to coordinate the rulings prepared in the Interpretative Division (which, when approved, represent the rulings of the Chief Counsel for the Bureau of Internal Revenue) with the recommendations of the Appeals Division on decisions rendered by the Board of Tax Appeals with respect to whether the Commissioner should acquiesce or nonacquiesce in such decisions, or recommend that a petition for review be filed, or

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whether, after a decision is rendered on appeal, the Commissioner should recommend to the Department of Justice that an application for certiorari be filed, Mr. Wenschel, in August 1939, established the practice of holding joint meetings of the members of both of the said divisions for the purpose of oral discussion and the exchange of views on the proper action to be taken in such cases. These meetings have proved very helpful in coordinating the work of these two divisions.

29. Compilation of Legislative History of Prior Revenue Acts. Reports of the Committee on Ways and Means, the Senate Finance Committee, and conference reports on the revenue acts (1913 to 1938, inclusive) and on various acts containing amendments are now being printed for distribution next month as Part 2 of Cumulative Bulletin 1939-1. Many of these reports are out of print, and the purpose of this compilation is to make them available to officers and employees of the Bureau, both in Washington and in the field divisions, in construing provisions of the various revenue acts. This compilation was prepared by Mr. McLaughlin of Mr. Wenschel's staff.

30. Proposed Revenue Administrative Code. We have continued work on this project. This work was begun in the fall of 1937 at the suggestion of Mr. Magill. Revenue measures have been enacted, for the most part, as separate statutes without being fitted into an integrated system. As a result, many gaps appear in the law on the one hand, and needless repetition, inconsistencies, and overlapping exist on the other. Furthermore, numerous administrative provisions date back to a different economic era and are unsuited to meet the demands of today; or are needlessly complex and

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obscure; or, particularly in the field of miscellaneous taxes, contain details which should more appropriately be set forth in the regulations; or have only a remote relation to the revenue laws and therefore should not be codified with such laws.

The proposed Administrative Code is designed to correct the defects in the revenue laws referred to in the preceding paragraph. In other words it represents a systematic revision, simplification, and modernization of the administrative provisions of the Internal Revenue Code. At the present time all the administrative provisions of the Internal Revenue Code have been codified in the proposed Code, except those relating to the so-called temporary taxes. Mr. Kavanaugh of Mr. Wenschel's staff is engaged on this project.

31. Effect of Recent Decisions of Supreme Court on Death Taxes. From the decisions of the United States Supreme Court on May 29, 1939, in the cases of Curry v. McCnless and Graves v. Elliott, which upheld the validity of state inheritance taxes with respect to taxation of intangible property owned by nonresidents of the state, it seemed that the Court had gone so far in the way of authorizing the imposition of state inheritance taxes by more than one state on the same property as to make it advisable to make a study of these decisions with respect to their effect on the general field of taxation included within the term "death taxes" including the Federal estate tax, in view of the suggestion that has been made from time to time that some method of coordination might be worked out between the states and the Federal Government in this field of taxation. Mr. J. S. Miller, Special Assistant to Mr. Wenschel, is engaged in this research.

32. Credits to Belligerents. We drafted the regulations which were issued by the President in September 1939, under the then-existing neutrality laws, which regulations exempted from the prohibitions of such laws short-term credits to belligerents. The regulations expired on November 4, 1939, with the approval of the Neutrality Act of 1939. In connection with credits to belligerents we cooperated with the administrative officials in the discussion and determination of various questions which arose dealing with transactions of foreign branches of American banks, the applicability of the Neutrality Act to purchases of silver from Canada, and numerous other questions. During the debate on the Neutrality Act of 1939 we followed the debates, wrote memoranda relative to the various points under consideration, principally the elimination of the short-term credit provision, and since the enactment of the Neutrality Act of 1939 we have studied and written memoranda with respect to various questions relative thereto. This project was carried on under Bernstein's supervision.

33. Pan-American Bank. Bernstein participated in a number of conferences relative to the proposed Pan-American bank and is currently drafting for discussion purposes a plan for the organization of such an institution. In connection with the proposed bank we studied the history of the Bank for International Settlements.

34. Exchange Control Provisions in Trade Agreements. We have been studying the effect of proposed exchange control provisions in trade agreements upon the power of the Secretary of the Treasury to impose foreign exchange control. Bernstein's staff is working on this.

35. Requisitioned Securities. Bernstein made a study of the problems involved in the liquidation of American securities requisitioned by belligerent governments from their nationals.

36. Fiscal Agency Accounts for Foreign Governments. Bernstein's shop made a study of the problem involved in authorizing the Federal Reserve Bank of New York, as fiscal agent of the United States, to open accounts for belligerent governments.

37. Emergency Action Re Foreign Exchange. Prior to and at the outset of hostilities abroad we continued our study of action which might be taken relative to foreign exchange control, etc., and prepared various memoranda, orders, etc., relative thereto. This work was done by Bernstein's staff.

38. Legal Division Personnel Survey. We are taking from our files and gathering from other sources data on the educational and professional background of each member of the staff. This information is being put on punch cards and when the job is completed our knowledge of the training and specialized experience of our legal personnel will be considerably greater and the salient facts about each man will be readily available when transfers or promotions are under consideration. We have installed a similar system of recording the facts about applicants for positions on the legal staff.

December 29, 1939.
2:15 P.M.

H.M.Jr: Hello

Tommy
Corcoran: Yes Mr. Secretary. I hope you had a nice Xmas.

H.M.Jr: Yes I did and the last thing I did before I left Washington - a fellow by the name of Tom Corcoran gave me his word of honor and raised his right hand but didn't put any pressure on it.

C: And I didn't - you were there when I talked to him.

H.M.Jr: Well I couldn't hear your end of the conversation.

C: What I talked to him about was the Third Naval District and he said, "No, he said, I couldn't do that, he has to do only with strictly Army and Navy supply affairs". He said, "Go to Henry Morgenthau".

H.M.Jr: Well I didn't hear him say that.

C: Yes, this is the truth and he'll tell you. And I said, "Well Mr. Morgenthau doesn't want to get mixed up in this thing. After all, he's the Treasurer and this is the Department of Agricultural affair. Its the kind of thing that would normally go to the FBI, if it wouldn't embarrass the life out of Frank Murphy to take it to the FBI", and then he said - then he picked up the telephone - ah - then he - ah - I mean you were in the room.

H.M.Jr: Yes.

C: Then he talked to you across the desk and he said oh I'll - he said, I'll talk to Henry right now, because then the conversation - I could hear it between you and him and he occasionally talking to me. Then he told me you'd get in touch with me about the thing but I really kept my right hand raised; I ducked it and then he asked me how about you; I raised the Intelligence thing and I told him you didn't think you ought to go into the thing and then he said that you were the one to do it.

H.E.Jr: No, he didn't tell me to get in touch with you Tom.

C: Well he told me that over the telephone while I supposed you were at the desk there.

H.E.Jr: Well I only came in at the very end - ah - but this is something that we have less to do with certainly than the Naval Intelligence and its a thing that should normally go to FBI.

C: And do you know why we can't deal with them?

H.W.Jr: No I don't.

C: Well the trouble is that the fellow on the other side of the fence - Berle - is Frank's close personal friend.

H.W.Jr: Well why the hell - I mean I'm not going to do something which I have no legal right to do just because it may embarrass Mr. Murphy.

C: Well and furthermore we may not get results.

H.W.Jr: Well I never have, since I've been here, abused the police powers which I'm given and I'm not going to start after seven years to do it.

C: Well would you do this - would you talk with the President.....

H.W.Jr: No.

C:because - do you mind if I do?

H.W.Jr: No.

C: I mean I'm, unfortunately, up against the problem with Boice of getting this in Court for him; he doesn't know that I'm dealing with you - he doesn't know who I'm dealing with.

H.W.Jr: Well I can't get entangled with something that I don't know anything about and I don't know why Mr. Murphy's department should stop functioning because he has somebody that's a friend.

C: Well and furthermore because the FBI is working with the Dies Committee against the Administration.

H.W.Jr: Well Tom.....

C: And thats Frank too and there again is one of these damnable situations you run into in this Administration where the right hand dare not command the left.

H.W.Jr: Well sometimes though I think I do the President a service by saying no and I think this is one of the times.

C: Allright, I guess we'll just have to let them rip us up then because they're the ones that are going to ruin this Administration - this Dies Committee.....

H.W.Jr: Well if the Administration.....

C:and we're sitting here with our hands tied.

H.W.Jr: Well if the Administration is so vulnerable why then its.....

C: It isn't a matter of being vulnerable - its a matter of the Garnerites making it vulnerable....

H.W.Jr: Well.....

C:and this is the device they use to do it and we have let this Dies Committee run away on us this whole length of time - the difficulty is they are coming up for a renewal and more money.

H.W.Jr: Well I'm sorry I can't use the Treasury police powers illegally.

C: All right then.

H.W.Jr: All right.

C: Goodbye.

H.W.Jr: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE December 29, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Finnish Minister called today at 12:45. He told me that a question had arisen as to whether the Export-Import Bank credit could be applied to certain exports actually engaged by Finland in this country before the date the Export-Import Bank credit was opened. Such imports of a civilian character amounted to approximately \$90,000. Payment had not been made for most of the goods in question, and over 50% thereof had not yet left this country. While the Minister was at my desk I telephoned Mr. Cotton to inform him of the Minister's statement. I also let Mr. Cotton know that Minister Procope was to see Warren Pierson at 4 o'clock this afternoon on this subject.

The Minister also speculated upon the possibility of Congressional action vis-à-vis Finland. I told him that I had no definite information as to what could be expected.

B. M. S.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 29, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, called on me yesterday afternoon to present Mr. Rousseau, the Bank of France representative who recently accompanied a gold shipment from France to the United States by way of Canada, and is now remaining in New York to sign checks on the special account of the French Government. Mr. Rousseau explained to me that arrangements are being concluded for the opening of this special account in the name of the Bank of France with the Federal Reserve Bank, to be effective January 1. All payments for goods purchased in the United States by the French Commission will be handled through this account. One comparatively small check will be drawn in favor of Mr. Colet of the French Purchasing Commission itself, to provide this Commission with office cash for rent, supplies, etc. I told my visitors there was no objection to such checks of this type as may be required for running expenses of the Commission. All other checks will, however, be drawn in such a manner as to identify the parties to the transaction. Leroy-Beaulieu explained that the payments for airplanes which he has heretofore handled through the Franco-American Banking Corporation will all be passed through the new account. It is not the intention of the French Treasury to close out certain bank accounts which they have with various institutions in New York. Most of these have been carried for several years, are in comparatively small amounts, and are mostly inactive. War purchases will, however, be handled exclusively through the special account with the Federal Reserve Bank of New York, and arrangements will be made for the Secretary of the Treasury to have personal and confidential access thereto.

At 9 o'clock this morning, I accompanied Mr. Leroy-Beaulieu when the Secretary received him. The interview was reported by Miss Chauncey who was present, together with Mrs. Klotz.

After the meeting, Leroy-Beaulieu came to my office to write up his notes, particularly those concerning the message which he is to take to Ambassador Bullitt. I prepared and dispatched through the State Department a cablegram to Ambassador Bullitt advising him that Leroy-Beaulieu was bringing a verbal message from the Secretary.

B. M. F.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 29, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

In a quiet foreign exchange market, moderate commercial buying advanced the sterling rate from 3.95-1/8 at the opening to 3.95-5/8 in the afternoon. It closed at 3.95-1/2.

Sales of spot sterling by the four reporting banks totaled \$352,000 from the following sources:

By commercial concerns.....	\$ 161,000
By foreign banks (Europe and Far East).....	\$ 191,000
Total.....	\$ 352,000

Purchases of spot sterling amounted to \$432,000, as indicated below:

By commercial concerns.....	\$ 263,000
By foreign banks (Europe, South America and Far East).....	\$ 169,000
Total.....	\$ 432,000

The National City Bank reported it had sold cotton bills totaling \$10,000 to the British Control at the official rate.

The report from London (on today's Dow Jones ticker) that Sweden would no longer supply foreign exchange for the transfer of capital abroad and would pay out foreign exchange for commercial purchases only had no apparent effect on the rate quoted in the New York market for the Swedish krona. This rate has remained fairly steady for over two months at about .2385.

The other important currencies closed as follows:

French francs	.0224-3/8
Guilders	.5325-1/2
Swiss francs	.2245
Belgas	.1675-1/2
Canadian dollars	11-1/4% discount

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

The Federal Reserve Bank reported to us that \$3,757,000 in gold was being shipped from South Africa by the South African Reserve Bank. This gold is consigned to the Federal Reserve Bank of New York to be earmarked for account of the Sveriges Riksbank.

The State Department forwarded to us a cable received from the American Consulate General in Stockholm stating that invoices were certified for the following shipments of gold from Sweden:

1,265,000 shipped by the Sveriges Riksbank to the Federal Reserve Bank of New York to be earmarked for their own account.
 1,242,000 shipped by the Sveriges Riksbank to the Federal Reserve Bank of New York to be earmarked for account of the Danmarks National Bank of Copenhagen.
\$2,507,000 Total

The Federal Reserve Bank received a cable from the B.I.S. requesting it to obtain a license to transfer approximately \$452,000 in gold from its Account #2 to the account of the Banque Nationale de Belgique. Gold in Account #2 is owned by the B.I.S. Permission to make this transfer was granted.

The London fixing prices for spot and forward silver were 22-1/2d and 22-11/16d, respectively, both off 3/16d. The U. S. equivalents were 39.97¢ and 39.89¢. The Bombay silver price rose to 42.95¢.

The prices fixed for foreign silver by Handy and Harman and the Treasury were both unchanged at 34-3/4¢ and 35¢, respectively.

We made six purchases of silver totaling 525,000 ounces under the Silver Purchase Act. Of this amount, 100,000 ounces represented inventory silver and the remainder consisted of new production from foreign countries, purchased for forward delivery. We also purchased 380,000 ounces of silver from the Bank of Canada, which raises the total bought from this source during the month of December to the agreed limit of 1,200,000 ounces.

Since the American silver market is closed tomorrow, today's purchases bring to a close operations under the Silver Purchase Act for the year 1939. Silver purchases during December and for the whole year are classified below (in thousands of ounces):

<u>TYPE OF SILVER</u>	<u>DECEMBER, 1939</u>	<u>JAN.-DEC., 1939</u>
New Production from Abroad	6,735	57,275
1. From Canada under agreement	1,200	12,015
2. From foreign countries	5,535	45,260
Secondary Materials	244	385
Inventory Silver	600	52,954
Trading Silver (Arbitrage)	224	15,025
Silver Purchased from China	-	33,370
Total	8,003	159,009

CONFIDENTIAL *J.M.F.*

TO: _____

12/29/39

MRS. FLORE

re Colombia - it might interest the Secretary to know that Mr. Velles talked to the Colombian Ambassador yesterday and is reported to be somewhat optimistic.

J. P. C., Jr.

From: MR. COTTON

December 29, 1939.
11:02 a.m.

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Operator: Mr. Foley.

H.M.Jr: Ed.

Foley: Yes sir.

H.M.Jr: At Cabinet yesterday I again spoke - oh no - the Attorney General asked me what about the Indiana cases.....

F: Yes.

H.M.Jr:and I said, "Nothing doing until you come thru on the movie cases....."

F: Yes.

H.M.Jr:so, to my amazement, he said, "Oh I can't do anything about that because Sam Clarke is holding it up". And he said, "Would you be willing to see Same Clarke" and I said, "I'd love to".

F: Yes.

H.M.Jr: So he said, "Well you send for him and say that the Attorney General said for him to come over".

F: Yes.

H.M.Jr: Of course, I think that's the darndest thing I ever heard of .

F: (Hearty laughter)

H.M.Jr: So will you tell Sam Clarke that I'd like to see you and him and we might as well have Sullivan in on it.

F: Right.

H.M.Jr: Ah - I'll explain to you why - at 3 o'clock.

F: To-day?

H.M.Jr: Yes.

F: Allright.

H.M.Jr: And - ah - I'm going to sit back and let you go to work on Sam Clarke.

F: Allright.

H.M.Jr: You can have anybody else that you want here but I'm going to go to work on him.

F: Allright.

H.M.Jr: But the Attorney General said, "Of course, I could order him to do this if I wanted to but I hate to do that but I've been threatening to jump in a plane and go out in Los Angeles and do it myself".

F: (Laughter)

H.M.Jr: Now the Attorney General wants us to try it in Los Angeles. I'm not going to fight with him over that.

F: Yes.

H.M.Jr: But let's have Sam Clarke here at three.

F: Allright, I'll call him.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 2481

DATE: December 29, 1939, 9 a.m.

Reliable information has been received by the Embassy that sometime in the near future a customs and currency union will be established by Germany with the Czech protectorate and that for a time the Czech crown might be kept as a coordinate currency although the mark would be made legal tender. The outbreak of the war, it was stated, has hastened the German decision to impose a currency union for the reason that substantial orders with the Czech manufacturers were immediately placed by the military authorities whereupon the Czech manufacturers objected to accepting the orders because of the payment delays occasioned by the blocking of the German protectorate clearing agreement which had been caused by the Reich's excess of imports over exports.

In the Reich's trade and payments arrangements with Slovakia similar difficulties have been encountered, but in order to avoid further obvious encroachments on the independence of Slovakia the German authorities have so far not (I repeat not) exerted pressure to bring Slovakia into the monetary system of the Reich, and special efforts
are

are being made to export enough to Slovakia to pay for the raw materials from Slovakia which Germany needs. It is reported that during the first nine months of 1939 German exports to Slovakia amounted to 30,000,000 marks, which was nearly twice as much as was exported to Slovakia during the first nine months of the previous year. Thus, by means of effort on the part of Germany, a fair balance was maintained up to the first of September in trade between Germany and Slovakia but when the war broke out German troops in large numbers were transported to Slovakia and it was not possible to handle their expenditures for food and local supplies in the clearing agreement. The result was that substantial blocked balances piled up in Germany to the credit of Slovakia.

We have been given to understand that in spite of the fact that Germany would find it extremely difficult under war conditions to make enough of an increase in its exports to Slovakia to take care of these blocked balances; they would try to find some way to solve the problem without destroying Slovakia's monetary and tariff independence vis-à-vis the Reich.

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, PARIS, FRANCE

DATE: December 29, 1939, 7 p.m.

NO.: 3056

351

FOR THE TREASURY.

FROM MATTHEWS.

This morning Pennachio of the Bank of Italy dropped in to see me. He said during the course of a general conversation that he admired the great success with which the French had succeeded up to the present in preventing a rise in prices in marked contrast to what has taken place in Great Britain; he too feels that the main point of weakness in the operation of the Franco-British financial accord (reference, my telegram No. 3024 of December 21) will be this divergency of price levels.

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE

SECTION TWO, TELEGRAM NO. 3056 OF DECEMBER 29, 1939
FROM AMERICAN EMBASSY, PARIS.

However, he wondered how long it would be possible for France to keep prices down. He seemed to feel that the pressure for a rise beginning with the costs of raw materials, coming finally to wages, would become too great - but as to the timing, he would not venture any estimate. With a wrung smile he remarked that this had been demonstrated by Italian experience. It seemed to me, I said, that provided British prices did not run away, inflation might tend to be delayed by the fact that France would be able to purchase freely in the sterling area under the financial accord between France and Great Britain. He assented to this. Pennachio also commented on the rapid and successful functioning of the capital circuit in France, and added that this had been the secret of his country's ability to carry on in recent years with varying degrees and methods of compulsion to assure successful operation for the plan.

BULLITT.

EA:LWW

PARAPHRASE, SECTIONS THREE TO EIGHT, INCLUSIVE, NO. 3056 OF DECEMBER 29, 1939, FROM AMERICAN EMBASSY, PARIS.

Since the beginning of the war, he said, economic conditions in Italy have shown considerable improvement. One index of this which he cited as reliable was the increase in building construction. Despite handicaps of transportation, he said Italian exports were showing improvement, and agriculture was included in this - due in part to the fact that in competitive Spain there was disorganization and there were shortages. He said regarding the blockade that while at the beginning there had been considerable difficulties, so far as his country is concerned it is now functioning more smoothly. The British are not so prompt in passing ships through the blockade as the French; in fact, he said the recent visits to London by Sir Percy Lorraine had been partly for the purpose of urging that the delays be shortened. Of course, the allies have strict control over the ultimate destination of imports passing the blockade both of finished products and those processed in Italy. Pennachio confirmed reports that the British are permitting coal exports from Germany to go through to Italy, but he remarked that gasoline production in Germany was taking up an increasingly large proportion of her coal output. He said that in Italy there is considerable manufacturing for export to France, as for instance rolling stock and cars, on the basis that the raw materials necessary for such production are arranged for and paid for by France.

He

- 2 -

He said that he had originally been afraid the war might be long, but recently he was coming to believe that it might be of short duration; his change of view was due largely to recent events which convinced him the United States would render greater material assistance to the Allies than he had thought likely at first. However, he gave no indication of the nature of the settlement of the hostilities which he envisaged, if he had any such idea. With evident pleasure he remarked that he had been quite struck with the fact that as regards the Soviet invasion of Finland there had been parallel public indignation and government policy in the United States and Italy.

Pennachio had been in Basle recently, and he said for some time Italy had been urging that the BIS directors resume at least occasional meetings. The British have been the main ones to oppose this, as they are afraid, since the Czech gold episode of last spring, that such a meeting would have political repercussions. However, he said that even if it were attended by only neutrals, at least one meeting would have to be held to decide upon the policies of the Bank to be pursued for the war's duration. Tentative and informal approval had been given to a program drawn up by Auboin (reference: my telegram of November 10, No. 2714) providing for the avoidance of any operations which might give offense to any of the belligerents. It was necessary,

however,

however, for the directors to formally adopt such a plan, and he believed they would soon arrange a meeting. He indicated that Germany is continuing to meet full interest payments on the heavy investments of the Bank in that country, and they would continue to do so, as far as he knew; with a smile he added that if they did not the Bank would have to fold up, and this would be a pity as once the war is ended it may well serve a very useful purpose.

From talks with representatives of several banks, I find that the Foreign Exchange Office in practice is tightening up on its previous leniency in granting import coverage with giving the transaction merely a cursory examination. That Office is, in fact, now casting a colder eye on import licenses which other Ministries approve; they are even demanding full proofs prior to approval when the case is a repeat operation (that is, payments for identic transactions at periodic intervals). For instance, delays of this nature have been experienced by the National City Bank up to a period of two weeks on what it considers are entirely bona fide cases. Such delay is, of course, caused by the Foreign Exchange Office's desire, in accordance with the recent tightening of import regulations (reference: my telegram No. 2887 of December 2) to see that the import operation is not only legitimate but that no over payment is involved. The policy is also in accordance with the general intention that the Finance Ministry must approve

- 4 -

import licenses which formerly were granted exchange coverage almost automatically.

END SECTIONS THREE TO EIGHT.

BULLITT.

EA:LWW

MM

GRAY

Paris

Dated December 29, 1939

Rec'd. 8:07pm.

Secretary of State

Washington, D.C.

3056, December 29, 7pm. (SECTION NINE).

Swiss imports for November are valued at 227.5 million Swiss francs weighing 9,191,000 tons as against imports valued at 131.1 weighing 5,412,000 tons in November 1938. Exports in 1939, however, are valued at only 104.6 million francs (352,000 tons) as against 126 million francs (504,000 tons) in November 1938. For the first eleven months of the year the adverse trade balance is 1665 million as against 1455 millions for the same period of 1938.

The last session of the year on the Paris Securities Market was without interest though trading was relatively active and the tendency was generally firm. Most rentes made moderate gains the 1937 exchange guaranty issue, which was off 50 centimes yesterday, advancing 3.50 francs. Internationals were firm especially gold mines. Official exchange rates were unchanged except for the belga which strengthened to 732-738 compared with the previous 722-728. (END MESSAGE).

BULLITT

PEG

PARAPHRASE OF TELEGRAM SENT

358

TO: American Embassy, Paris, France

DATE: December 29, 1939, noon

NO.: 1574.

For the Ambassador from Secretary Morgenthau; strictly confidential.

I gave an oral message to Leroy Beaulieu today for communication to you when he arrives in France. He plans to leave by airplane on January 2 from New York. You are requested to kindly arrange to receive Mr. Beaulieu.

HULL
(HF)

RECEIVED

EA:LWW

1939-12-29 11:15 AM
1939-12-29 11:15 AM
1939-12-29 11:15 AM



DEPARTMENT OF STATE
WASHINGTON

359

January 2, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of telegram No. 1574 of December 29 sent to the American Embassy, Paris, transmitting a message for the Ambassador.

RECEIVED

JAN 2 1940
U.S. DEPARTMENT OF STATE
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

360

DATE: December 29, 1939, 4 p.m.

NO.: 2485

CONFIDENTIAL.

Reliable information has come to the Embassy that due to the mounting short term debt and the increase in its purchasing power due to the gradual exhaustion of retail stocks, decision has finally been reached by the Reich to inaugurate a new tax program. This report indicates that despite the (omission) community's opposition and that of the Government's higher officials, new war surtaxes will be added to the income taxes, although there will be a relatively moderate increase. Partial success was attained by the opponents of higher income taxation in diverting attention from the income tax; they persuaded the Government to increase existing and inaugurate new consumption taxes to meet its fiscal needs instead. No final decision has yet been reached as to the form and amount of the new taxation, but it will not be sufficient to fill the gap between present tax revenues and war time expenditure, according to information which the Embassy has.

TRK.

EA:LMV

December 29, 1938.

361

Dear Mr. Knocks:

I have just finished reading your most recent letter on home and foreign capital movements and found it full of valuable information, exceedingly well presented. I want to congratulate you upon this and upon the similar weekly letters that we have been receiving regularly. I can assure you that we depend upon these letters and that the information and tables given in them are always extremely helpful. I shall continue to look forward to receiving them during the coming year, and appreciate this effective cooperation.

May I also take this opportunity to wish you and those associated with you a very happy and successful New Year?

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. L. W. Knocks, Vice President,
Federal Reserve Bank of New York,
New York, New York.

GMF:luf

PLEASE RETURN TO MR. COCHRAN

*Mrs. W. H. ...
... and
...
... the letter
...
132...*

**FEDERAL RESERVE BANK
OF NEW YORK**

December 21, 1939.

CONFIDENTIAL

Dear Mr. Secretary:

The flow of capital between this market and abroad resulted in a further small net outward transfer of \$8,000,000 during the week ended December 15. This net outflow was concentrated almost entirely in foreign central bank funds in this market, which were drawn down to the extent of \$17,600,000. The Bank of England's funds at this bank were reduced \$10,800,000 further, extending to about \$115,000,000 the net reduction since the week ended November 1, when \$85,000,000 was transferred to the Bank of England's account here from the accounts of its authorized agents with banks in this market. In addition to this transfer, the Bank of England's dollar balances were built up substantially during September and October through the sale of gold imported via Canada and through the proceeds of the liquidation of British holdings of American securities. As a result, despite the recent heavy payments, which represented, in part, payments for maturing forward contracts made just prior to the outbreak of the war, the Bank of England's account on December 15 was still well above the level prevailing at the end of August. Between the end of August and December 15 the British authorities acquired about \$150,000,000 through the sale of gold and about \$76,000,000 through the sale of British-held American

December 21, 1939.

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securities.

No significant changes were shown in other foreign official funds held in this market during the currently reported week. The Bank of France acquired about \$25,000,000 through the release from earmark and sale to the United States Treasury of that amount of gold, but as a result of rather heavy payments out of this account, French official funds held here showed little net change during the week.

With respect to the movement of capital for other than foreign central banks' accounts, short term "private" banking funds showed a net inflow of \$10,100,000, made up, in the main, of net transfers to this market of \$18,500,000 for Switzerland and \$8,800,000 for Dutch account and a net outflow of \$15,500,000 for so-called private English accounts. The liquidation of our securities by British holders continued on a relatively small scale, with net sales of American securities for English account amounting to \$5,500,000. On the other hand, the Swiss continued to buy American securities. There were also small net foreign purchases of foreign securities, with the result that international security transactions resulted in a net outward movement of only \$500,000.

The composition of the week's net outflow of capital from this District is shown in the table below.

(In millions of dollars)

Plus sign indicates capital inflow;
Minus sign indicates capital outflow.

In Short Term Banking Funds

(Including investments of less than one year's maturity)

Through net inflow of private funds	+10.1	
Through net decrease in official funds held in New York	-17.6	
Total		- 7.5

In Security Transactions

(Excluding short term investments)

Through foreign net sales of domestic securities	- 2.7	
Through foreign net purchases of foreign securities	+ 1.7	
Through reduction in foreigners' net debt to brokers	+ 0.5	
Total		- 0.5
GRAND TOTAL		<u>- 8.0</u>

December 21, 1939.

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The past week witnessed some improvement in the New York rates for several leading foreign currencies, accompanying a continued small volume of dealings. Several factors - recent developments in the war at sea, the signing of a supplementary trade agreement between Cuba and the United States, and reports of more favorable Dutch export and taxation revenue figures - offered a background for the firmer tendency.

Sterling transactions in this market originating from foreign sources, which in previous weeks had been predominately on the selling side, were a little more diversified last week and occasional buying of the pound sterling from abroad and better domestic demand were in evidence. The spot rate for the pound firmed to \$5.95 1/2 last Monday and is now at about \$5.94 1/2, or 1 cent above the close on December 14. Forward sterling held steady during the past week and the discount on three month deliveries is currently quoted at an equivalent of 6 1/16 per cent per annum, as compared with 6 1/4 per cent a week ago. With the official franc-sterling rate pegged at 176 1/2 by a joint agreement between the British and French Treasuries, the New York rate for French exchange continued to move about parallel with that of sterling and the franc is now quoted at \$0.0223 5/4, fractionally above the level prevailing a week ago.

With respect to the European neutral currencies, belgas improved in this market from \$0.1654 to \$0.1667 today, the highest level since the early part of November. In London, the official quotation for Belgian exchange improved from 24.50 - 24.55 to 24.00 - 24.25. Dutch guilders rose to \$0.5525 last Monday, but following reports of a rather unfavorable market reception to a new internal bond issue, the Dutch exchange reacted to \$0.5512, or only slightly above the level of \$0.5509, which had been maintained in recent

December 21, 1939.

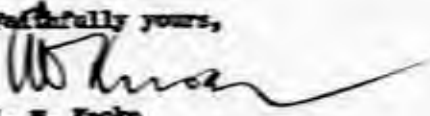
305

previous weeks, presumably through Dutch official supporting operations. Swiss francs continued to hold steady in terms of the dollar during the past week and the London official quotation for both guilders and Swiss francs were unchanged.

The sharp reaction in the dollar rate for Mexican pesos, which began on December 11, continued during most of the week just ended and last Friday the Mexican authorities announced the existence of a "condition of emergency" in foreign exchange as a result of export difficulties, presumably implying that the peso would temporarily be left to find its own level in the market. The current quotation for Mexican exchange, at about \$0.1706, represents a depreciation of 16 per cent since December 9 and is now at about the low level reached in the abrupt decline at the end of last June. Cuban pesos, on the other hand, improved, following the signing of the trade agreement which provided for the restitution of the preferential duty on Cuban sugar imported to this country. The discount against the dollar is now 11 3/4 per cent, as against 12 5/8 per cent prior to the announcement of the agreement.

There appears to have been some demand for silver in this market on recent days and the Handy and Harman price for imported silver rose from 54 3/4 cents an ounce on December 18 to 56 1/2 cents today, or well above the Treasury's buying price of 55 cents. The current demand was reportedly stimulated by inquiries for the metal from Indian sources.

Faithfully yours,


L. W. Encke,
Vice President.

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

Enclosures: Foreign Exchange Forms B-1 to B-5; Supplements to Form B-1;
Foreign Exchange Forms S-1 to S-4.

(Copy sent to the Board of Governors of the Federal Reserve System, marked for the attention of Dr. E. A. Goldenweiser).

Strictly Confidential

Weekly Report to Federal Reserve Bank of New York
(Made pursuant to Executive Order of January 18, 1934 and Treasury regulations thereunder)

Foreign Exchange Form B
TREASURY DEPARTMENT
Office of the Secretary

SHORT TERM FOREIGN LIABILITIES

Banks and Bankers in the Second Federal Reserve District

December 18, 1939

Name of Bank or Banker

(Actual figures in thousands of dollars as of close of business Wednesday)

Date

FOREIGN COUNTRIES	LIABILITIES PAYABLE IN DOLLARS											LIABILITIES PAYABLE IN FOREIGN CURRENCIES						Grand Total					
	1		2		3		4		5		6		7		8		9		10				
	Deposits of "Foreigners" (a)		Loans to Brokers and Dealers in Securities for a/c of "Foreigners" (b)		Bills Held for a/c of "Foreigners" (c)		Short Term U. S. Gov't. Obligations Held for a/c of "Foreigners" (d)		All Other Short Term Liabilities to "Foreigners" (e)		Total		Borrowed from Foreign Banks (f)		Our Liability on Acceptances made by "Foreigners" for our a/c (g)		All Other Short Term Liabilities to "Foreigners" (h)		Total				
millions	thou's	millions	thou's	millions	thou's	millions	thou's	millions	thou's	millions	thou's	millions	thou's	millions	thou's	millions	thou's	millions	thou's	millions	thou's		
Europe (Continued from page 6)																							
England	349	147	-	-	7	754	-	38	1	242	391	319	8	178	60	137	3	799	38	104	430	257	
France	257	900	-	-	1	278	-	-	2	307	261	865	451	-	1	225	-	97	1	793	165	422	
Germany	11	806	-	-	-	126	-	-	-	173	2	177	-	180	-	-	-	-	-	180	9	359	
Italy	29	115	-	-	-	774	-	-	-	348	30	227	-	374	-	114	-	103	-	591	31	228	
Netherlands	130	306	-	-	6	310	-	-	-	390	122	266	-	580	-	545	-	343	-	1	460	196	254
Switzerland	245	227	-	-	11	619	-	-	-	153	353	309	-	145	-	40	-	242	-	432	364	341	
Other Europe	407	379	-	-	11	604	-	-	1	531	484	274	1	359	-	187	-	279	1	323	426	722	
Total Europe	1,701	3,622	-	-	36	3,338	-	38	4	716	1,744	2,657	11	2,677	22	2,223	4	2,671	38	3,093	1,792	2,728	
Canada	296	182	-	-	2	130	-	-	-	102	290	256	-	265	-	221	-	63	-	248	221	408	
Latin America*	330	226	-	-	16	278	-	-	2	644	349	265	-	320	-	2	-	26	-	416	342	723	
Far East†	312	466	-	-	43	206	2	500	-	218	373	267	8	122	-	30	2	220	10	562	385	642	
All Other	76	300	-	-	-	621	-	-	-	123	72	122	-	26	-	23	-	350	-	405	72	227	
Grand Total	2,713	4,023	-	-	99	3,338	2	532	10	1,094	2,836	2,927	20	440	22	2,446	7	3,227	50	4,116	2,866	3,123	

PLEASE NOTE CHANGE IN INSTRUCTIONS REGARDING "EARMARKED FUNDS" ON OTHER SIDE

Official Signature

- (a) Report under this heading all time and demand deposits credited to the accounts of "foreigners". Overdrafts in the accounts of "foreigners" are not to be entered in this column, but should be reported in form B2, column 5.
- (b) Report under this heading all bills payable in dollars drawn upon banks, business concerns, and individuals in the United States, which you hold for the account of "foreigners"; include both bills acquired in this market and bills received from abroad to be held by you for collection.
- (c) Report under this heading all other short term assets payable in dollars held for the account of "foreigners" which represent claims on individuals and institutions in the United States, including short term State and municipal obligations, commercial paper, participations granted to "foreigners" in loans made to domestic customers (other than brokers and dealers in securities) and so forth.
- (d) Report under this heading only loans, advances, or overdrafts payable in foreign currencies which have been actually granted to you by foreign banks and bankers; do not include unutilized credits, even if such credits represent firm commitments.
- (e) Report under this heading the net liability on acceptances made by foreign correspondents for your own account or for the account of your domestic clients with your guarantee. These figures are to be reported opposite the countries in which are located the banks or bankers which have made the acceptances.
- (f) Report under this heading all other short term liabilities to "foreigners" which are payable in foreign currencies.

* Includes Mexico, Central and South America, and the West Indies.
† Includes China, Dutch East Indies, British India, Japan, Straits Settlements, and Philippines Islands.

COUNTRY	LIABILITIES PAYABLE IN DOLLARS					LIABILITIES PAYABLE IN FOREIGN CURRENCIES					Grand Total
	1	2	3	4	5	6	7	8	9	10	
HOLOGN	Deposits of "Foreigners" in U.S. banks	Cash, Deposits and Disbursements in U.S. of "Foreigners"	Bank liabilities in U.S. of "Foreigners" (Total)	Short Term Obligations in U.S. of "Foreigners" (Total)	All Other Short Term Liabilities in U.S. of "Foreigners" (Total)	Total	Forwarded from Foreign Banks (U.S. dollars)	Accumulated "Foreigners" in U.S. (U.S. dollars)	All Other Short Term Liabilities in U.S. of "Foreigners" (Total)	Total	
Denmark											
France											
Germany											
Italy											
Netherlands											
Sweden											
Other Europe											
Total Europe											
Canada											
Latin America*											
Far East											
All Other											
Grand Total										107,168	

PLEASE NOTE CHANGE IN INSTRUCTIONS REGARDING "YEAR-MARKED FUNDS" ON OTHER SIDE

- Grand Exposure**
- Report under this heading all long and demand deposits credited to the accounts of "foreigners". Overdrafts on the accounts of "foreigners" are not to be entered in this column; you should be reported in Form FD-2, column 5.
 - Report under this heading all bills payable in dollars drawn upon banks, business concerns, and individuals in the United States which you hold for the account of "foreigners".
 - Report under this heading all other short term assets payable in dollars held for the account of "foreigners" which represent claims on individuals and institutions in the United States, including short term State and municipal obligations, commercial paper, participations granted to "foreigners" in loans made to domestic customers (other than bankers and dealers by securities) and so forth.
 - Report under this heading only loans, advances, or overdrafts payable in foreign currencies which have been actually granted to you by foreign banks and bankers; do not include unutilized credits, even if such credits represent firm commitments.
 - Report under this heading the amount of the acceptance in which the banks or bankers which have made the acceptance.
 - Report under this heading all other short term liabilities to "foreigners" which are payable in foreign currencies.

Forward Exchange Contracts
 Participations in the form of forward exchange made for the account of "foreigners" should be reported in column (6) of amount of "foreigners" in thousands of dollars as of the close of the reporting period.

Marked Funds
 Funds which are not held for the account of "foreigners" should also be reported in column (6) of amount of "foreigners" in thousands of dollars as of the close of the reporting period. These funds should be reported in column (6) of amount of "foreigners" in thousands of dollars as of the close of the reporting period. These funds should be reported in column (6) of amount of "foreigners" in thousands of dollars as of the close of the reporting period. These funds should be reported in column (6) of amount of "foreigners" in thousands of dollars as of the close of the reporting period.

Conversion of Foreign Currency Liabilities into Dollars
 Conversion of foreign currency liabilities into dollars should be reported in column (6) of amount of "foreigners" in thousands of dollars as of the close of the reporting period.

Short Term
 Short term is defined as obligations maturing within one year from the date of issue. Obligations maturing within one year from the date of issue are reported in column (6) of amount of "foreigners" in thousands of dollars as of the close of the reporting period.

Definitions and Instructions
 This reporting form is designed to cover short term liabilities to "foreigners" on institutions and individuals in the United States. It is required to be reported in column (6) of amount of "foreigners" in thousands of dollars as of the close of the reporting period.

SHORT TERM FOREIGN LIABILITIES

(Annual figure in demands of dollars as of close of business Wednesday)

Reporting Period: 3/31/2012

COUNTRY	LIABILITIES PAYABLE IN DOLLARS					LIABILITIES PAYABLE IN FOREIGN CURRENCIES					
	1	2	3	4	5	6	7	8	9	10	11
Region	Deposits of Depository Institutions	Domestic Broker and Dealer in Securities (net of "Foreign" Deposits)	Bill Held for "Foreign" (net of "U.S. Govt. Obligations")	U.S. Govt. Obligations	All Other Short Term Liabilities	Total	From Foreign Banks (B)	Liabilities to Foreign Banks	All Other Liabilities to Foreign Banks	Total	Grand Total
France	1,242										
Germany	1,099										
Italy	4,781										
Netherlands											
Switzerland											
Other Europe	4,061										
Total Europe	11,183										
Canada	4,861										
Latin America*	3,088										
Far East	3,451										
All Other	2,823										
Grand Total	28,506										

PLEASE NOTE CHANGE IN INSTRUCTIONS REGARDING " earmarked funds" ON OTHER SIDE

Global Deposits

- (a) Report under this heading all time and demand deposits credited to the accounts of "foreigners". Overdrafts in the accounts of "foreigners" are not to be entered in this column, but should be reported in Item 12, column 5.
- (b) Report under this heading all bills payable to the public in the United States, which are held for the accounts of "foreigners".
- (c) Include both bills acquired in this market and bills received from abroad for the accounts of "foreigners", which represent claims on individuals and institutions in the United States, including foreign and U.S. banks and non-bank financial entities, such as insurance companies, mutual funds, pension funds, and other investors.
- (d) Report under this heading only loans, advances, or overdrafts payable to foreign corporations which have been actually received to pay by foreign banks and branches; do not include overdraft facilities, even if such facilities represent firm commitments.
- (e) Report under this heading the net liability of acceptance credit to foreign corporations for your own account or for the account of your domestic offices with your associates.
- (f) These figures are to be reported regardless of the currency in which the funds of lenders which have made the acceptance.
- (g) Report under this heading all other short term liabilities to "foreigners" which are payable in foreign currency.

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Report under this heading all time and demand deposits credited to the accounts of "foreigners". Overdrafts in the accounts of "foreigners" are not to be entered in this column, but should be reported in item 12, column 5.

Forward Exchanges Contracts

Purchases and sales of forward exchange contracts made at the time of the report.

Report under this heading all time and demand deposits credited to the accounts of "foreigners". Overdrafts in the accounts of "foreigners" are not to be entered in this column, but should be reported in item 12, column 5.

"Earmarked" Funds

Funds in the accounts of "foreigners" which are not yet made available to the individuals are to be included by the reporting office in the "Earmarked" Funds section. These funds are to be reported on the "Earmarked" Funds section of the report, and should not be included in the "Deposits of Depository Institutions" section.

Report under this heading all time and demand deposits credited to the accounts of "foreigners". Overdrafts in the accounts of "foreigners" are not to be entered in this column, but should be reported in item 12, column 5.

Report under this heading all time and demand deposits credited to the accounts of "foreigners". Overdrafts in the accounts of "foreigners" are not to be entered in this column, but should be reported in item 12, column 5.

Report under this heading all time and demand deposits credited to the accounts of "foreigners". Overdrafts in the accounts of "foreigners" are not to be entered in this column, but should be reported in item 12, column 5.

SHORT TERM FOREIGN ASSETS

Assets and Liabilities in Special, National, Monetary, and Treasury Accounts

(Annual figures in thousands of dollars as of close of business Wednesday)

December 15, 1953

FOREIGN CATEGORIES	ASSETS PAYABLE IN FOREIGN CURRENCIES				ASSETS PAYABLE IN DOLLARS				Grand Total
	1 Over Payment with "Foreigners" (a)	2 Payable with "Foreigners" (b)	3 All Other Short Term "Foreigners" (c)	4 Total	5 Issued in Bank (d)	6 Liability of "Foreigners" (e)	7 All Other Short Term "Foreigners" (f)	8 Total	
Europe - Change in Total	11,918	4,108	3,184	19,210	1,600	1,960	4,560	18,650	37,860
Asia	294	184	188	666	1,200	1,444	2,644	8,092	8,758
Germany	54	115	18	287	10,900	4,107	15,007	53,841	68,848
Italy	47	677	88	812	1,200	1,908	3,108	8,297	9,509
Netherlands	780	127	118	1,025	880	8,200	9,080	4,603	13,683
Denmark	274	80	87	441	1,200	1,164	2,364	4,843	6,207
Other Europe*	43	64	60	167	1,200	1,000	2,200	4,478	6,678
Total Europe	18,680	6,070	7,083	31,833	11,000	28,674	49,674	118,346	150,020
Canada	4	149	1,844	2,057	50	5,004	5,054	31,833	36,890
Latin America*	15	23	37	75	1,174	20,470	21,644	81,817	91,810
Far East	150	88	1,284	1,512	1,100	1,400	2,500	18,850	19,352
All Other	134	18	1,047	1,329	114	274	388	18,850	19,174
Grand Total	19,126	6,306	11,381	36,813	14,818	56,116	70,934	200,973	237,807

Grand Totals

- (a) Report under this heading only demand and time deposits which you hold abroad for your own account. Include foreign exchange receipts which to be treated as direct foreign exchange and which to be treated as indirect. Purchases and sales of foreign exchange contracts should be ignored. Considerable in your domestic annual accounts to be entered in the column for demand and time deposits in item 11, column 7.
- (b) Report under this heading all other short term deposits which you hold abroad for the account of others and corresponding liabilities properly listed within the United States. Include foreign exchange contracts which remain with you as "Foreigners". Whether acquired here or abroad, such items include currency multiplications of foreign governments and foreign postal notes. Foreign money markets with banks and factors in Asia and Australia, and so forth. Purchases and sales of foreign exchange contracts should be ignored. Foreign banks and factories do not include residential entities, even if such entities represent firm establishments. Loans to foreign banks and factories, if payable to foreign accounts, should be reported as "Foreigners".
- (c) Report under this heading the net liability of "Foreigners" or settlements made by you for their accounts. Enter and explain the situation in which are listed the "Foreigners" to whom you have granted the accounts, credits and in whom you look for reimbursement.
- (d) Report under this heading all other short term assets which you hold for your own account. Do not include foreign exchange contracts which represent liability of "Foreigners" if payable to "Foreigners".

Form 200

Foreign Exchange Contracts

United States... (a) Report under this heading only demand and time deposits which you hold abroad for your own account. Include foreign exchange receipts which to be treated as direct foreign exchange and which to be treated as indirect. Purchases and sales of foreign exchange contracts should be ignored. Considerable in your domestic annual accounts to be entered in the column for demand and time deposits in item 11, column 7.

Foreign Exchange Contracts... (b) Report under this heading all other short term deposits which you hold abroad for the account of others and corresponding liabilities properly listed within the United States. Include foreign exchange contracts which remain with you as "Foreigners". Whether acquired here or abroad, such items include currency multiplications of foreign governments and foreign postal notes. Foreign money markets with banks and factors in Asia and Australia, and so forth. Purchases and sales of foreign exchange contracts should be ignored. Foreign banks and factories do not include residential entities, even if such entities represent firm establishments. Loans to foreign banks and factories, if payable to foreign accounts, should be reported as "Foreigners".

Foreign Exchange Contracts... (c) Report under this heading the net liability of "Foreigners" or settlements made by you for their accounts. Enter and explain the situation in which are listed the "Foreigners" to whom you have granted the accounts, credits and in whom you look for reimbursement.

Definitions and Instructions

This reporting form is designed to cover those short term assets owned by reporting banks and brokers over their monetary deposits which represent claims on "foreigners", such assets may have been acquired and may be held either here or abroad. A valuation is required between claims on "foreigners" payable in foreign currencies and claims on "foreigners" payable in dollars.

Short Term

"Short term" is defined as maturing obligations maturing within one year from date of report. Exceptions long term publicly offered securities are not to be regarded as short term obligations even when they come within one year of maturity.

"Foreigners"

The term "foreigners", for the purpose of this report, is used to designate all those who, whatever their nationality, are domiciled outside the United States. Thus, for example, foreign branches of American banks should be regarded as "foreigners", provided as if they were separate foreign banks. Conversely, United States branches and agencies of foreign banks are domestic institutions, even when they are domiciled within the United States, such branches and agencies, in making out this report, should consider their head office and branches outside the United States as "foreigners".

Conversion of Foreign Currency Assets into Dollars

Assets payable in foreign currencies should be converted into dollars at the approximate exchange rate prevailing on the reporting date.

Funds Placed Abroad for account of Domestic Clients and Correspondents

Assets in your report funds placed abroad by you, for the account of domestic clients and correspondents, include funds placed abroad through other American banks when in accordance with those institutions with funds will be reported by the bank or broker receiving the transaction for your account. Keep your files with respect to applications, including application acceptances, ready for prompt receipt report for your bank.

"Remarks" Funds

Funds held by foreign banks for your account or for the account of your domestic clients which are not sold or secured against debt to "foreigners" and which will be returned upon payment of such individuals are to be included in your domestic report. Funds deposited abroad which are returned for interest payments on foreign bank American accounts or for other similar purposes should not be reported. Dividends, interest, or currency in transit to or from the United States or held abroad for your account or for the account of your domestic clients should be reported.

Reserves and Write-Offs

The figures reported in this form should show the total short term indebtedness of "foreigners". Do not deduct any reserves which you may have established against slow or doubtful items; partial write-offs also should be reported for the purpose of this report. When no bank has been entirely written off as worthless, however, it should no longer be included in this report.

Forward Exchange Contracts

Purchases and sales of forward exchange should be reported, for the purpose of this report, when payment under the forward contract will not have been made by the time of the report.

Strictly Confidential

Foreign Exchange Form No. 23
TREASURY DEPARTMENT
Office of the Secretary

Weekly Report to Federal Reserve Bank of New York
(Made pursuant to Executive Order of February 11, 1934 and Treasury Regulations thereunder)

OUTSTANDING FORWARD EXCHANGE CONTRACTS

Bank & Brokers in Second Federal Reserve District
Name of Bank or Broker

December 11, 1939
Date

(Annual figures in thousands of dollars as of close of business Wednesday)

FOREIGN COUNTRIES	PURCHASES			SALES		
	From "Foreigners"	From Others	Total	To "Foreigners"	To Others	Total
France	20,100	147,711	307,844	54,163	147,544	316,407
Spain	100	560	805	111	243	1,167
Germany	-	-	-	1	-	1
Italy	-	147	147	-	253	391
Netherlands	4,720	14,540	18,460	9,915	15,442	25,357
Sweden	140	1,100	1,240	1,790	1,790	2,930
Switzerland	1,790	2,000	3,790	2,000	2,000	3,400
Other Europe	2,140	231,111	233,251	1,100	130,271	131,371
Canada	5,140	80,041	85,181	20,700	38,410	59,110
Latin America*	277	200	477	1,100	110	1,210
The East†	1,000	2,110	3,110	2,000	2,700	4,700
All Other	-	81	81	-	-	81
Grand Total	29,507	384,790	414,297	110,115	326,440	436,555

Definitions and Instructions

This reporting form is designed to cover all outstanding forward contracts for the purchase or sale of foreign exchange to which you are a party. The term "foreigners", for the purpose of this report, is used to designate all those who, whatever their nationality, are domiciled outside the United States. Thus, for example, foreign branches of American banks should be regarded as "foreigners", provided as if they were separate foreign banks. Conversely, United States branches and agencies of foreign banks are domestic institutions, since they are domiciled within the United States. Such branches and agencies, in making out this report, should consider their head office and branches outside the United States as "foreigners".

* Includes Mexico, Central and South America, and the West Indies.

† Includes China, Dutch East Indies, British India, Japan, Straits Settlements, and Philippine Islands.

PURCHASES OF FOREIGN EXCHANGE AND NET FOREIGN EXCHANGE POSITION

Banks and Dealers in Second Federal Reserve District. Week ended December 15, 1939.
 Name of Bank or Dealer _____ Date _____

(Actual figures in thousands of dollars for week ended Wednesday)

COUNTRIES	Delivery	PURCHASES OF EXCHANGE												Net Foreign Exchange Position			
		FROM BANKS				FROM OTHER CUSTOMERS				Grand Total							
		In U. S.		Abroad		Proceeds of Exports		Proceeds of Securities, Including Amortization								Receipts From Foreign Industrial Operations	
million	thou's	million	thou's	million	thou's	million	thou's	million	thou's	million	thou's	million	thou's	million	thou's		
Canada	Spot	21	126	14	818	3	208		234	-	3	374	42	732	+	1	488
	Forward	9	228	7	610	5	281		248	220		865	25	500		4	484
Mexico	Spot		208		898		10		-			32		1	298	-	18
	Forward		75		7		-		-			42		124			406
Central America and West Indies	Spot		45		77		2		-			61		168	+		5
	Forward		-		-		-		-			-		-			130
South America	Spot		234		118		8		-			127		454	+		5
	Forward		12		38		-		-			12		67			272
Europe	Spot	1	264	5	511		262		10			30		4	947	+	266
	Forward	1	208		218		786		25	55		242		2	542		2
Africa	Spot		412		1	202		12		9		28		2	205	+	81
	Forward		89		-		7		-			29		163			716
Asia	Spot	1	018	1	208		18		4	11		154		2	741	+	127
	Forward		688		280		535		-			32		1	535		2
Oceania	Spot	24	220	22	126	5	514		207	11	3	222		54	672	+	1
	Forward	11	453	8	154	6	517		293	254		1	265	27	224		17
Other	Spot	1	666	2	272		672		114	7	1	728		7	127	+	312
	Forward		942		219		78		47	91		1	354	2	727		572
Total	Spot		28		222		9		6			64		404			430
	Forward		-		-		-		-			-		-			164
Grand Total	Spot	25	226	22	828	5	824		207	11	3	222		54	672	+	1
	Forward	12	672	8	824	6	827		540	252		2	720	27	810		2

Change from _____

Indicates increase from previous week in long position or decrease in short position.	Position in Gold and Silver	Dec. 5
Indicates decrease from previous week in long position or increase in short position.	Gold abroad	371 0
	Silver	160
	Total	180
	Net Exchange Position	15,818
	Net Position in Exchange, Gold and Silver	17,439

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FEDERAL RESERVE BANK OF NEW YORK
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 DEPARTMENT OF THE TREASURY

See Other Side for Details and Instructions

Regraded Unclassified

Weekly Report to Federal Reserve Bank of New York
(Make payment in Executive Order of January 15, 1934 and Treasury regulations thereunder)

SALES OF FOREIGN EXCHANGE

Banks and Bankers in Second Federal Reserve District. Week ended December 15, 1939.
Name of Bank or Banks Date

(Actual figures in thousands of dollars for week ended Wednesday)

FOREIGN COUNTRIES	Delivery	TO BANKS		TO OTHER CUSTOMERS			Grand Total	
		1	2	3	4	5		
		In U. S.	Abroad	For Payment of Imports	For Purchase of Securities and Amortization Payments	Other Purposes		
Europe:	Spot	21,189	18,000	4,880	356	4,847	42	570
England	Forward	9,565	3,708	8,082	8	2,315	27	570
	Spot	441	285	214	1	280	1	196
France	Forward	81	-	109	-	40	-	230
	Spot	55	10	33	-	27	-	167
Germany	Forward	-	-	-	-	-	-	-
	Spot	137	124	42	-	127	-	430
	Forward	54	15	-	-	15	-	82
	Spot	1,488	1,290	615	100	978	4	479
Netherlands	Forward	875	516	1,130	-	125	-	749
	Spot	630	741	685	2	178	-	1,030
Switzerland	Forward	95	134	1	-	16	-	344
	Spot	698	764	401	-	328	-	1,605
Other Europe	Forward	335	950	17	-	1	-	1,301
	Spot	24,515	15,942	8,340	329	7,082	22	4,825
Total Europe	Forward	10,873	5,420	9,129	8	2,407	27	1,146
	Spot	2,191	818	630	117	3,274	1	1,821
Canada	Forward	217	1,186	12	-	257	-	1,750
	Spot	87	38	25	-	329	-	479
Latin America*	Forward	5	358	-	-	891	-	1,354
	Spot	338	347	175	-	30	-	1,073
Far East	Forward	211	530	304	-	30	-	1,175
	Spot	8	1	68	-	43	-	118
All Other	Forward	-	-	-	-	-	-	-
	Spot	27,417	16,495	7,154	476	11,344	21	6,336
Grand Total	Forward	12,406	7,496	9,258	8	3,104	31	570
	Spot	29,806	17,818	8,784	117	14,622	22	10,906

Definitions and Instructions

The first seven columns of this reporting form are designed to cover all purchases of foreign exchange, spot and forward, made by you during the reporting week ended Wednesday. Purchases from banks in the United States, from banks abroad, and from customers other than banks are to be shown separately. In addition, a subdivision is required according to the source of exchange sold to you by non-banking customers. Total purchases of exchange from banks and others should be reported in column 7. Conversion into dollars should be made at the exchange rates at which purchases were actually effected.

In column 8 enter your net position in each currency at the close of the reporting week. This figure should represent the net balance of all of your foreign currency claims and commitments, spot and forward. Indicate short positions in red. Long or short positions in gold or silver should not be included in your position in any foreign currency, but should be reported separately in a memorandum attached to this report.

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THE COMPTROLLER OF THE CURRENCY
TREASURY DEPARTMENT
WASHINGTON, D. C. 20540

Official Signature

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* Includes Mexico, Central and South America, and the West Indies
† Includes China, Dutch West Indies, British India, Japan, Straits Settlements, and Philippine Islands.

See Other Side for Definitions and Instructions

SECURITY TRANSACTIONS EXECUTED IN THE UNITED STATES FOR ACCOUNT OF "FOREIGNERS"

Banks, Brokers, Dealers in Second Federal Reserve District
 Name of Bank, Broker, Dealer, or Dealer

(Total figures in thousands of dollars for week ended Wednesday)

Week ended December 13, 1938

FOR ACCOUNT OF CLIENTS LOCATED IN	PURCHASES				SALES			
	1 Domestic Reserve dollars	2 Foreign Reserve dollars	3 Total dollars	4 Domestic Reserve dollars	5 Foreign Reserve dollars	6 Total dollars	7 Domestic Reserve dollars	8 Foreign Reserve dollars
Europe:								
England	1,120	62.1	1,182.1	4,820	50.2	4,870.2	4,817	50.2
France	1,647	11.9	1,658.9	724	09	733	053	09
Germany	45	4	49	97	22	119	109	22
Italy	30		30	13	1	14		
Netherlands	1,358	22.8	1,380.8	945	11.4	956.4	929	11.4
Switzerland	3,723	67.2	3,790.2	1,316	4.1	1,320.1	1,297	4.1
Other Europe	727		727	827	1.0	828	776	1.0
Total Europe	8,575	207.6	8,782.6	7,647	1,006	8,653	8,590	1,006
Canada	2,978	26.0	3,004	4,504	53	4,557	4,509	53
Latin America*	604	44.3	648.3	291	82.1	373.1	54.1	82.1
The East	550	23.1	573.1	2,802	15	2,817	2,803	15
All Other	344	1.0	345	71	4	75	75	4
Grand Total	13,056	5,627	18,683	18,504	2,008	20,512	19,506	2,008

* Includes Mexico, Central and South America and the West Indies.
 * Includes China, India, Philippines, and Formosa.

Definitions and Instructions

The first seven columns of this reporting form are designed to cover all purchases of foreign exchange, spot and forward, made by you during the reporting week ended Wednesday. Purchases from banks in the United States, from banks abroad, and from customers other than banks are to be shown separately. In addition, a subdivision is required according to the source of exchange sold to you by non-banking customers. Total purchases of exchange from banks and others should be reported in column 7. Conversion into dollars should be made at the exchange rates at which purchases were actually executed.

In column 8 enter your net position in each currency at the close of the reporting week. This figure should represent the net balance of all of your foreign currency claims and commitments, spot and forward. Indicate short positions in red. Long or short position in gold or silver should not be included in your position in any foreign currency, but should be reported separately in a memorandum attached to this report.

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TREASURY DEPARTMENT
 Office of the Secretary
 Foreign Exchange in the Security

SECURITY TRANSACTIONS ABROAD FOR DOMESTIC ACCOUNTS

Bank of Montreal, Montreal, Quebec, Canada
Branch Bank, New York, New York

(Total figure in thousands of dollars for each stated Wednesday)

Week ended

December 13, 1950

TRANSACTIONS IN	F I R C I A S E S				S A L E S			
	Domestic Securities	Foreign Securities	Total	Domestic Securities	Foreign Securities	Total		
	million	thousand	million	million	thousand	million	thousand	
Europe:								
England	13	40	73	-	-	69	69	
France	-	-	-	-	-	-	-	
Germany	-	-	-	-	-	-	-	
Italy	-	-	-	-	-	-	-	
Netherlands	-	-	-	-	-	-	-	
Australia	-	-	-	-	-	-	-	
Other Europe	-	-	-	-	-	-	-	
Total Europe	13	40	73	-	-	69	69	
Canada	-	40	72	-	-	16	16	
Latin America*	5	1,092	1,107	4	484	488	490	
Far East	-	-	-	-	-	-	-	
All Other	-	23	23	-	-	-	-	
Total Total	18	1,165	1,200	4	1,140	1,144	1,144	

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1. This report is required by the Federal Reserve Bank of New York under the provisions of the Securities Exchange Act of 1934, as amended, and the Securities Exchange Act of 1936, as amended, and the Securities Exchange Act of 1950, as amended.

2. The figures in this report are based on the records of the bank and are not necessarily audited.

3. The figures in this report are in thousands of dollars unless otherwise indicated.

4. The figures in this report are for the week ended December 13, 1950.

5. The figures in this report are for the week ended December 13, 1950.

6. The figures in this report are for the week ended December 13, 1950.

7. The figures in this report are for the week ended December 13, 1950.

8. The figures in this report are for the week ended December 13, 1950.

9. The figures in this report are for the week ended December 13, 1950.

10. The figures in this report are for the week ended December 13, 1950.

11. The figures in this report are for the week ended December 13, 1950.

12. The figures in this report are for the week ended December 13, 1950.

Definitions and Instructions

1. Include in this report, as of the ledger date, the total amount of money (netted or credited, i.e., the cost, plus commissions, etc., of purchases less "discounts" or proceeds less commissions, etc., etc., of sales or "discounts") of securities transactions entered in your own accounts and for the account of joint accounts for the week ending at the close of business. Do not report figures on transactions entered through other banks, brokers, bankers, or dealers in the United States. Total figures for each week ending at the close of business should be reported to the nearest thousand.
2. The term "foreign" for the purpose of this report, is that in foreign countries, wherever they may be situated, and wherever they may be held, including the United States. Thus, for example, foreign banks in America, banks, houses, and company bonds should be reported as "foreign" if the issuer is a foreign bank and a local dealer in domestic securities. Transactions with foreign banks should be reported. These figures, in making out this report, should include transactions with other foreign banks, and all other "foreigners".
3. Final agents or trustees for domestic securities should include in this report only purchases abroad for domestic securities the redemption abroad of such securities by their foreign correspondents, brokers, or local offices. They should also include securities (foreign or domestic) redeemed abroad for your own account or for the account of your domestic clients.
4. Do not state in this report security transactions in foreign arbitrage accounts in which you participate as a principal jointly with a "foreigner". Such transactions are to be reported in Form 23.
5. The term "securities" should be interpreted broadly to include rights, warrants, scrip, and trust certificates as well as bonds and stocks.
6. The term "domestic securities" for the purpose of this report, is used to designate the securities of the United States Government, States, and municipalities, and the securities of corporations chartered in the United States.
7. The term "foreign securities" for the purpose of this report, is used to designate the securities of foreign governments and political subdivisions, and the securities of corporations chartered in foreign countries.
8. Do not report transactions in foreign government securities maturing within one year after date of this report.
9. Transactions reported in this return, if entered in foreign currencies, should be entered in terms of dollar equivalents at the rate of exchange prevailing when the transactions were executed or at the close of business Wednesday.
10. Banks, brokers, and dealers should include in this return the figures of their head office and of all branches in the United States.

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DEC 22 1939

TREASURY DEPARTMENT
Office of Comptroller
Financial Analysis (at New York)

Strictly Confidential

Foreign Exchange Form No. 1
TREASURY DEPARTMENT
Office of the Comptroller

Weekly Report to Federal Reserve Bank of New York
(Make payment to Executive Order of January 11, 1939 and Treasury regulations thereunder)

TRANSACTIONS IN JOINT FOREIGN ARBITRAGE ACCOUNTS IN SECURITIES

Brokers and Dealers in Second Federal Reserve District

Week ended December 15, 1939.

Name of Broker or Dealer

(Total figures in thousands of dollars for week ended Wednesday)

COUNTRIES	PURCHASES IN UNITED STATES						SALES IN UNITED STATES					
	1 Domestic Securities		2 Foreign Securities		3 Total		4 Domestic Securities		5 Foreign Securities		6 Total	
	Millions	Amount	Millions	Amount	Millions	Amount	Millions	Amount	Millions	Amount	Millions	Amount
Canada		9		24		33		200		18		218
France	-	-	-	-	-	-	-	-	-	-	-	-
Germany	-	-	-	-	-	-	-	-	-	-	-	-
Italy	-	-	-	-	-	-	-	-	-	-	-	-
Netherlands	60	-	-	-	60	-	100	-	-	-	-	100
Switzerland	15	-	22	-	37	-	8	-	-	-	-	8
Europe	-	-	3	-	3	-	-	-	-	-	-	-
Rest of Europe	54	-	49	-	103	-	211	-	18	-	-	229
Asia	-	-	-	-	-	-	-	-	-	-	-	-
Latin America*	5	-	48	-	53	-	-	-	-	-	-	-
East†	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	79	-	97	-	167	-	211	-	18	-	-	229

Definitions and Instructions

Include in this report, as of the ledger date, the total amount of money (netted or credited, i.e., the cost of purchases plus commissions, etc. or proceeds of sales less commissions, tax, etc. on security transactions for foreign arbitrage accounts in which you participate as a principal jointly with a "foreigner". Only purchases and sales executed in the United States should be reported. The term "securities" should be interpreted broadly to include rights, warrants, scrip, and trust certificates as well as bonds and stocks. Purchases or sales of securities in the United States for joint arbitrage accounts should be reported opposite the countries in which the other participant is located. For example, a sale of securities in New York for a joint account with a Canadian should be entered opposite Canada under the heading "Sales in United States".

Domestic Securities

The term, "domestic securities", for the purpose of this report, is used to designate the securities of the United States Government, States, and municipalities, and the securities of corporations chartered in the United States.

Foreign Securities

The term, "foreign securities", for the purpose of this report, is used to designate the securities of foreign governments and political subdivisions, and the securities of corporations chartered in foreign countries.

* Includes Mexico, Central and South America, and the West Indies.
† Includes China, French East Indies, British India, Japan, British Borneo, and Philippine Islands.

Weekly Report to Federal Reserve Bank of New York
(Made pursuant to Executive Order of January 15, 1934 and Treasury regulations thereunder)

FOREIGN DEBIT AND CREDIT BALANCES

Brokers and Dealers in the Second Federal Reserve District
Name of Broker or Dealer

December 13, 1935
Date

(Total figures in thousands of dollars as of close of business Wednesday)

FOREIGN COUNTRIES	1 Total of Debit Balances in accounts of "Foreigners" with us (a)		2 Total of Credit Balances in accounts of "Foreigners" with us (b)		3 Total of Debit Balances, as appearing on our books in our accounts carried by "Foreigners" (c)		4 Total of Credit Balances, as appearing on our books in our accounts carried by "Foreigners" (d)	
	million	thousand	million	thousand	million	thousand	million	thousand
Europe		28		25		42		35
England	2	917	8	170		616		172
France		118		23		19		2
Germany		69		154				
Italy		132		61		2		
Netherlands	2	179	5	814		97		
Sweden	3	032	12	895		16		3
Other Europe	5	651	3	381		1		
Total Europe	17	100	36	116		681		175
Canada	13	678	3	779		558		360
Latin America*	5	354	4	623		2		
Far East	11	017	1	517		27		12
Australia		399	1	749		3		
Grand Total	46	528	46	564	1	871		537

Official Signature

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- (a) Report under this heading the total of money debit balances (including dollar equivalent, at current exchange, of foreign currency), as appearing on your books, in accounts of "foreigners" with you.
- (b) Report under this heading the total of money credit balances (including dollar equivalent, at current exchange, of foreign currency), as appearing on your books, in accounts of "foreigners" with you.
- (c) Report under this heading the total of money debit balances (including dollar equivalent, at current exchange, of foreign currency), as appearing on your books, in "your" accounts carried by "foreigners".
- (d) Report under this heading the total of money credit balances (including dollar equivalent, at current exchange, of foreign currency), appearing on your books, in "your" accounts carried by "foreigners".

"Foreigners"

The term "foreigners", for the purpose of this report, is used to designate all those who, whatever their nationality, are domiciled outside the United States. Thus, for example, foreign branch offices of American brokers and dealers should be regarded as "foreigners", precisely as if they were separate foreign institutions. Conversely, United States branch offices of foreign security dealers are domestic institutions, since they are domiciled within the United States. Such branch offices, in making out this report, should consider their head office and branches outside the United States as "foreigners". All reporting institutions should include in this return the figures of their head office and of all branches in the United States.

* Includes Mexico, Central and South America, and the West Indies.
† Includes China, Dutch East Indies, British India, Japan, South Seas Islands, and Philippine Islands.

TO:

Mrs. Klots

12/29/39

The signed report is being
returned to Mr. Cotton, at Mr. Foley's
request.

MR. FOLEY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

377

DATE December 29, 1939

TO Mrs. Klots
FROM Joseph P. Cotton, Jr.

Attached is the report of the Interdepartmental Committee on Cooperation with the American Republics to the President, which merely summarizes the activities of the various departments and agencies of this Government participating, including the Treasury Department. I prepared and cleared with Mr. Hanes last summer the section on the Treasury Department.

I promised to try and get the Secretary's signature this morning. It is purely a formal matter and of very little importance and he should not be bothered to look at the report itself at all.

Rush!

J.P.C.J.

Dear Harry:
Please read if you are well enough and let me know if it is safe for me to sign. J.P.C.J.

December 30, 1958

9:30 am

Present:

Mr. Purvis
Mr. Plevin
Mr. Cochran
Capt. Collins
Mr. Glaser
Mrs. Klots

HM,Jr: Anything you (Capt. Collins) want to bring me up to date on before I start?

Capt. Collins: No, sir.

HM,Jr: I have done my homework.

Mr. Purvis: Good!

HM,Jr: And, if I might say, I find it considerably easier to read it, you see, and I read everything that you have given me. And then I am going to read -- let me read you a cable which we got, which was dated December 28th, from Paris. (No. 3047)

Mr. Purvis: Yes.

HM,Jr: You see? And this fills in a few chinks.

Mr. Purvis: Good!

HM,Jr: They sent for Matthews who looks after our interests at our Embassy in Paris. You see? What is he, second or third secretary?

Mr. Cochran: First Secretary. There are four First Secretaries.

HM,Jr: (Reading) "When Matthews returned to Paris this afternoon he was called to the Ministry of Blockade by M. Dayras, the Chef de Cabinet of the Minister of Blockade, and M. Paul Morand, the French member of the Blockade Committee in London. The purpose

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in doing so, M. Dayras said, was that he wished to put Matthews au courant of the present status of discussions regarding molybdenum, tungsten and other ferro-alloys. He again expressed his deep appreciation of what had been done so far, and the importance thereof to the cause of the Allies.

M. Dayras then read to Matthews the texts of the telegram of December 24 from Monnet to Purvis.

Mr. Purvis: Um!

EM, Jr: I don't have these.

Mr. Purvis: For simplicity, from your view, they are there. I have only two other things to give you and that is in addition to the two things I gave you the other day and they would be secret things which I wanted to mention rather than put on paper. I will mention them at this meeting presently.

EM, Jr: (Reading) "M. Dayras then read to Matthews the texts of the telegram of December 24 from Monnet to Purvis, which contained the lengthy Franco-British reply to the questions transmitted through Lord Lothian, and of a subsequent telegram just received from Purvis."

Mr. Purvis: That was one I sent after I saw you Friday week ago, when we had the discussion. I despatched a cable.

EM, Jr: If you don't mind, possibly you could sit down with this cable and this (Mr. Purvis letter to Secretary dated December 26th), after we get through, with Mr. Cochran and match them up and you can make any copies you want from this.

Mr. Purvis: Thank you very much.

EM, Jr: If you don't mind, when we get through here, you can do that. But I will just read this. But when we get through, you take this plus this and we will get the two together.

Mr. Purvis: The point being, what I found when I read all the cables from Paris, that they gave you a

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confused picture and I thought if I could bring it out, it would be a little easier.

HM, Jr: I am going to read this, because it still leaves me a little confused.

(Laughter)

"(Office has been informed by Monnet that the latter made arrangements for all exchanges of views to be directly between him and Purvis rather than through the British Ambassador at Washington.) It is assumed that these texts are in your hands."

Mr. Purvis: They are now except for the two things I am going to say.

HM, Jr: "Tomorrow morning the French will transmit to London their reply to this further inquiry."

"Matthews was told by Dayras that in the year 1940 France is prepared to buy substantial quantities of molybdenum, that they had not made definite decision as to the amount, but just before Christmas Jaoul had mentioned two thousand tons as the quantity that could usefully be acquired by the French."

Mr. Purvis: That's one of the figures I still wanted to give you.

HM, Jr: "Dayras said he was in accord with the view of the Climax interests that there should be no accumulation of excessive stocks to hang over the market when the war is over. However, he believed some assurance should be obtained that the output of Climax in 1940 will not be unduly increased."

You told me that up in New York.

Mr. Purvis: Yes.

HM, Jr: "Dayras said, with regard to the corollary matter of nickel, that the reply to London by the French will be that it is primarily for the British to decide whether the British should negotiate 1940 contracts with Japan. However, he seemed to feel that

"a reasonable view is taken by the Climax Company on that question. The plan favored by both Dayras and Morand is to send several metal experts to the United States to thrash out the whole question of ferro alloys so that the needless delays and misunderstandings involved in telegraphic exchanges could be avoided."

Mr. Purvis: Yes.

HM, Jr: "Dayras said, in discussing the tungsten question, that it was his understanding that on the sixth of December there were some 3000 odd tons of tungsten

Merle, who did I ask -- somebody, I asked somebody about the 7,000 tons of tungsten and antimony.

Mr. Cochran: I got the message last night.

HM, Jr: Who are you going to ask?

Mr. Cochran: The Chinese.

HM, Jr: You are going to ask the Chinese.

Mr. Purvis: I asked Monnet to get an answer from the French.

HM, Jr: Let's do it both ways.

Mr. Purvis: I have a definite inquiry out on that through Mons. Monnet.

HM, Jr: That's all right, and it's no harm doing it through the Chinese.

While we are on that, if you don't mind my doing these things as they occur to me, this came in.

Mr. Cochran: That came in yesterday.

HM, Jr (Reading 455 of 12/27/39 from American Consul General at Hong Kong quoting a message of 12/23 from Consul Reed at Hanoi.)

"On the afternoon of December 21, Japanese soldiers arrived at Nacham (on the Indo-China border) and on the

"same day Japanese (?) cavalry advanced in a northerly direction toward Caobang Road and Lungchow was occupied."

Didn't it say something in here about gasoline?
Oh, yes!

* * * "The Japanese military mission in Hanoi is headed by Suchihashi. Rumors are current that the stoppage of gasoline shipments is being asked by the Japanese on the grounds that such shipments constitute war supplies."

The point I am making is if they are at Hanoi, where is the tungsten? And how much more tungsten can China get out is questionable. Hanoi, as I remember, is the railhead where the Indo-French railroad stops and they turn the stuff over to

Mr. Plevin: But there is a mission there. No Japanese army there because Hanoi is the capital of Indo-China so I am sure the Japanese have no army there.

HM, Jr.: But this whole thing of how much tungsten is there in French Indo-China and how much more is going to come out is all a big question mark.

Mr. Plevin: That's it. That's right. What is in Indo-China is safe. What is not in Indo-China is questionable.

HM, Jr.: The whole thing is a big question mark.

(Resumed reading Cable 3047 from Paris.)

"Dayras said, in discussing the tungsten question, that it was his understanding that on the sixth of December there were some 3000 odd tons of tungsten in French Indo-China ***"

If that is right, then there will be 4,000 tons of antimony, which is an awful lot of antimony.

Mr. Purvis: I am glad you are getting a check on that. We will get it both ways.

HM, Jr.: " *** and on the Chinese side of the frontier there still remained a further 3500 tons. He told

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Matthews that yesterday a telegram had been sent to ascertain the exact tungsten and antimony figures and the location of them as of today -- saying that the antimony does not interest France much. Dayras indicated that it is the hope of the French Ministry of Blockade that all exports of tungsten from China will go through French Indo-China, which would give them complete control over it. He said that this is also the view of the Minister of the Colonies. He went on to say that the British and French are, of course, entirely prepared to see that all the tungsten it needs for its own use is received by American industry, that obviously this is in the interest of Americans manufacturing for the Allies; however, he did express some misgivings because, as he said, a group of brokers in (omission) purchases the tungsten for American producers.

Now, I don't know about that.

Mr. Cochran: I have asked the State Department to get a check on that. It's New York from the next paragraph.

EM, Jr.: Then there is some more about brokers. *The French are afraid that these brokers might re-export part to Siberia from the United States.

*Monnet tells me that in view of the great complication in the whole question of economic warfare, that on his suggestion Daladier has approved sending Rist to the United States in the near future in order to explain the objectives of the Allies in economic warfare and the mechanism which it is proposed to use to attain them. Rist would also be able to get for the French a clear picture of our position. Monnet has also been authorized by Daladier to take up with Chamberlain next week the matter of having a qualified British subject sent with a similar mission.

Mr. Purvis: Good!

EM, Jr.: That will be fine.

Mr. Purvis: I think they will send their best on this.

Mr. Fleven: You know Rist?

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HM, Jr: I know him and he knows a lot of people here, and I like Professor Rist.

Mr. Fleven: He is a very good man.

HM, Jr: It was Professor Rist, about the middle of November, brought up this question of molybdenum. See? He is the man who brought it up, so if you will tell your people if they want to send Rist -- don't send Sir Frederick Leith-Ross.

Mr. Purvis: I agree. I am very glad.

HM, Jr: Is that terrible for me to say that?

Mr. Purvis: Not at all. No.

HM, Jr: What?

Mr. Purvis: Not at all. Other people have a similar view.

HM, Jr: Is that terrible for me to say?

Mr. Purvis: No; and it will be very discreetly handled.

HM, Jr: Can it be discreetly handled?

Mr. Purvis: Very discreetly.

HM, Jr: Just for a minute, for background, it took me four years to convince the British Treasury that there was nobody here that had anything to do with London in '33.

Mr. Purvis: That's a long time.

HM, Jr: You see? Also, in our minds that are little scars from '33.

Mr. Purvis: Yes; exactly.

HM, Jr: And Sir Frederick Leith-Ross is one of them.

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Mr. Purvis: Yes. I am very glad you mentioned that, because, after all, we do want to have this thing ...

EM, Jr: Is he liked in Canada?

Mr. Purvis: (avoided the answer.)

(Laughter)

I have a pencilled note on the side of a letter on Leith-Ross in my file, put on in Canada, which makes me understand this.

EM, Jr: There must be somebody. Now Rist would be -- I am delighted to have Professor Rist. Now there must be somebody ----

Mr. Purvis: There is nobody in mind from England. Would it be a good idea for me to try to develop somebody and let you know and see if he is persona grata?

EM, Jr: Could you?

Mr. Purvis: (To Mr. Fleven) Don't you think that's best?

Mr. Fleven: Yes, I think so.

Mr. Purvis: We can work something out.

EM, Jr: There must be people there that we would know about. We are getting along so beautifully, and somebody who could also work with you gentlemen.

Mr. Purvis: I have a special pride that anybody from England that comes over is helpful.

EM, Jr: Is helpful. And, as I say, Rist would be most acceptable.

Mr. Purvis: Splendid! We will get that on the record.

EM, Jr: What I thought was this: I would go through this thing here -- your memorandum to me.

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Mr. Purvis: There is only one query and that's on the Green Cananea. I thought I would just find out the affiliation of the Green Cananea Mine. I think I can verify that. And then if I am in any difficulty, perhaps I could tell somebody here what I find out about the connection and get it going along from there. I can get that in a very few minutes on Tuesday morning. I will get it and let you know if there is anything further.

You gave me three: Kennecott, Climax Molybdenum and Molybdenum Corporation of America, so if it connects with any one of those three, well, all right.

When we get to molybdenum, I would like to fill in a figure.

HM, Jr: What page?

Mr. Purvis: Molybdenum after a little general -- first cable, one for the record, showing general policy; next, a general one on alloys, in which they agree with your main contention in regard to possibilities and gives the amount of German stocks as 12 to 18 months.

HM, Jr: I take it, here on this page on alloys, that you are not at this time raising the question of any other alloys.

Mr. Purvis: Later on we are raising the question of columbium and, as a matter of fact, what they have done is to say, in effect, "Mr. Secretary, here is a very sketchy picture of the whole series of alloys that we think can be used successfully. We would like to study them further along this technical thing and this is very preliminary information."

HM, Jr: Well, Capt. Collins, from the Strategic Board view -- if you have a pencil -- our Strategic Board, you might ask them about vanadium and then with the help of Glaser and through the Bureau of Mines, you see, let's get -- we got it the last time from Norman Thompson to Berlew and he got us everything.

Capt. Collins: I have a man on my Board from the Bureau of Mines, Dr. Furness.

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HM, Jr.: Can you handle it?

Mr. Glaser: We have never had any difficulty.

HM, Jr.: I got the actual reports that the Bureau of Mines made to the Munitions Board, but you could talk it over with Glaser afterwards, between the two of you.

Capt. Collins: Yes, sir.

HM, Jr.: I want vanadium and chrome.

Mr. Purvis: Vanadium is made in Peru. Chrome is widely scattered, but we get to a special sheet on chrome later on.

HM, Jr.: Those two you raise?

Mr. Purvis: And manganese was talked about before.

HM, Jr.: We feel we are all right on manganese. We are not worrying about manganese as far as our domestic needs are concerned, because plenty in Cuba and plenty in Brazil.

Mr. Purvis: Brazil? I was going to ask have those deposits been really well developed?

Capt. Collins: No, sir. They have not been. But we are having no trouble getting it.

HM, Jr.: We have plenty of manganese.

Capt. Collins: Just a question of transportation and will have no trouble with that. As a matter of interest, Leonard Buck, who was the representative of the Russian interests during the past several years, came in day before yesterday and said in the event those last openings of manganese we could not develop a contract and that we did not get to negotiate, that the Russians were willing to negotiate with us for manganese through him.

HM, Jr.: About a year ago, the Russian Ambassador here, Goumansky, said they were just desperate in their

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efforts to sell manganese. They have it on the top of the surface, all mined. I forget the figure, but they had it all mined.

Mr. Purvis: So with the Cuban and Brazilian situation in the back of your mind and United States stocks and general attitude of Russia, you are not worried.

HM, Jr: We are not worried.

Capt. Collins: We will have no trouble with manganese. We will get all we want. We are getting some of it from your Gold Coast.

Mr. Purvis: Oh, yes!

HM, Jr: But we are not worried on manganese?

Capt. Collins: No, sir.

Mr. Purvis: Good!

HM, Jr: You put down vanadium and chrome. The next is molybdenum.

Mr. Purvis: I wanted to add one figure, which I was asked to keep as absolutely confidential, from any feeling that Climax would know that it had been given. I will put myself in your hands.

HM, Jr: We will consider it Treasury business.

Mr. Purvis: The estimate of actual British and French requirements under their contracts with Climax for 1940 is between 3,500 and 4,000 tons. You see, the total maximum on contracts, as you noted in that memorandum, they have made them from a maximum of 11,000 pounds and that is the maximum, and the real estimate of 1940, at this time, is between 3,500 and 4,000. They are very anxious that that should not get back to Climax.

HM, Jr: (To Mrs. Klotz) Get me the latest letter from Harold Hochschild. Not now, but later.

Mr. Purvis: As I said in the original memorandum on molybdenum, they say that's about normal for Britain and France, and then again your demands through war orders

will be normal, so Climax, their output should be

EM, Jr: Half of their output for the year 1939 went to Japan and Russia.

Mr. Purvis: Ah!

EM, Jr: Now, the increase you are offering them does not begin to take care of that.

Mr. Purvis: No. You know also after our previous meeting before Christmas I emphasized very strongly in my cable to Monnet the importance that was attached here to England and France making a study to see how the use of molybdenum could be stimulated.....

EM, Jr: That's right.

Mr. Purvis: ... not only in their own countries, but in any countries that were friendly.

EM, Jr: That's right.

Mr. Purvis: That has gone over in a most definite way, after our last talk here.

EM, Jr: We are doing the same thing here.

Mr. Purvis: I will, no doubt, get a reply that they are taking it well under advisement, but that was a specific inquiry.

EM, Jr: That's all you had on molybdenum?

Mr. Purvis: Except I would like to answer certain questions under that, queries that I have. "(b) Rationing vs. Embargo." My understanding is, I just wanted to confirm my understanding, that from the United States viewpoint, for their particular angle, embargo is easier than rationing.

EM, Jr: Yes. For the time being we can do all or nothing.

Mr. Purvis: Yes. That's what I thought we came to.

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HM, Jr: We can do all or nothing. We can say we will place a moral embargo, but we can't ration.

Mr. Purvis: I guess for England the problem -- have not heard from France -- which as a trading nation has a great many individual small contacts rather than a huge domestic market, politically it is easier to ration than embargo, but nevertheless that is only a general observation and in particular cases that isn't true.

HM, Jr: At our present stage of development we can, through this airplane bombing business, add materials for embargo, but I don't see on what grounds we have to do any rationing.

Mr. Purvis: No. That gets into an entirely different thing. Yes.

HM, Jr: That's something else again.

Mr. Purvis: The other question I wanted to ask was, I think is simple, is already answered by your point, but they particularly say to me in regard to Italy, nations contiguous to Germany, and Italy particularly, that they are afraid of Italian molybdenum getting into Germany and, therefore, anything that can be done here to get Italy not to pass it through, not to re-export, would be most valuable.

HM, Jr: Well, I don't know. I will find out. Glaser, are we watching exports of Italy on a weekly basis, the way we do on Russia?

Mr. Glaser: On Russia we watch day-to-day; on Italy, ten-day basis.

HM, Jr: Supposing you add Italy to the day-to-day basis. Will you? See? If you find any

Mr. Purvis: That would be helpful.

HM, Jr: Watch Italy on a day-to-day basis and if we find any alloys, ring a bell!

Mr. Purvis: That is very helpful, because that

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is a real danger spot for us there. I can see that from the cables.

HM, Jr: I will ask the molybdenum crowd what they are doing about Italy.

Mr. Purvis: Thank you. Thank you. That would be very good.

HM, Jr: I will ask them about Italy.

Mr. Purvis: That would be very good. That seems to complete molybdenum for the moment.

HM, Jr: Now, nickel! I woke up in the middle of the night thinking about your request for February for nickel.

Mr. Purvis: Yes? I, in the meantime, have had a talk, a preliminary talk, quite a long one, yesterday, with the Canadians.

HM, Jr: Here?

Mr. Purvis: Here.

HM, Jr: At the Legation?

Mr. Purvis: Christie telephoned -- I telephoned Christie after I talked the other night. Christie telephoned me the next morning. By chance, there is a man down here, Norman Robertson, who is very well posted on this subject and apparently had received from Ottawa some cables asking about this, so that we had a long talk yesterday.

The Canadian position is slightly more complex than appears from what we get in London, but, boiled down, I think it really means this: they have felt disinclined to get out in front of the United States or the United Kingdom in any action on any particular commodity. As a smaller nation they feel that the lead should come, as to what is the wise thing to do, from the larger nations, and then they express themselves as more than willing to cooperate in the general picture. They then

point to what they have done as a means of cooperating -- the fact it was theoretically possible for other things to happen -- the fact is, no exports at the moment have taken place since the beginning of the war except to the United States.

EM, Jr: Of nickel?

Mr. Purvis: Yes, and Japanese shipments, but, as it happens, there has been nothing to Russia and nothing to other countries than the United States. That is Norman Robertson's recollection of the situation up to the time he left, which I think was ten days or two weeks ago.

EM, Jr: Since the war, which is September 3rd, the only exports of nickel

Mr. Purvis: have been United States and Japan. Japan, I am going to show what they have done. It has been possible for some to go to Russia, but it has not gone and, therefore, we are clear. Now, on Japan, their situation is rather special. They had a contract on which there was this balance of 1635 tons which should have been delivered before the end of the year. They have been pushing back the deliveries a little and have, therefore, ended up the end of the year with 835 tons unshipped. Now, then, I think they feel as a preliminary matter that if that has got to be shipped, because it's part of an old contract, though actually they refuse to, up to date, to say to Japan "You will get that 835"

EM, Jr: ... the Nickel Company?

Mr. Purvis: Yes. The parent company of Nickel company are working with the Government.

EM, Jr: What's the other company?

Mr. Purvis: Feltenbush. I learned a little more about that. Feltenbush has no refining capacity sufficient to use her stuff so she sends it to Norway, under an extremely complicated arrangement, where it is mixed with concentrates of Norwegian material of some kind and then comes back out of Norway in the form of refined

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nickel under some agreement with Great Britain.

(Laughter)

So that I think, if I may suggest to you, Mr. Secretary, instead of trying to pursue that particular angle, I must ask for more information on the inner workings of Feltenbush Nickel and how it works.

HM, Jr.: I used to like to know when the marriage season was in India, because that's the time they bought a lot of silver, but now I have to find out the holidays in Norway because there they marry nickel!

Mr. Purvis: That, I think, is a special case, but on the Japanese situation, as you know the Japanese Government are pressing the British Government quite obviously very hard. I have some further cables -- not sent to me, but shown to me -- indicating pressure has been great for some guarantee of shipment during the year.

HM, Jr.: Well, I saw slight indications yesterday that you like to trade a little.

Mr. Purvis: Not with you. No.

HM, Jr.: Oh, no! You were very successful with the President.

(Laughter)

You got 22 more planes than I thought you would!

Mr. Purvis: I think that was with your very great assistance.

HM, Jr.: You have not got them yet, if I know the Army! But let me put it this way: I would much rather not trade with you.

Mr. Purvis: I really give you my word on that. It's much better. In fact, I was going to tell you what the Canadians said to me. Seriously, if I were an Embassy representative I would have to take another line, but the fact is the Canadians feel this way about it, with this 835 tons which is going to be delivered in January or

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February, because it's part of an old contract, "we don't see any reason why we should press for any guarantee for the future. Let it come up on its individual basis of request for further stock for the Japanese. When that 835 tons has been shipped, ask us at the beginning of February, say 'what about March shipments?', let's deal with it on its merits."

Norman Robertson very properly said, "If I understand there is going to be a concerted effort to work out the real picture by sitting around with experts from both sides, by that time we may have more information and learn whether that is the proper action or not."

So, in effect, though I have been asked to ask you specifically and definitely whether they can go ahead on the basis that 400 tons will be available through the Canadians to Japan throughout the year, I would say I think it might be good to put to our Government that that would be our suggestion. Would that fit in with your remarks about trading?

EM, Jr: No. It's much better -- the President paid me the great compliment some years ago of calling me his "shirt sleeve diplomat". I would like to stay on that basis and we get much further.

Now I don't know -- but you say -- whether 400 tons a month would be below what they need or in excess?

Mr. Purvis: I have here the only other secret point that I did not want to put in that written thing. I was particularly asked to give it to you personally. The International Nickel Company's estimate that normal domestic consumption of 7,000 tons per annum -- that's domestic consumption for Japan. The British Government, however -- and this is why, I think, they have asked me to keep it confidential with you -- the British Government feel it is too high an estimate, and its maximum estimate is 5,000 a year -- hence their suggestion of 400 tons a month -- but International's estimate is 7,000. On that particular, I would like to put something before you that I found rather valuable to me.
Norman Thompson --

EM, Jr: Who is he?

Mr. Purvis: I have got to accurately determine, but he's the man who has been entrusted in the State Department, as far as I can tell, up there to study this question. He is very familiar, very familiar. He is also mixed up in some of the exchange end and seems to have -- and the blockade he mentioned particularly as a second check on all this, that he did not think had been mentioned in anything to me, but he thought blockade control by the Government was second.

He said the International Nickel Company handles its nickel position amazingly well. He said, "You know, you have mentioned to me that the Canadian Government has an export licensing system. I don't think you must take that -- you assumed that is an air-tight thing which quantitatively examines all products and makes sure they are being properly rationed. You must forget that. We do pay special attention to fifteen products, of which nickel is one, but our export licensing thing is a very routine thing. It gives us the ability to pick out certain things and say we won't do any more on that, but it's not working as an air-tight control." He said, "A much tighter control is arrived at by actual practices of the International Nickel Company. They have very strong objections as a company, and have had as a part of their policy, to the building up of any stocks that they can't know about. The result is, down to the smallest quantities, they insist for the domestic market in the United States and Canada, which is the nearest to them and it's not quite as easy to do it in the export market, though there again they trace as well as they can, they insist on undertaking that there will be no re-sale and willingness to show exactly what it is going to be used for, and that goes down to the smallest quantities of nickel and you have available this running record of where it could leak." "Now," he said, "on export, it's not quite as easy for them. They go as far as they can. There they get into the fact that the refining capacity is to an important degree in Great Britain and they work with Great Britain in regard to export control. The Bond Nickel Company is distinct from International, which is the name over here, is the refining capacity in Great Britain, and they, in turn, have great knowledge of the export trade, greater knowledge of the export than International could

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achieve from its base in New York." So altogether we have good machinery to know that there are not large stocks lying around and what is more, that they won't be allowed to accumulate.

HM, Jr: Two things. I take it that International are going to release how much nickel in January to Japan?

Mr. Purvis: Their idea was 835 tons over two months, so I take it it will be in two lots of approximately 400 tons.

HM, Jr: Could I make this suggestion, as a sort of indication of cooperation, that they do 400 in January, but until we know better let's make it 200 for February?

Mr. Purvis: Well, I will try that. You would like to cut that down still more.

HM, Jr: That we spread what is left over February and March.

Mr. Purvis: Over three instead of two months....

HM, Jr: Yes. Because

Mr. Purvis: on the theory that by that time an examination of the situation will give us a better line on the whole picture.

HM, Jr: And it's an indication to us that on this, as far as Japan is concerned, that the British Empire will play ball with us.

Mr. Purvis: Yes.

HM, Jr: And we would like to have such an indication. If they are right that they need 5,000 tons, then 400 a month gives them just about what they want. On the other hand, if you spread it over three months that gives us all the more chance to study what the needs are.

Mr. Purvis: And the assumption is that Japan has some little stock that she can use.

HM, Jr: Exactly! I can then say to the President, on this thing which we have been sort of watching, I think they are being fair.

Mr. Purvis: They are really trying. Then, if I may say, from the other side just say -- of course that's going to be the answer -- they are being very strongly pressed. All right. Then we can try to go ahead on the basis you suggest. I shall get in touch with them immediately.

HM, Jr: Do you think it's fair?

Mr. Purvis: Personally, I am quite in line with the feeling that what we ought to do is see clearly before we get committed ahead and, therefore, this is a practical expression. It may create some difficulty, because of the 835 being the balance of an old contract, but let's try it, Mr. Secretary.

HM, Jr: All you are saying is they will get it over three months instead of two.

Mr. Purvis: Yes, but they will come back to us, it was a 1939 contract and you left us with 835 tons undelivered at the end of the year.

HM, Jr: You can draw wind through their teeth like the Japanese do with their balance.

Mr. Purvis: I will put that in the cable.

Mr. Glaser: I merely want to ask a question. If I follow the statement of the figures, you said domestic consumption in Japan was 7,00 and the British maximum 5,000. That does not include Japanese sources in nickel in Japan and New Caledonia.

Mr. Purvis: I fear I must plead ignorance.

Mr. Glaser: They do own mines in Caledonia and these mines have recently gone into production.

Mr. Plaven: It's very new to us because I thought the mines were owned by a French company.

Mr. Glaser: That may be correct, but our information

is Japan owns them.

Mr. Purvis: We will check that very well. We proceed along that line, Mr. Secretary, to see what we can work out on that basis.

HM, Jr: That's nickel.

Now, tungsten we have talked about and I think the French, it's up to them to get busy and talk to the Government of Indo-China and Mr. Mandel, Secretary for Colonies, and see how good Mr. Mandel is. He's always saying he wants to do something.

Mr. Plevan: He really wants to do something.

HM, Jr: Well, here's the chance.

Mr. Purvis: This is the 7,000 tons you are speaking of.

HM, Jr: Yes; and the whole question of tungsten production of China, past, present and future. It really gets down to -- there are two things. There is this so-called Pekin Trading Company at Hong Kong, which is the English sales agent for tungsten for the Chinese, which are the big factor. They were the people you (Collins) bought through.

Capt. Collins: Wachang, which is the same thing.

HM, Jr: And then there is all this tungsten. And the tungsten mines are so close to Indo-China that the French would be in much better position to find out. You might find the Chinese are being treated badly. They need all the help we can give and I am certainly doing all I can.

Mr. Purvis: I put over the result of our talk of Friday a week ago and have not had a reply, so there may be something come back.

There is one word you will find missing at the top of the sheet. The first line reads "Tungsten is mainly produced: in countries controlled by I." The cable came through "Turkey". I can't believe 60% of

tungsten is produced in countries controlled by Turkey. But we have had no reply. On the other hand, I don't believe the British and French can control 60%. So would you mind putting a query after Turkey?

HM, Jr.: Do you know, Glaser?

Mr. Glaser: I don't know off-hand.

HM, Jr.: Have somebody bring in your tungsten folder. We have it. The tungsten folder would show what our figures are as to who controls tungsten.

Mr. Purvis: There is the Malay Peninsula, which we control; Burma, which we could control, and several countries which produce tungsten which we could control. Bolivia we could not. Turkey we could not....

Mr. Plevin ... except through the Baltic.

Mr. Purvis: That's right. Through the Baltic. But, you see, it is really more favorable than we thought. If that word is so, we can control 60% and the difference is 40%. From such data as I have, I thought 40% China; India and Siam is small

Mr. Glaser: My impression is China had 50%. That is the figure we used.

Mr. Purvis: There we come back again. This is all right for political candor, but we need an examination of alloy-by-alloy by competent people matching the knowledge of the three countries.

HM, Jr.: Definitely! I think so.

Mr. Purvis: To that query on the end of tungsten, I can really in effect say my last week's message, the indication of United States willingness to help ...

HM, Jr.: You mean where we go into a three-cornered deal?

Mr. Purvis: Based on further credit.

HM, Jr.: I think it is evidence that you have had

discussion. Tungsten and tin, as far as China goes

Mr. Purvis: This other question, as to whether you are prepared to initiate this with the Vanadium Corporation. That's Peru. Have you had any dealing with them? I take it it's Peru. It may be Bolivia.

HM, Jr.: I did not know there was any tungsten down in Peru.

Capt. Collins: I don't think it is.

HM, Jr.: I think that's an error.

Mr. Purvis: May be Bolivia.

HM, Jr.: (To Mr. Glaser) You sent for your figures?

Mr. Glaser: Yes, sir.

Mr. Purvis: I had an idea, when I came up the South coast, I saw tungsten, described as tungsten on the bags. It was terribly heavy.

HM, Jr.: We will come back to that, but I don't believe

Mr. Purvis: The next one is chrome.

HM, Jr.: That's something new. Chrome. And I have nothing on chrome.

Capt. Collins: We are buying at the moment some chrome which is coming out of Alaska, deliveries on which will begin in April.

HM, Jr.: For strategic war stocks?

Capt. Collins: For strategic war stocks. Bought two shipments of chrome from a company in New York. That's presumably Turkish chrome.

HM, Jr.: I don't know. If you will again take a look at this chrome, think that raises the question whether the United States is in a position to do anything about chrome.

Mr. Purvis: That would be very helpful. They are actually buying Greece's production and are trying to negotiate with Czechoslovakia. Of course there is some in the British Empire which we can control.

Capt. Collins: We are taking all chrome available from Alaskan deposits, every bit of it.

HM, Jr.: If you could get up a memorandum for me on what chrome is -- I was able to waive manganese aside and so we are all right, and they are not asking us to help on manganese but they are raising the question of chrome.

Mr. Purvis: A little chrome taken from Turkish and Yugoslavian sources might close up the channel and chrome is mentioned as the worst for Germany.

HM, Jr.: This is a new one. Make a note of that, Glasser. I did not know about chrome. That's three, what's the other one?

Capt. Collins: You mentioned chrome before.

HM, Jr.: I don't know what our own picture is on chrome.

Capt. Collins: I will give you a memo on that as far as we have gone.

Mr. Purvis: Manganese -- no query. The next one.....

HM, Jr.: Columbium.

Mr. Purvis: Tantalum and tantalite, two very rare alloys which they say you control. I have never heard of them.

Capt. Collins: Neither have I.

HM, Jr.: Neither have I and they are not on our list. Incidentally, if the Canadian government would care to let us have a list of the fifteen articles they are watching I would like to have that, but they are raising columbium and tantalum. Then you also talk about cobalt.

Mr. Purvis: Cobalt is something Canada should be able to know about and I think we could get a report from them that would be valuable. Norman Robertson said he wasn't clear on that himself and that the cobalt situation for Canada was a declining industry; that they are now down to the point of treating tailings and sweepings and getting cleaned up, and cobalt therefore had passed out of Canada's control and yet there was enough clean-up for her to be still a factor. I think I can develop more on cobalt in relation with Canada.

HM, Jr: These gentlemen will get together what we have available.

Mr. Purvis: They warn us it's a very complicated one. They do not say in the cable why, they simply mention it.

HM, Jr: On quartz crystal, Captain Collins, can tell you on that. He's an expert on quartz crystal.

Capt. Collins: We are trying to get quartz now. We had a sample shipment sent up here from Brazil which is probably the only source of quartz crystal and there have been heavy purchases by Britain. The Germans bought some but they were bought sporadically. Now we are in the market presumably for all they have for sale. The crystals they sent up were big. We tested out at Standards and they were very high quality crystals. We have tender out now on that.

HM, Jr: It's one of the easiest things to control and very essential.

Mr. Purvis: What exactly is it used for?

Capt. Collins: One is radio.

HM, Jr: Short wave radio.

Capt. Collins: Short wave radio, crystal points used in radio, particularly high powered; principally on ships. Used in instruments of precision.

HM, Jr: As I understand it, if you can't get quartz crystal you can't make a short wave radio. Something they use them for in the submarine.

Capt. Collins: Used on all sound-detecting devices; depth finders.

HM, Jr: I was impressed when I read it that the money, the number of dollars involved, would go further and be more effective in quartz crystals than anything I saw. In other words, it takes less dollars to control a very important item, quartz crystal, than anything I ran across. I figured with a few dollars you could do more with quartz crystals than anything else, so quartz crystal as it is has jumped how many dollars in prices?

Capt. Collins: It jumped back a little on these bids. It went from \$6 to \$12, and now it is \$10 a pound.

HM, Jr: So here is a good case. We don't want to be competing against each other.

Capt. Collins: There are quartz crystals in this country held in New York, principally by some of the jewelers, but they are more or less of trinket value than what we are using.

HM, Jr: But if we bought against each other it will go out of sight.

Mr. Purvis: I will get that thought over. It's important. So really the situation you are in today might in itself tend to block Germany's buying because you could take all there is if it could be done sensibly.

Capt. Collins: That's right.

Mr. Plevin: I think Germany has large stocks.

Capt. Collins: We know for two years they were buying small quantities only.

Mr. Purvis: We might ask whether there is in New York or on the other side any knowledge of Germany's stocks.

HM, Jr: Industrial diamonds. That's something new to me.

Mr. Purvis: That evidently is quite important.

Capt. Collins: But I don't know how much is used. Of course that's another case of precision instruments, construction. I don't know about it.

HM, Jr: I don't know either. Raises the question of re-export of stones, cut stones from New York. Find out what the exports are.

Mr. Purvis: In the last war I understand they were smuggled out from the New York market and I think you put on control in the last war. I understand also indirectly, not from these cables at all, that there is some question as to whether -- which may have been put to you -- as to whether you would be willing to have through the Counsel General some control exercised to which I think you have turned, from my knowledge of conditions I think this must be right, a rather deaf ear. Otherwise control by the Counsel does not seem the normal way to do it, but in the British anxiety to get something done some suggestion has been put up as to whether such control would be valuable.

Mr. Cochran: We get figures on the exports of basic industrial diamonds. Our Counsel General would report exports to us but re-exports would be our Customs people.

HM, Jr: That's me.

Mr. Purvis: Some suggestion, I gathered, has been made to you on that?

HM, Jr: We will find out where.

Mr. Purvis: I think this came from Norman Robertson who happened to mention it.

HM, Jr: Because the thing we mentioned to the President, if it is concentrated here in the hands of you gentlemen and you are going to get your instructions direct and not through diplomatic channels, it makes it much easier for me, which I don't know.

Mr. Purvis: We will develop that. It is mentioned at the end of the cable just as I have it here, that's the exact wording of the cable.

HM,Jr: Really. We can again find out.

What do you mean by mineral oil?

Mr. Purvis: I hoped I wouldn't be asked because I would like to ask. I thought it was lubricating oil, high grade type, either petrol or gasoline as we would say here. I personally think that's an all-embracing term to cover lubricating oils.

Mr. Plevin: All kinds of lubricants.

Mr. Purvis: That's what I think. Mr. Secretary, on that is there -- if you have made a study -- is there.....

HM,Jr: No, it's new to me. Do you know, Glaser?

Mr. Glaser: No.

HM,Jr: Captain Collins?

Capt. Collins: No.

HM,Jr: No, I don't know what you mean.

Now, copper, you have that listed.

Mr. Purvis: Yes.

HM,Jr: I don't know that we can be helpful on that, and that of course.....

Mr. Purvis: Very complex.

HM,Jr: Copper - and you have it down copper and oil, in general petroleum, the all-inclusive word petroleum. I suggest we sort of postpone those two. I am ready to be pushed.

Mr. Purvis: I think there are a lot of political difficulties here. We had better see what we can.....

HM,Jr: It seems to me the League of Nations either two or three times called a committee on petroleum to meet during the episode in Africa.

Mr. Purvis: Mediterranean.

HM, Jr: And every time a meeting was called it never took place.

Mr. Purvis: No. That accounts for their remark at the end of the cable, "It is realized that there might be special political difficulties involved in some instances, for example oil."

HM, Jr: You remember during the Ethiopian incident.....

Mr. Purvis: Yes, I do.

HM, Jr:I think two or three times a committee was called and never met, and I think both petroleum and -- I used the word petroleum -- would come under that heading.

Mr. Purvis: In talking to the Canadians, out of an approximate output of 250 thousand per annum, 210 thousand is covered by purchase of Great Britain of the output -- Great Britain and France.

HM, Jr: Of copper?

Mr. Purvis: Copper is accounted by either domestic use of copper in Canada or by purchase of Great Britain, 220 thousand -- I beg your pardon, leaving 30 thousand which is uncontrolled. Mr. Robertson pointed out to me how that happened. There are two companies on the west coast of Canada. They are both American companies, as a matter of fact -- Britannia and Grande -- which have costs which are above the average of copper producers elsewhere and when invited to consider the sale of their output they said the cost of the output did not permit them doing so. There was a very especial situation, politically, from the point of view of the Canadian Government. Here are two villages, towns, entirely dependent on these mines, both in British Columbia, right near Vancouver. And finally they were left out of the arrangement and have been shipping, I believe, to the United States, some to South America, some to Norway, and so on, so that that 30 thousand tons is the only uncontrolled copper, you might say, during 1940 from Canada, one of the big producers, and I thought it might be of value to put on the table.

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HM, Jr.: I saw this in the Wall Street Journal yesterday: "Russian Sources Checking 4,000 to 5,000 Tons of Copper here; Difficulty being Encountered in Having Order Placed; Export prices Range from 12.30 cents to 12.50 cents." I just picked that up. But in this memorandum that Dr. White's group did for me as to the things that could be controlled you stop the aggressor nations. Of course the two things that were near the top were petroleum and copper. I am glad to see Great Britain raises the question and we are not willing to discuss it but.....

Mr. Purvis: You would be willing to have the examination cover those?

HM, Jr.: Oh, surely, surely. But if we can do that -- yes, I would like the examination to cover petroleum and copper.

Mr. Purvis: Good!

HM, Jr.: Definitely!

Mr. Purvis: The answer is yes.

HM, Jr.: On carbon black - I had a quick survey made and I see we do export a lot of carbon black.

Mr. Purvis: A great deal.

HM, Jr.: But I just don't know what you people have in mind. You will have to give me more information.

Mr. Purvis: My understanding, but I got that for my own commercial knowledge - my guess would be that that is an essential ingredient for making rubber products which go into tires and masks. I would expect it to be a part of rubber.

HM, Jr.: It is, but I don't know just where our carbon black goes.

Mr. Purvis: To Canada; all countries.

HM, Jr.: We export a lot of it.

Mr. Purvis: There again we could include it in the study.

EM,Jr: I don't know what the world production is. I don't know what other countries make carbon black.

Mr. Purvis: I think you are the chief producer. It's your natural gas fields; deposits on the ground.

EM,Jr: It's raised here for the first time. You have never had it raised?

Capt. Collins: No, sir.

EM,Jr: Rubber and tin.

Mr. Purvis: I think that's very interesting that they should put those down. We ought to be able to pull out of the file a study on rubber and tin.

EM,Jr: I should think so. They may want -- they say mineral oils. They may mean petroleum.

Mr. Purvis: I am sure they do. Pleven explains in their commercial trade rates they divide oils up into two categories, mineral and vegetable, and obviously mineral would include all forms of lubricants and fuel, gasoline and that kind of thing.

EM,Jr: Petroleum, copper, rubber and tin are all world commodities. Carbon black is probably an internal one and we will get busy on that.

Mr. Purvis: But I can tell then you will be very happy to have studies applied to those also?

EM,Jr: Definitely.

Now, Captain Collins, this is the end of this memorandum. Is there something you want to ask? Does this raise anything in your mind?

Capt. Collins: No, sir. Not to my mind. On the commodities in which we are interested on our strategic lists we are going right through and there is nothing developed here that raises any question.

EM,Jr: I don't see any conflict with our own domestic situation so far.

Capt. Collins: So far, none whatever.

HM, Jr: Do you see anything?

Mr. Cochran: No, sir.

Mr. Purvis: Would it be helpful if I handed a copy of this to Collins?

HM, Jr: Yes. Do you want to raise something?

Mr. Glaser: Only on tungsten. We have reached the conclusion that we could do very little on tungsten principally because Russia produced 2,000 tons a year. Some estimate a figure of perhaps more. She also has Chinese sources available. Japan produces 2,000 tons and Germany has reported to have had 60% of the world's stocks before the outbreak of war. World production is about 30,000 tons a year.

Mr. Purvis: How is that divided?

Mr. Glaser: I don't have a complete breakdown but the countries that are important are the Empire; Portugal is important, the British Empire produces a considerable quantity, but the United States produces only 2,000 to 3,000; Japan 2,000, Russia 2,000 to 3,000 and China 10,000.

Mr. Purvis: What was the one after Russia?

Mr. Glaser: China, 10,000.

Mr. Purvis: On the other hand, Mr. Secretary, your efforts in connection with China would still mean that great contribution could be made.

HM, Jr: I am not discouraged. I think we have to make the effort on tungsten. I have to do everything to keep faith with the Molybdenum people.

Mr. Purvis: That's it.

HM, Jr: And besides if this thing is going to be effective -- and I think it just happened that we had a great piece of luck that so much of it is in Indo-China and that the French have it under control.

Mr. Purvis: Oh, yes.

HM, Jr.: Oh no, I'm not discouraged about tungsten. All these things are difficult. After all, we are at peace so it is particularly difficult for us.

Mr. Purvis: Of course it is, I realize that.

I think that covers our ground except for the general question as to how to bring about this joint study and after all I think that comes down to individuals -- if we can get the right individuals from England and France. There is only one other suggestion I wanted to make. In view of Canada's importance in the nickel situation, would you want to have a Canadian appointed?

HM, Jr.: I would be delighted.

Mr. Purvis: Then I take it these government representatives would meet, discuss and call in such help from the industrial people as they might want from time to time but not have them part of the actual conferences. Would that be better?

HM, Jr.: Right, and I think it ought to be kept very informal and very confidential.

Mr. Purvis: I think that might be better. The idea of a study headed by steel people on the consumption and -- or we might wish to proceed independently that they might be able to do -- or leave that as arising out of these discussions?

HM, Jr.: I don't know how to answer. I think if through some happy circumstance experts from England and France should just happen to be here at the same time we might be able to take advantage and while they were meeting together we might have somebody casually exchange information. You see? I would sort of keep it on that basis.

Mr. Purvis: That gives me the lead. I think that's a good way. It can be just as effective.

HM, Jr.: Most informal. Just so happened they were here.

Mr. Purvis: Otherwise we don't have to advertise to Germany that there is a conference.

HM, Jr.: And for our own isolationists - we have a couple of people like that.

Do you (Collins) know yet the manufacturing schedule Curtis has on the P-40? You haven't had time?

Capt. Collins: No, I will have all that Wednesday.

HM, Jr.: What is their production schedule on P-40's?

Capt. Collins: I will have that information on Wednesday.

HM, Jr.: Until we have that there is no chance -- got to take a look at that first, don't we?

Capt. Collins: We should know that and prefer to get it from them and then we can tell our friends on Constitution Avenue what is coming up rather than they tell us, and Smith is working - personal investigation.

HM, Jr.: Excuse me. I think that's all, Glaser. This memorandum, Captain Collins has a copy and if you (Collins) would make it available to him (Glaser) so you could work with him and supplement whatever he wants so you won't be going to the same sources. Wait in your office. He may want to see you.

(Mr. Glaser left the meeting.)

Capt. Collins: He is making a personal study for us on the outside -- Smith, Vice President of the Curtis -- of the complete engine production with possibility of expansion of those facilities as well as the propeller plant of Clifton, and also when we get the engine studies that will tie also in with their production at Buffalo of planes and I asked particularly about the P-40.

HM, Jr.: I see. When you have it let me know.

Mr. Purvis: I have two other points -- may I just mention.....

HM, Jr.: Please.

Mr. Purvis: In speaking with Mr. Sullivan yesterday he informed me that if we set up this new plant situation on the basis of a loan to the manufacturer, he felt the Treasury would be willing to see that that loan, providing it is a loan carrying some small interest rate and had security back of it, was free from income tax on payment.

EM.Jr: Whatever he told you on that, if he says it's all right I will go along with it.

Mr. Purvis: Thank you - thank you.

EM.Jr: Well, if he said it is all right, I don't know.

Mr. Purvis: It has cleared something that I wd think will be helpful.

EM.Jr: Whatever he told you. If he has given you a formula, there won't be any trouble from this room.

Mr. Purvis: He says he does not want to announce it as a general formula, but he assures me that in every stage where we refer the manufacturer to him his willing will be the same.

EM.Jr: He pointed out that you suggest this to the manufacturer rather than us?

Mr. Purvis: No general form being put up but we would know when we referred the manufacturer to him. He would get the right answer.

EM.Jr: You would work it out -- you say to the manufacturer if you want to get a clearance, and if you do so, and so forth and so on -- but to be worked out between the Allies and the American manufacturer and we would agree to pass on it.

Mr. Purvis: I gathered that was his idea and I will make quite sure that it is the way it develops.

The other thing I wanted to mention was this: The British Government had intended to send a representative to work with M. Flevin and Commander Jacquin on this air matter. He had an accident just as he was about to go on the clipper. Don't know exactly the

kind, and therefore they have asked Col. Greenley whether he would detach himself from the other venture in Ottawa and come down here to sit with Jacquin and Plevin. Is that agreeable to you?

HM, Jr: Surely.

Mr. Purvis: I think it would be very happy in this way because Jacquin has great knowledge about the technical side of airplanes and which I don't think you do.

Mr. Plevin: Not at all.

Mr. Purvis: Greenley's experience is in industrial production of boilers so he has that background and then again Plevin has knowledge of all that happened on the other side.

HM, Jr: Since you arrived, Mr. Plevin, things have happened. Does Greenley step down from his own position?

Mr. Purvis: I don't know what happens.

HM, Jr: Do you think we ought to send anything back to Mr. Bullitt?

Mr. Cochran: I don't think it is required.

HM, Jr: I feel fine.

Mr. Purvis: Thank you very much. It has been quite a good week.

PARAPHRASE OF TELEGRAM RECEIVED

414

FROM: American Embassy, Paris, France

DATE: December 28, 1939, 9 p.m.

NO.: 3047

The following is personal and strictly confidential for Secretary Hull and Secretary Morgenthau:

When Matthews returned to Paris this afternoon he was called to the Ministry of Blockade by M. Dayras, the Chef de Cabinet of the Minister of Blockade, and M. Paul Morand, the French member of the Blockade Committee in London. The purpose in doing so, M. Dayras said, was that he wished to put Matthews au courant of the present status of discussions regarding molybdenum, tungsten and other ferro-alloys. He again expressed his deep appreciation of what had been done so far, and the importance thereof to the cause of the Allies.

M. Dayras then read to Matthews the texts of the telegram of December 24 from Monnet to Purvis, which contained the lengthy Franco-British reply to the questions transmitted through Lord Lothian, and of a subsequent telegram just received from Purvis. (Offie has been informed by Monnet that the latter made arrangements for all exchanges of views to be directly between him and Purvis rather than through the British Ambassador at Washington.) It is assumed that these texts are in your hands. Tomorrow morning the French will transmit to London their reply to this further inquiry.

Matthews

Matthews was told by Dayras that in the year 1940 France is prepared to buy substantial quantities of molybdenum, that they had not made definite decision as to the amount, but just before Christmas Jacoul had mentioned two thousand tons as the quantity that could usefully be acquired by the French. Dayras said he was in accord with the view of the Climax interests that there should be no accumulation of excessive stocks to hang over the market when the war is over. However, he believed some assurance should be obtained that the output of Climax in 1940 will not be unduly increased. Dayras said, with regard to the corollary matter of nickel, that the reply to London by the French will be that it is primarily for the British to decide whether the British should negotiate 1940 contracts with Japan. However, he seemed to feel that a reasonable view is taken by the Climax Company on that question. The plan favored by both Dayras and Morand is to send several metal experts to the United States to thrash out the whole question of ferro alloys so that the needless delays and misunderstandings involved in telegraphic exchanges could be avoided.

Dayras said, in discussing the tungsten question, that it was his understanding that on the sixth of December there were some 3000 odd tons of tungsten in French Indo-China, and on the Chinese side of the frontier there still remained

- 3 -

a further 3500 tons. He told Matthews that yesterday a telegram had been sent to ascertain the exact tungsten and antimony figures and the location of them as of today - saying that the antimony does not interest France much. Dayras indicated that it is the hope of the French Ministry of Blockade that all exports of tungsten from China will go through French Indo-China, which would give them complete control over it. He said that this is also the view of the Minister of the Colonies. He went on to say that the British and French are, of course, entirely prepared to see that all the tungsten it needs for its own use is received by American industry, that obviously this is in the interest of Americans manufacturing for the Allies; however, he did express some misgivings because, as he said, a group of brokers in (omission) purchases the tungsten for American producers.

END SECTIONS ONE, TWO AND THREE.

BULLITT.

EA:LWY

PARAPHRASE, SECTION FOUR, TELEGRAM NO. 3047
OF DECEMBER 28, 1939, FROM AMERICAN EMBASSY, PARIS

The French are afraid that these brokers might reexport part to Siberia from the United States. See next to the last paragraph of my telegram No. 2895, / We do not expect any difficulties in this connection but you will note that the Blockade Ministry seems somewhat less eager than the Foreign Office to release without investigation the tungsten consigned to the United States.

Monnet tells me that in view of the great complication in the whole question of economic warfare, that on his suggestion Daladier has approved sending Rist to the United States in the near future in order to explain the objectives of the Allies in economic warfare and the mechanism which it is proposed to use to attain them. Rist would also be able to get for the French a clear picture of our position. Monnet has also been authorized by Daladier to take up with Chamberlain next week the matter of having a qualified British subject sent with a similar mission.

END OF MESSAGE.

BULLITT.

PARAPHRASE

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A telegram (no.455) of December 27, 1939, from the American Consul General at Hong Kong quotes a message of December 23 from Consul Reed at Hanoi which reads substantially as follows:

On the afternoon of December 21, Japanese soldiers arrived at Kachan (on the Indochina border) and on the same day Japanese (?) cavalry advanced in a northerly direction toward Caochang Road and Lungchow was occupied. There are reports to the effect that the Chinese have recaptured Kanning in a counteroffensive and have isolated Japanese advance units. No optimism has been noted by Consul Reed in regard to immediate results in restoration of transportation facilities by way of Kwangsi Province and in Hanoi it is said that at Yunnanfu air raid alarms have been sounded already.

The Japanese military mission in Hanoi is headed by Suchibashi. Rumors are current that the stoppage of gasoline shipments is being asked by the Japanese on the grounds that such shipments constitute war supplies. Rumors have been encouraged and uneasiness has been caused in Chinese circles by ^{extreme} reticence on the part of the French concerning the purpose of the Japanese military mission and the fact that the visit has received so little publicity.

RECEIVED

DEC 29 1939

RECEIVED
GENERAL INVESTIGATIVE
DIVISION
U. S. DEPARTMENT OF JUSTICE

Cherry



DEPARTMENT OF STATE
WASHINGTON

December 29, 1939.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of confidential telegram No. 3047 of December 28 from Paris.

(This message was received at 5:30 P.M. Upon checking with the State Department at 5:40 P.M. it was learned that the 3 above sections of the cablegram did not reach the State Department Code Room until 1:25 P.M. today and that a 4th section has just come to the Code Room.)

B.M.F.

BRITISH PURCHASING COMMISSION

35 Broadway,

New York, N.Y.

December 28, 1919.

Dear Mr. Secretary,

I enclose a set of memoranda dealing with possible control of:

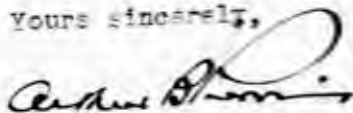
- (a) various alloys used in the manufacture of special steels.
- (b) other essential war materials.

From the attached copies of two cables received by me on 23rd of December, you will see how much the British and French Governments welcome the discussions which have already taken place in this regard.

They authorize me to state that they are most anxious to follow up this whole question and are prepared to keep me informed on further developments for your confidential information, hoping that you would be willing to pass to me similar information that you accumulate.

The best method of analyzing the various situations involved is perhaps one for discussion and I will look forward very much to a further opportunity of going into this with you.

Yours sincerely,



Arthur E. Purvis
Director General.

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

884

I M M E D I A T E

Viscount Halifax
Marquess of Lothian

December 22nd, 1979 (11.40 p.m.)

" " " (2.30 p.m.)

Your telegrams No. 894, 895, and 898.

Secret.

The two Governments have referred this question to Anglo French Coordinating Committee and you will shortly be receiving a series of telegrams containing messages on subject from Chairman of Committee to Mr. Purvis.

We understand that Mr. Purvis is at present in New York and will be grateful if you will take all steps you possibly can to ensure that these messages reach him immediately in case he is able to pursue matter with Mr. Morgenthau before Christmas.

I M M E D I A T E

"K"

Viscount Halifax
Marquess of Lothian

December 22nd, 1929 (11.40 a.m.)

" " " (9.45 a.m.)

My immediately preceding telegram.

Following for Mr. Purvis from Mr. Monnet.

Secret.

* Telegrams 894, 895 and 902 from His Majesty's Ambassador at Washington regarding molybdenum etc., have been referred by British and French Governments to Anglo-French Coordinating Committee on behalf of whom I have been requested to send you following reply.

British and French Governments very much welcome approach which Mr. Morgenthau has made to you and warmly appreciate spirit in which President is considering question. It would be of greatest service to Democratic Powers if United States Government would establish control over export or re-export of essential alloys and we hope that this might lead to similar war materials such as oil, copper and carbon black. Policy which Secretary for the Treasury has adumbrated, with the Allied cooperation it would certainly receive, might well shorten war considerably without in any way adding to sufferings of German people. We therefore attach utmost importance to any steps which United States Administration can take to prevent these alloys reaching dangerous destinations.* We are very glad to hear that Mr. Morgenthau has already secured an undertaking from Climax Company not ~~to~~ to ship molybdenum to Russia and Japan until further notice; and we understand from your telegram No. 921 that this would now apply to all American molybdenum producers including Cananea Mine in

/Mexico...

-2-

Mexico which we understand has a selling arrangement with Climax.

XXXX We are most anxious to collaborate and consider that suggestion in paragraph 5 of telegram 894 from His Majesty's Ambassador offers suitable procedure.

We should be glad if you would arrange accordingly and if you desire it we would send suitable experts to assist in such discussions. Meanwhile immediately following telegrams give you indications of our standpoint.

XXXX

This refers to a suggestion that had been made to Mr. Morgenthau that Mr. Stewart and Mr. Purvis might cooperate with the alloy suppliers (e.g., International Nickel Company, Climax Molybdenum, Vanadium Corporation etc) and probably some prominent steel men, in a comprehensive study of the subject.

Molybdenum and its substitutes are absolutely essential to Germany's production of special steels. A mixture of such alloys is, in fact, essential for such special steels though the proportions of each alloy can be varied very considerably.

The main alloys required for special steels are:

Molybdenum; tungsten; vanadium;
Chrome;
Manganese (to a certain extent).

Germany's estimated stock of these alloys as a whole is calculated at from 12 to 18 months, allowing for:

- (a) Substitution possibilities
- and
- (b) A comparatively small margin for wastage.

It is considered that Germany's reserves are probably intact at this stage, except perhaps for chrome.

MOLYBDENUM

British and French contracts with Climax Molybdenum Corporation call for maximum deliveries in 1940 of 5,500 short tons.

Actual takings under these contracts would not, of course be up to the maximum total provided for but at that would be much higher than in normal times and would to a material extent replace the normal German takings.

Allied orders for United States war supplies, in which Molybdenum is used, will, of course, raise United States 1940 consumption above normal.

Queries(a) Stock Accumulation

It has been understood that Climax Molybdenum Corporation has been increasing its production recently. It is suggested this would be undesirable if it brings production above current consumption. Would the United States be willing to cooperate to this end? (It is understood the answer to this would be in the affirmative).

(b) Rationing vs. Embargo

The Allied policy has been to ration Japan and Russia strictly on the theory that if supplies to them be kept down to normal requirements they cannot supply Germany.

Does the United States contemplate an embargo? (I have understood this would be a more normal course for the United States to take).

Allies propose that neutral countries contiguous to Germany should be similarly rationed, particularly Italy. If the United States were contemplating supplying Italy it is asked whether a guarantee could be obtained from the appropriate Italian Government organization that supplies will be utilized for consumption only in Italy.

Meantime the Allies are endeavouring to purchase the output of the other producer countries, i.e., Roumania and Norway.

NICKEL

426

Out of a balance due on the 1938 contract of..... 1,335 tons
Deliveries have been restricted to..... 300 -
Leaving a balance to be delivered in January
and February 1940 of..... 335 -
Japan however is now pressing for additional deliveries during the first quarter of 1940 totalling more than an additional..... 7,000 -

Method of Handling

The International Nickel Company, in constant contact with the Ministry of Economic Warfare, has agreed to ration strictly Russia and Japan. It has not considered it wise that supplies should be entirely stopped because of the danger of this providing Russia with an additional excuse to seize the Finnish mines.

Superimposed upon this position, the Canadian Government has had in effect an export licensing system which has been used to restrict exports. Under this system -

Russia has been cut off entirely, and Japan has been rationed.

For the time being it would appear that Nickel can be almost entirely controlled since 100% of the production is in Canada; and the Finnish mines are at the least two years away from the period when production can begin - possibly with recent happenings much more. It is anticipated the Canadian Government would be entirely willing to co-operate in a policy of restricted exports: this matter is being taken up immediately with the Canadian Government through the medium of the Canadian Minister at Washington.

New York,
December 26, 1939.

Tungsten is mainly produced:

In countries controlled by ?	60%
In China, Korea and Siam	40%

The Chinese output has been going mainly to Germany or Russia under barter agreements. The Chinese Government has been anxious to continue deliveries to Russia as being a necessary condition of securing Russian armaments.

Method of Handling

As an essential part in controlling Tungsten, it would be necessary to buy up the Chinese production.

Would the United States Government be prepared to initiate this with the Vanadium Corporation (which controls the Peruvian output) and with the Chinese Government, on the theory that effective control would then be within reach?

New York,
December 25, 1939.

CHROME

428

Germany is showing great anxiety to obtain Chrome.
Chrome comes from Turkey, Yugo Slavia, Greece and the
British Empire.

Method of Handling

The allied action is as follows:

Greek chrome has already been bought to
an amount equivalent to six months
production.

Negotiations with Turkey to prevent supplies
going to Germany are in progress.

Negotiations with Yugo Slavia to reduce
supplies to Germany to the minimum
possible are in progress.

New York,
December 25, 1939.

MANGANESE

429

Russia produces sufficient Manganese to supply Germany with all she needs.

Manganese can only be used for certain kinds of steel.

Method of Handling

If the United States should desire, the Allies are prepared to consider supplying the United States from Allied sources in order to replace Russian imports.

New York,
December 25, 1939.

OTHER RARE ALLOYS

430

COLUMBIUM

TANTALUM

The United States controls practically all the refined output of these alloys.

Poor quality Tantalite is obtainable from the Belgian Congo, and Germany last year tried to buy from them.

Method of Handling

Is it possible for the United States to control these alloys?

COBALT

Cobalt is mentioned as presenting a very serious control problem.

New York,
December 26, 1939.

OTHER ESSENTIAL WAR MATERIALSVERY IMPORTANTQuartz Crystal

The possibilities of control depend on the purchase of the Brazilian output.

Would the United States Administration be willing to examine this situation and communicate their views.
(Any collaboration desired would of course be forthcoming).

Industrial Diamonds

The main difficulty in controlling this situation is the re-export of cut stones from New York.

Would the United States Administration be willing to put in a control system for this trade?

OTHER MATERIALS CAPABLE OF RELATIVELY EASY CONTROLMineral OilCopperCarbon BlackRubberTin

United States cooperation in an effort to control any or all of these would be greatly valued and here again, any collaboration desired would be forthcoming. It is realized that there might be special political difficulties involved in some instances, (e.g., oil) and that these in certain instances might make control impracticable.

C
O
P
Y

December 30, 1939

After discussing the Brazilian situation at some length with Mr. Feis he brought up the Colombian matter and said he understood the Ambassador had received new instructions and that his new instructions were probably bringing him close to the Council's position. I said that I had seen in the press that the Ambassador had stated after coming out of a conference with Mr. Welles that members of the Council were coming to Washington next week to give him an answer to the suggestion he had made some time before. Mr. Feis asked if that was a fact. I told him it was not. We had not planned to see the Ambassador and had heard nothing from him. He asked what the situation was and I told him Mr. Traphagen had told Mr. Morgenthau the minimum the Council would sponsor, and if the Colombians would come up to that we would sponsor the plan, and if the Government wants to make a settlement on a lower basis, less favorable to the bondholders, that that would not be opposed by the Council as we have no intention of opposing the Government in these actions, but it will go to the bondholders as an arrangement made by the two governments and one for which the Council has no responsibility whatsoever. I said that our position in these matters is that we were set up by the Government to exercise our own discretion and best judgment as to the best interest to the bondholders and that as long as we are operating we intend to do so. We have never played politics, and did not intend to do so.

If the Government wants to make a settlement lower than we propose, we will not oppose it but we will not sponsor it and will tell the bondholders that this is something that has been arranged for them by the two governments and therefore they are hardly likely to get any more and had better take it. Mr. Feis said that was all right. (not Treasury idea)

Mr. Feis asked if we were ready to see the Colombians and I told him we were not. Mr. Traphagen told Mr. Morgenthau that we wanted to know the Government's position. If the Government would back us on our minimum requirement we will continue talking with the Colombians and try to get them to make that minimum offer, but only if the Government will back us. I told him if the Government wants to do something on a lower basis that we will step out and let the Government negotiate. Mr. Feis said that our position was perfectly clear. I said that we had put the matter up to the Interdepartmental Committee and were now waiting on them. Mr. Feis said that was a clear-cut position, we have put something up to the Government and are waiting to hear from them and there is no crossing of wires.

Mr. Feis asked what we would do if the Colombian Ambassador came to us in the meantime and I said we would see him and listen to what he had to say. That was all. Mr. Feis said that was perfectly logical to him.

Francis White.

COPY

December 30, 1939

I met Mr. Herbert Feis, Adviser on International Economic Affairs of the Department of State, by appointment at the Hotel Biltmore this morning. He said he wanted to talk to me about the Brazilian situation because he felt that it was developing into a position where there might be some important decisions to make and it might be very important for the future relations between the Council and the Government.

Mr. Feis said that the British and French have been pushing the Brazilians to make a settlement and they are now offering \$15,000,000 as service for all their foreign bonds. I asked whether he was sure of the figure \$15,000,000 because I said the last word we had indicated that they were talking of 3,000,000 pounds to be made available. Of course, at the present rate of exchange that would be only some \$12,000,000. Mr. Feis said that all he knew was from the cables Caffery was sending out and the cables specifically mentioned \$15,000,000. He reached in his pocket for a copy of the cable which he said he was going to give to me and found he had left it in another coat pocket and he said he would post it to me.

Mr. Feis said that the Department had had conferences and had had to make some important decisions. First of all, what action should be taken and who should take it. The Department had decided to act alone in the matter and not to refer it to the

Interdepartmental Committee composed of Welles, Morgenthau and Mr. Jesse Jones. He said that also they had sent Caffery instructions of a very categorical and forceful character to insist that State and Municipal bonds must also be taken care of. \$15,000,000 apparently was for service on the Federal bonds only and the State and Municipal bonds were to be left out.

I said that it was my understanding that the British and French were interested primarily in the Federal bonds. Mr. Feis said he supposed that. I said that I agreed the State and Municipal bonds should be included, just as they should be in Colombia. Mr. Feis said that was another question, he did not know how much the State and Municipal indebtedness was in Colombia. I said it was about double the Federal indebtedness and bondholders were writing to us insisting that no settlement be made unless the Departmental and Municipal bonds were included. Mr. Feis evidently did not realize how important they were in the Colombian situation.

Mr. Feis said that they had insisted that any plan of Brazil now be a temporary plan if they are only going to provide such a meager amount of money for debt service. I told Mr. Feis that I agreed with both of these points and felt they had taken

the correct attitude. I said, of course, the British are active in the matter and are in a position now of having centralized all purchases in Brazil through the British Embassy so that they can perhaps take milreis payments and also the man who went to Brazil for the British when Mr. Munro did was incorporated into the British Embassy as soon as the war broke out, so that for the last four months he has been a member of the British Embassy and it was easy to see the Embassy was working on all sides of the matter.

Mr. Feis did not know this man was a member of the British Embassy but he said he understood the British Embassy was acting in the matter. He said there was the danger that the British might put in clearings. I said that on account of our vast purchases in Brazil, Brazil was one country where clearings could be effective so far as Americans were concerned and that should clearings be put in, all our bonds could be paid in full. Mr. Feis said that we would never get Mr. Hall to agree to put in clearings. Mr. Feis said, of course, he does not know what the result of these cables will be. It may break up the whole thing by insisting that the State and Municipal bonds come in and that there be a temporary plan, so nothing may come of it. He said that the Council should be prepared to send someone to Brazil at once and leave him there as long as necessary, six months or more. He said he thought we should do it even if we took

the last money the Council had, because otherwise he did not know how he could answer Mr. Morgenthau in his criticism saying the country was ready to negotiate and the Council would not send anyone to do it.

I told Mr. Feis I felt it probably would be futile to send anybody down to Brazil and he agreed with me and said there was probably one chance in five that anything could be accomplished but he thought the Council should do it. I told him we did not have the money or the person to send. Mr. Munro could not go, I felt confident, at this time. Mr. Feis said there was criticism before when Mr. Munro went down because he had to leave to come back when college opened. He said he thought Mr. Clark was the man to do it and I told him that was impossible as his Church work would not permit him to do it. Mr. Feis again said there would be criticism against the Council not being able to measure up to what the others were doing. I told Mr. Feis that I would like to review the situation for him on that point.

When the Council was formed there was a question of financing it as he knew. He said nobody knew that better than he. I said the Council found money could be got only from the bankers. This was discussed with President Roosevelt himself who said the bankers had made money selling the loans and there was no reason why they should

not now contribute to retrieving something for the investors, and it therefore was with the sanction of the Government and of the President himself that the Council had been financed by the bankers at the outset, and then the SEC had come along and practically wrecked the Council by its statement at the time for taking money from bankers and said we should not do it. I said that I would point out that both the British and French representatives who went to Brazil were bankers and they were undoubtedly paid by their banking principals and furthermore, the British Council and the French Association were financed by the bankers. I said in the case of the British, the Bank of England collects the money from the bankers and turns it over to the Council and that we had suggested the same thing here to him and Mr. Douglas but the Board of Visitors had not seen fit to sponsor it so if we are handicapped it is because of the action of our Government.

I said that the British and French sent people paid by the bankers and in the case of the British he was incorporated in to British Embassy, so any criticism by our Government is totally unfair and the facts do not warrant it. I said in addition to this, the President's and the Secretary of the Treasury's statements this autumn had gone far again to discredit the Council and make it impossible to operate and I said we certainly were

not going to dig down to our last penny to send someone to Brazil now when the Council had been discredited by the action of the Government.

I said I saw no reason why our Government should not do what the British were doing and let someone in the Embassy represent us. I suggested Mr. Donnelly. Mr. Feis said he did not think Mr. Donnelly would be so capable as Ambassador Caffery. I said that that would suit me even better but I did not wish to suggest the head of the Mission, but that would be suitable to us. Mr. Feis said it was out of the question.

I told Mr. Feis that I thought the Government should insist the Brazilians send somebody up here or appoint someone already here to negotiate with us. I also pointed out that they agreed to pay for Mr. Munro's trip and as there were no negotiations and hence no cables back and forth, the expenses had been kept to the insignificant sum of \$3,700, but Brazil had not even paid that. Mr. Feis said that he had seen some communications recently that indicated that this money would be forthcoming. I asked if Brazil would pay for the new trip and he said no.

Mr. Feis then made some reference to the fact that Mr. Morgenthau might want to set up another Committee to deal with the Brazilian Government feeling that the Council would not send someone down. I said the Government would have to determine

that itself, and the Department would determine what it would do in the matter. I said we had no intention of fighting the Government and if they wished to set up a Committee to deal with Brazil we would not oppose it. Mr. Feis said that that would not be very satisfactory to anybody and I told him I knew that and especially for our Government. I then asked where he was going to get the funds for the new Committee, he said he did not know, but thought Mr. Morgenthau might ask some people to put up the money. I said in that case, he might ask them to put up the money for the Council to send someone to Brazil. He said he agreed that if they set up another organization they would have to finance it and it would be better from every point of view to get funds for the Council to send someone down to Brazil. He said that he thought it might be gotten from the Stabilization Fund but then added as an afterthought that Mr. Morgenthau would want to control the action of whoever went down. I told Mr. Feis we wanted no money from the Government.

Mr. Feis asked where the money could be gotten then and I suggested that the Federal Reserve go to the houses interested in Brazil and ask them to contribute and then turn the funds over to us and we would not know which ones had or had not contributed or how much. Mr. Feis thought that might be done,

that that was the best way of handling it. I said either that or have the Brazilian Government send someone up here.

Before getting to this point, in the early discussion, Mr. Feis said that the situation has now changed as far as the Government's feeling toward the Council is concerned, so that he was able to come to see me. He said that he had not done so before as it would not have been helpful to the Council or to the Department, and would only have complicated matters. He said the Treasury Department is now strongly for the Council, that Mr. Morgenthau has completely changed his views and is strongly backing the Council. He said a Mr. White in the Treasury, whom he said was the Treasury's Economist, he thought had been against the Council, and then the people in the Treasury went into the matter and learned something about it and both Mr. Morgenthau and Mr. White are strongly for the Council and he mentioned Mr. Joseph P. Cotton Jr. as the one responsible to some extent for bringing this about. He also said the same applied to Mr. Jesse Jones. He said Mr. Hull is, as he always has been, strongly for the Council. He said Mr. Welles has been vacillating, and he never did know quite where Mr. Duggan was, as regards the Council. I suggested that Mr. Duggan was probably trying to find out where Mr. Welles was. Mr. Feis indicated that that was probably true.

Mr. Feis laughed and said the shilly-shally back and forth in the last two months should be put on the stage, it was such a farce.

I said that I had never had any doubts as to Mr. Hill's feeling but I did definitely feel Mr. Welles was not friendly to the Council, for what reasons I did not know, perhaps personal, but I said these actions were the crux of the whole matter, that these matters would not be settled until the Department told the Governments they had to do something and whether anything will come or not will depend on the Government's action. Mr. Feis said that he came to me after a conference with Mr. Welles at 5 o'clock the day previous and that they had taken the strong position that the State and Municipal bonds must be included and it must be a temporary plan.

I asked about the so-called Schroder Plan and what it was and Mr. Feis said he would not go into that because that Plan was now out but he made some disparaging remarks about Schroders and their representative in Rio, Mr. Bogdan, in particular. Mr. Feis told me a good many papers on these Brazilian plans had come up and they were going to be sent to the Council, in fact, he thought when he called me yesterday that the papers had already gone to me but he found that Mr. Duggan had been away for a week and the papers had remained on his desk during that time and Mr. Duggan wanted to rewrite one paragraph of the letter to

the Council sending the documents, and we would get them the first of the week, and then I would see just what the situation was.

At the end of the conversation Mr. Feis indicated that when he sees how the situation develops as to whether the negotiations will go on or not he will then see about getting funds for the Council to send some one to Rio.

Francis White.

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44

December 30, 1939

After discussing the Brazilian situation at some length with Mr. Fais he brought up the Colombian matter and said he understood the Ambassador had received new instructions and that his new instructions were probably bringing him close to the Council's position. I said that I had seen in the press that the Ambassador had stated after coming out of a conference with Mr. Welles that members of the Council were coming to Washington next week to give him an answer to the suggestion he had made some time before. Mr. Fais asked if that was a fact. I told him it was not. We had not planned to see the Ambassador and had heard nothing from him. He asked what the situation was and I told him Mr. Traphagen had told Mr. Wargenthan the minimum the Council would sponsor, and if the Colombians would come up to that we would sponsor the plan, and if the Government wants to make a settlement on a lower basis, less favorable to the bondholders, that that would not be opposed by the Council as we have no intention of opposing the Government in these actions, but it will go to the bondholders as an arrangement made by the two governments and one for which the Council has no responsibility whatsoever. I said that our position in these matters is that we were set up by the Government to exercise our own discretion and best judgment as to the best interest to the bondholders and that as long as we are operating we intend to do so. We have never played politics, and did not intend to do so.

If the Government wants to make a settlement lower than we propose, we will not oppose it but we will not sponsor it and will tell the bondholders that this is something that has been arranged for them by the two governments and therefore they are hardly likely to get any more and had better take it. Mr. Feis said that was all right. (not Treasury idea)

Mr. Feis asked if we were ready to see the Colombians and I told him we were not. Mr. Traphagen told Mr. Worgenthan that we wanted to know the Government's position. If the Government would back us on our minimum requirement we will continue talking with the Colombians and try to get them to make that minimum offer, but only if the Government will back us. I told him if the Government wants to do something on a lower basis that we will step out and let the Government negotiate. Mr. Feis said that our position was perfectly clear. I said that we had put the matter up to the Interdepartmental Committee and were now waiting on them. Mr. Feis said that was a clear-cut position, we have put something up to the Government and are waiting to hear from them and there is no crossing of wires.

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December 30, 1939

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Interdepartmental Committee composed of Welles, Morgenthau and Mr. Jesse Jones. He said that also they had sent Caffery instructions of a very categorical and forceful character to insist that State and Municipal bonds must also be taken care of. \$15,000,000 apparently was for service on the Federal bonds only and the State and Municipal bonds were to be left out.

I said that it was my understanding that the British and French were interested primarily in the Federal bonds. Mr. Feis said he supposed that. I said that I agreed the State and Municipal bonds should be included, just as they should be in Colombia. Mr. Feis said that was another question, he did not know how much the State and Municipal indebtedness was in Colombia. I said it was about double the Federal indebtedness and bondholders were writing to us insisting that no settlement be made unless the Departmental and Municipal bonds were included. Mr. Feis evidently did not realize how important they were in the Colombian situation.

Mr. Feis said that they had insisted that any plan of Brazil now be a temporary plan if they were only going to provide such a meager amount of money for debt service. I told Mr. Feis that I agreed with both of these points and felt they had taken

the correct attitude. I said, of course, the British are active in the matter and are in a position now of having centralized all purchases in Brazil through the British Embassy so that they can perhaps take milreis payments and also the man who went to Brazil for the British when Mr. Munro did was incorporated into the British Embassy as soon as the war broke out, so that for the last four months he has been a member of the British Embassy and it was easy to see the Embassy was working on all sides of the matter.

Mr. Feis did not know this man was a member of the British Embassy but he said he understood the British Embassy was acting in the matter. He said there was the danger that the British might put in clearings. I said that on account of our vast purchases in Brazil, Brazil was one country where clearings could be effective so far as Americans were concerned and that should clearings be put in, all our bonds could be paid in full. Mr. Feis said that we would never get Mr. Hull to agree to put in clearings. Mr. Feis said, of course, he does not know what the result of these cables will be. It may break up the whole thing by insisting that the State and Municipal bonds come in and that there be a temporary plan, so nothing may come of it. He said that the Council should be prepared to send someone to Brazil at once and leave him there as long as necessary, six months or more. He said he thought we should do it even if we took

the last money the Council had, because otherwise he did not know how he could answer Mr. Morgenthau in his criticism saying the country was ready to negotiate and the Council would not send anyone to do it.

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When the Council was formed there was a question of financing it as he knew. He said nobody knew that better than he. I said the Council found money could be got only from the bankers. This was discussed with President Roosevelt himself who said the bankers had made money selling the loans and there was no reason why they should

not now contribute to retrieving something for the investors, and it therefore was with the sanction of the Government and of the President himself that the Council had been financed by the bankers at the outset, and then the SEC had come along and practically wrecked the Council by its statement at the time for taking money from bankers and said we should not do it. I said that I would point out that both the British and French representatives who went to Brazil were bankers and they were undoubtedly paid by their banking principals and furthermore, the British Council and the French Association were financed by the bankers. I said in the case of the British, the Bank of England collects the money from the bankers and turns it over to the Council and that we had suggested the same thing here to him and Mr. Douglas but the Board of Visitors had not seen fit to sponsor it so if we are handicapped it is because of the action of our Government.

I said that the British and French sent people paid by the bankers and in the case of the British he was incorporated in to British Embassy, so any criticism by our Government is totally unfair and the facts do not warrant it. I said in addition to this, the President's and the Secretary of the Treasury's statements this autumn had gone far again to discredit the Council and make it impossible to operate and I said we certainly were

not going to dig down to our last penny to send someone to Brazil now when the Council had been discredited by the action of the Government.

I said I saw no reason why our Government should not do what the British were doing and let someone in the Embassy represent us. I suggested Mr. Donnelly. Mr. Feis said he did not think Mr. Donnelly would be so capable as Ambassador Caffery. I said that that would suit me even better but I did not wish to suggest the head of the Mission, but that would be suitable to us. Mr. Feis said it was out of the question.

I told Mr. Feis that I thought the Government should insist the Brazilians send somebody up here or appoint someone already here to negotiate with us. I also pointed out that they agreed to pay for Mr. Munro's trip and as there were no negotiations and hence no cables back and forth, the expenses had been kept to the insignificant sum of \$3,700, but Brazil had not even paid that. Mr. Feis said that he had seen some communications recently that indicated that this money would be forthcoming. I asked if Brazil would pay for the new trip and he said no.

Mr. Feis then made some reference to the fact that Mr. Morgenthau might want to set up another Committee to deal with the Brazilian Government feeling that the Council would not send someone down. I said the Government would have to determine

that itself, and the Department would determine what it would do in the matter. I said we had no intention of fighting the Government and if they wished to set up a Committee to deal with Brazil we would not oppose it. Mr. Feis said that that would not be very satisfactory to anybody and I told him I knew that and especially for our Government. I then asked where he was going to get the funds for the new Committee, he said he did not know, but thought Mr. Morgenthau might ask some people to put up the money. I said in that case, he might ask them to put up the money for the Council to send someone to Brazil. He said he agreed that if they set up another organization they would have to finance it and it would be better from every point of view to get funds for the Council to send someone down to Brazil. He said that he thought it might be gotten from the Stabilization Fund but then added as an afterthought that Mr. Morgenthau would want to control the action of whoever went down. I told Mr. Feis we wanted no money from the Government.

Mr. Feis asked where the money could be gotten then and I suggested that the Federal Reserve go to the houses interested in Brazil and ask them to contribute and then turn the funds over to us and we would not know which ones had or had not contributed or how much. Mr. Feis thought that might be done,

that that was the best way of handling it. I said either that or have the Brazilian Government send someone up here.

Before getting to this point, in the early discussion, Mr. Feis said that the situation has now changed as far as the Government's feeling toward the Council is concerned, so that he was able to come to see me. He said that he had not done so before as it would not have been helpful to the Council or to the Department, and would only have complicated matters. He said the Treasury Department is now strongly for the Council, that Mr. Morgenthau has completely changed his views and is strongly backing the Council. He said a Mr. White in the Treasury, whom he said was the Treasury's Economist, he thought had been against the Council, and then the people in the Treasury went into the matter and learned something about it and both Mr. Morgenthau and Mr. White are strongly for the Council and he mentioned Mr. Joseph P. Gotton Jr. as the one responsible to some extent for bringing this about. He also said the same applied to Mr. Jesse Jones. He said Mr. Hull is, as he always has been, strongly for the Council. He said Mr. Welles has been vacillating, and he never did know quite where Mr. Duggan was, as regards the Council. I suggested that Mr. Duggan was probably trying to find out where Mr. Welles was. Mr. Feis indicated that that was probably true.

Mr. Feis laughed and said the shilly-shally back and forth in the last two months should be put on the stage, it was such a farce.

I said that I had never had any doubts as to Mr. Hull's feeling but I did definitely feel Mr. Welles was not friendly to the Council, for what reasons I did not know, perhaps personal, but I said these actions were the crux of the whole matter, that these matters would not be settled until the Department told the Governments they had to do something and whether anything will come or not will depend on the Government's action. Mr. Feis said that he came to me after a conference with Mr. Welles at 5 o'clock the day previous and that they had taken the strong position that the State and Municipal bonds must be included and it must be a temporary plan.

I asked about the so-called Schroder Plan and what it was and Mr. Feis said he would not go into that because that Plan was now out but he made some disparaging remarks about Schroders and their representative in Rio, Mr. Bogdan, in particular. Mr. Feis told me a good many papers on these Brazilian plans had come up and they were going to be sent to the Council, in fact, he thought when he called me yesterday that the papers had already gone to me but he found that Mr. Duggan had been away for a week and the papers had remained on his desk during that time and Mr. Duggan wanted to rewrite one paragraph of the letter to

the Council sending the documents, and we would get them the first of the week, and then I would see just what the situation was.

At the end of the conversation Mr. Feis indicated that when he sees how the situation develops as to whether the negotiations will go on or not he will then see about getting funds for the Council to send some one to Rio.

Francis White.

nfp

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE December 30, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was lifeless today. Sterling opened and closed at 3.95-3/4.

Sales of spot sterling by the four reporting banks totaled £134,000 from the following sources:

By commercial concerns.....	£ 66,000
By foreign banks (Far East, South America and Europe).....	£ 68,000
Total.....	£ 134,000

Purchases of spot sterling amounted to £138,000, as indicated below:

By commercial concerns.....	£ 45,000
By foreign banks (Europe and South America).....	£ 93,000
Total.....	£ 138,000

Cotton bills totaling £8,000 were sold to the British Control at the official rate by the following banks: Guaranty Trust Company (£6,000) and the National City Bank (£2,000).

A slight improvement has been registered in the forward rates for sterling in the last few days, presumably owing to year-end clearings of forward positions. One-month sterling today was quoted at 1-1/2% discount (4-9/16% per annum) and the three-months quotation was 5% discount (5-1/16%).

The other important currencies closed as follows:

French francs	.022 1/8 - 3/8
Guilders	.5328
Swiss francs	.2243
Belgas	.1678
Canadian dollars	11-5/16% discount

We purchased \$1,125,000 in gold from the earmarked account of the Bank of Mexico.

There were no shipments of gold reported today.

We received a report from the Federal Reserve Bank of New York showing Far Eastern deposits with the New York agencies of Japanese banks as of December 27. Such deposits totaled \$66,397,000, of which \$58,518,000 was placed with the Yokohama Specie Bank in New York. The overdraft on the books of the latter bank

(understood to be for account of its head office in Japan) was shown to be \$101,822,000 on December 27. This overdraft thus increased \$6,379,000 during the week ended December 27, which brings the total rise in the item since November 1 to about \$20,200,000.

J. M. R.

CONFIDENTIAL

December 30, 1939.
10:57 a.m.

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H.M.Jr: Hello

Cordell

Hull: Henry?

H.M.Jr: Hello Cordell.

H: You haven't acted on that letter about the fox fur thing with Canada, I think it's on your desk. I get the impression that your Customs fellows have acted on it. I'm just wondering whether you could - we have to sign it today or let it go by.

H.M.Jr: I'm sorry Cordell, I didn't hear what you asked for.

H: It is a letter supposed to be in - on your desk, giving your consent for the signing of this fox fur -

H.M.Jr: Fox fur?

H: Arrangement with Canada.

H.M.Jr: Well does that mean that your wife and mine each get a piece of fox?

H: Well I think they'd get several if they wanted it.

H.M.Jr: Well I'll send for it immediately. I don't know a thing about it but if it's -

H: I get the impression that your Customs people have approved it and there's really no objection that I know of. And the Canadian fellows here just - as soon as it's convenient if you could let me know.

H.M.Jr: I'll let your office know within five minutes.

H: Fine.

H.M.Jr: I don't know a thing about it but I'll let you know within five minutes.

H: All right.

H.M.Jr: Thank you.

Meeting in the Office of the Secretary of the Treasury

Saturday, December 30, 1939.

Present at the meeting:

Mr. Morgenthau, Secretary of the Treasury.
Mr. Clark, Assistant Attorney General.
Mr. Kemp, Assistant Attorney General.
Mr. Foley, General Counsel, Treasury Department.
Mr. Kades, Treasury Department.
Mr. Wenchel, Chief Counsel, Internal Revenue.

Mr. Morgenthau: The Attorney General and I have been talking about the so-called movie cases.

Mr. Clark: It doesn't seem to be very easy to draft a letter on these cases. As I told Ed, the letter would be over here the first part of the week.

Mr. Morgenthau: Which week?

Mr. Clark: Coming week. Intended to deliver it by hand.

Mr. Morgenthau: Well, I got the impression from the Attorney General that he was waiting for you.

Mr. Clark: In respect to a formal reply to the letter, that is true. I did not actually submit the final draft.

Mr. Morgenthau: Would you care to tell me briefly?

Mr. Clark: Very happy to.

Mr. Foley: Why not start with Bioff case, what you intend to do, then, bribery and reorganization.

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Mr. Clark: The Commissioner referred to us three separate cases which we have termed the movie cases. They are distinct on their facts although they involve some of the same personalities. One of the cases is that against the notorious labor racketeer, Bioff. That involved, briefly, a payment of \$100,000 by Joseph Schenck to Bioff. Payment was made. That is beyond dispute. No amount was returned by Bioff on his income tax return representing that amount. Dispute comes as to whether the payment was a bribe or whether it was a business loan, which was subsequently repaid. The latter is the position of the taxpayer. I don't personally believe that defense. I think it is false, but it has been asserted and asserted vigorously. The matter has been presented to a grand jury and hundreds of papers of testimony taken before the grand jury. I have kept in close touch with Phil Wenzel on the whole situation. I am very much of a mind to recommend an indictment in that case and a trial of the case, although I have to confess, and I think Phil agrees with me, that the case is somewhat weak for conviction. If I could conclude that the case would get by the judge and be sent to the jury The situation is, briefly, this — that the investigation is still proceeding on the Coast. We ought to be in a position to make up our minds very shortly as to whether or not to ask for an indictment. I want to consult with Phil Wenzel and anyone else that is appropriate of this Department before I make final recommendation to

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the Attorney General. I am at present leaning toward requesting the grand jury to indict Bioff and to have as speedy a trial as possible.

Mr. Morgenthau: I would like to work on timetables. How long will it take you to make up your mind on the Bioff matter - a reasonable time. When can you give us an answer - yes or no?

Mr. Clark: I think I will be in a position to make up my mind within a week after the investigation is concluded, and I believe that the investigation will be concluded within the next week or two weeks unless some extraordinary lead develops that we should run down. In other words, I believe that some time this coming month, and I hope the early part of the month, we will be in a position to know where we stand on the Bioff case.

Mr. Morgenthau: Can we follow this up again around the 15th of January?

Mr. Clark: I will be more than happy if you do so. In fact, I expect to be in touch with Phil Wenschel on the case before that time.

Mr. Morgenthau: That will take care of this situation.

Mr. Foley: You might mention Neblett's affidavit.

Mr. Morgenthau: Colonel Neblett?

Mr. Clark: Fantastic story involving Colonel Neblett. He had a transaction with Bioff that was rather obscure and nebulous, but he came out of the transaction with a \$5,000 payment by Bioff.

Mr. Morgenthau: From Bieff to Neblett?

Mr. Clark: Bieff to Neblett. A State legislative inquiry into activities then in progress was almost immediately called off. Various people on the Coast tried to prosecute Neblett for that transaction. I think there was an attempt to disbar him also. Those attempts were unsuccessful. Neblett brought suit for malicious prosecution and other torts. That suit is now pending and, in the course of that suit, he made a deposition of which I have a copy in my brief case I will give to Mr. Wenzel. In the course of that deposition he swore that Bieff had told him that the \$100,000 which he received from Schenck was a payoff. That is the only specific affirmative evidence that we have that it was a bribe. We suspect it was a bribe, the circumstances would indicate it was bribe, but there is no specific affirmative evidence other than Neblett's deposition. My principal concern with respect to the deposition is the extent to which we can rely on similar testimony by Neblett if and when Bieff is brought to trial.

Mr. Morgenthau: You know I am not a lawyer. You don't have to give me as many details as you are giving me. All I want to get from you today -- that the Bieff case is in the will and I will hear from you sometime in January.

Mr. Clark: Very much so.

Mr. Morgenthau: So far as I am concerned you needn't bother giving me so much detail. How about Mr. Schenck?

Mr. Clark: That's the second case. The Commissioner referred to us income tax evasion case against Schenck as an individual, and it is based on alleged wash sales of stock, and based on various items of his personal expense which he deducted as business expense. Ed, in his letter to me, referred to that and stated that possibly I had not come to a conclusion on that.

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Mr. Foley: That's true.

Mr. Clark: We had been concentrating on the Bjooff case and other cases, but we have given that case very careful consideration, and it is my present intention to recommend to the Attorney General that that case be referred out for presentation to a grand jury.

Mr. Morgenthau: Immediately?

Mr. Clark: As I explained to Ed, there are a few items concerning the case that I want to clear up with Phil Wenchel, and I think we can do that very quickly, so that the U.S. Attorney will have these items clarified before it goes up.

Mr. Morgenthau: I am not going to argue with the Attorney General if he feels it should be tried in Los Angeles. That will be a break for Schenck, but if he feels strongly about trying the case in Los Angeles, I am not going

Mr. Clark: I appreciate what you say. However, I don't think the Attorney General realized the legal situation when he said that. I think it is legally necessary to try in New York where he filed his income tax return.

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Mr. Morgenthau: It would make me happy if it could be done in New York, but I don't want to insist on it.

Mr. Clark: There would be a stronger possibility of conviction.

Mr. Morgenthau: If you have legal grounds and not just because we were afraid of the Los Angeles climate, I think it would be very nice. You agree with that Mr. Kemp?

Mr. Kemp: Yes.

Mr. Morgenthau: That will take care of Mr. Schenk's personal case.

Mr. Clark: Just this I want to add to that case. Don't think you desire to discuss the merits of that case.

Mr. Morgenthau: Spent too much time on it already.

Mr. Clark: As I discussed with your representatives earlier this morning, there are various so-called defenses raised by Schenk which may react in his favor at a trial, and it indicates, to my mind, that the case is not absolutely sure case for conviction. It is somewhat weaker than many of the cases that you referred to us and we prosecuted. However, I want to make myself absolutely clear. I think his conduct was entirely reprehensible. I think there is reasonable ground to believe he committed the crime, and I think we should proceed accordingly.

Mr. Morgenthau: I know how you feel but I feel where we are 75 per cent sure he committed the crime, we should let the courts decide. Personally, I am 99 per cent sure that he cheated the Government.

Mr. Foley: Justice Brandeis once said you never could be more than 51 per cent sure, but when you were 51 per cent sure you had to act like you were 100 per cent sure.

Mr. Morgenthau: In my own mind, 99 per cent sure he owed the Government taxes.

Mr. Clark: I raise to 100 per cent. I think he cheated the Government and owes taxes. I am speaking in terms of possibility of conviction.

Mr. Morgenthau: If you are 100 per cent sure that he cheated the Government and owes taxes, I personally would much rather let the court decide and lose than have it on my conscience that I didn't make the effort. That is the way I feel.

Mr. Clark: Yes, I appreciate that position.

Mr. Morgenthau: If I had any doubt on my mind that Mr. Schenck didn't owe the Government taxes, I wouldn't be urging this, but, in my own mind, I am satisfied he does. We may not win, but if we only push cases we thought we were going to win, it wouldn't be so good.

Mr. Clark: Yes. I should point out that if it is reasonable clear that a man is a cheat, but also reasonably clear that the jury is going to acquit him, there is serious question of policy as to whether we should proceed, but I don't think the Schenck case is that case. I don't think we are sure to lose, but I want to indicate that it is not a clear cut case for conviction.

Mr. Morgenthau: But a clear case of evasion of taxes?

Mr. Clark: Yes.

Mr. Morgenthau: That's the only thing I am interested in as Secretary of the Treasury -- to collect taxes we are entitled to. Winning the case is your job. I think you have a pretty good case.

Mr. Tolson Well, that depends on what the other side, I think
is at this time - the investigation side.

Mr. Boardman You don't go into the question of whether or
not it is, do you?

Mr. Tolson Yes. We have accepted their argument that the proper
responsibility of the Bureau is in the handling of the
whole organization is somewhat probably not as important.
In my letter to you I said that I was willing to concede that we
were in the position where in the future, and we don't know
that yet.

Mr. Boardman So there isn't any argument.

Mr. Tolson Well, we take the position that, unless we do that very
quickly, there is no liability under the statute is involved.
That the conduct of the Bureau, which, we don't know is being
with the Government that we don't, is making a study and
for purposes of making payment of money, and all that, what a
through-going study, any investigation into the organization
and what you want will be developed where we want, if they
want to go either for filing their application, which is a study
agent, or failure to report anything, which would be in the
course of work.

Mr. Boardman That's a matter. I don't know what you think.

Mr. Tolson Yes, I understand. In the morning, it is an organization
that your Department would be very interested in what is the
letter and assess civil liability, and what is the issue with
Mr. Tolson mentioned will be applied, particularly in the course of

the assessment and litigation of the civil liability, and I am very glad to say this, that if it appears then that there is a case of perjury or other crimes which are proper subject for indictment and trial, we will proceed very promptly and vigorously.

Mr. Rosenbaum: What more could I ask. Seems this is the last legal transaction of the year — a very happy one — a very happy meeting.

Mr. Gluck: Very happy to have you say so.

Mr. Rosenbaum: Sorry we didn't meet before.

Mr. Foley: You understand Mr. Secretary that in the civil case we assess an additional tax against Mr. Sennack and his wife. If we don't add the fraud penalty, that tax will be somewhere around \$470,000. If we add the fraud penalty upon that — we can't add it to her — they hold their property separately under California law — it would put the total additional tax liability up around \$575,000. If they come in and pay that tax, they will be admitting that the affidavit that they filed is false. Whether, under all those circumstances, Sen would go ahead and proceed against these three people for filing a false affidavit with intent to defraud the Government is a question that he reserves the right to pass on.

Mr. Rosenbaum: And now about the bribery of Kadis, the treasury agent.

Mr. Gluck: We didn't have an opportunity to discuss that earlier this morning. Unfortunately we haven't developed anything that points further toward the bribery. I would like to have that treated in the same way that the perjury matter is treated and have it proceeded with civilly. I don't know whether in the course of your operation you would develop evidence of that or not, but I do not feel that

the situation calls for further prosecution before the grand jury on the bribery phase alone at this time. I would like to reserve judgment on that until development of the civil proceedings.

Mr. Morgenthau: I want to say to you as I said to my people around here. The man you sent out before the grand jury to present that case was terrible. I think it was the most outrageous performance I ever read. All I can say, if I am ever in trouble, I hope that was the damnest performance I ever saw. I never read anything like it.

Mr. Clark: I don't think it is appropriate

Mr. Morgenthau: I just wanted to say to you what I said to my people around here, it was the damnest thing I ever read.

Mr. Clark: I merely want to add this, that, taken on the record alone without thorough understanding of all the circumstances it clearly is a superficial and incomplete performance. I believe, however, that taken in connection with all the surrounding circumstances, that criticism does not seriously apply.

Mr. Morgenthau: I'm from Missouri. I just wanted to say what I said to my people around here and what I would say to the man involved.

Mr. Kemp: You have in mind, Mr. Secretary, the restriction that he was working under with respect to the source of the information.

Mr. Morgenthau: Have you read that?

Mr. Kemp: Yes.

Mr. Morgenthau: Would you use him again on anything?

Mr. Kemp: Taking it alone, I agree with you, but I think he felt he might disclose a confidence if he went further.

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Mr. Morgenthau: I wanted to get it off my chest. I think I am a little crowded for time. I know I am. What I would like to do is this. If you have a little more time, just you draw up on a sheet of paper very informally the things you have agreed on for the month of January on the so-called movie cases, and I'll take a look at it Tuesday. Ed might jot down notes — one, two, three, four — and you jot down notes for the Attorney General. You have a paper to show to the Attorney General say on Tuesday. I will see it Tuesday and if not satisfied I will give you a call or Ed will, and if the Attorney General is not satisfied he can give me a call. If you don't hear from me, I am satisfied. Just something that Ed will write down in his own handwriting for me — "During the month of January, the procedure will be as follows:"

Mr. Clark: I think I should add that I am stating my own position and what I will recommend to the Attorney General.

Mr. Morgenthau: He said you're the boy.

Mr. Clark: I take that as quite an honor.

Mr. Morgenthau: He says he is just waiting for you, so I take it if you can give him this on Tuesday or Wednesday he will be delighted.

Mr. Clark: Very happy to.

Mr. Morgenthau: Just to make it clear, Ed will give me those notes as he understands them from him to me. Things to be informally agreed to. You show it to me Tuesday and the Attorney General will see your notes, and by Wednesday we will be in agreement what procedure will be for the month of January. Is that all right?

Mr. Jess: All right.

copy: Place bring

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

December 30, 1939

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Re: Movie Cases

As a result of the conferences held this morning between Assistant to the Attorney General Edward G. Kemp and Assistant Attorney General Samuel C. Clark, and representatives of the Treasury, the following course of action in respect of the movie cases was agreed upon:

1. Bioff Case: On the basis of the Grand Jury investigation and information secured from Colonel Heblitt, Mr. Clark states that he will probably recommend that an indictment of Bioff be obtained, but before doing so wishes to have some further discussions with us. In any event, he will definitely take action on or before January 15.

2. Case against Schenck: Clark has agreed to recommend to the Attorney General that the filing of false and fraudulent income tax returns by Schenck be presented to a Grand Jury. Before he does this he wants to discuss some details with Wanchel and me. This should have no bearing, however, upon his decision to proceed. This matter should be cleared up by the end of next week. While Clark has not definitely made up his mind, he indicated that the case would be sent to New York for presentation by Mr. Cahill's office to a Grand Jury in the Southern District.

3. The Reorganization Case: While Clark has not decided that phases of the Century Fox merger do not involve criminal violations, nevertheless he would like to have us present the civil case involving Zanuck to the Board of Tax Appeals before any criminal action is commenced. After we have made our record in the civil case, Clark will determine in the light of the facts developed whether or not he will proceed criminally against Zanuck, Schenck, Goetz, Kadis and others.

The Commissioner will send out his 90-day letter sometime next week determining a deficiency against Zanuck and his wife for 1935.

The only question that remains is whether we should include the fraud penalty in Zanuck's deficiency. Knollenberg and Greenbaum recommended against it. However, it is my opinion that the omission of the fraud penalty will have an unfavorable reaction upon the attitude of the Department of Justice toward the criminal phase of the transaction. Even though we may fail to sustain the fraud penalty, I think Zanuck was fraudulent and the penalty should be asserted.

E. H. F.

Jan. 2

Miss Channey -



Mr. Foley carried original of this to
Secretary this morning.

copy to [unclear] 1-10 by HSK

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Secretary Morgenthau

December 30, 1939

S. N. Foley, Jr.

Re: Movie Cases

As a result of the conferences held this morning between Assistant to the Attorney General Edward G. Keen and Assistant Attorney General Samuel O. Clark, and representatives of the Treasury, the following course of action in respect of the movie cases was agreed upon:

1. Bluff Cases: On the basis of the Grand Jury investigation and information secured from Colonel Heblert, Mr. Clark states that he will probably recommend that an indictment of Bluff be obtained, but before doing so wishes to have some further discussions with us. In any event, he will definitely take action on or before January 15.

2. Case against Schenck: Clark has agreed to recommend to the Attorney General that the filing of false and fraudulent income tax returns by Schenck be presented to a Grand Jury. Before he does this he wants to discuss some details with Keen and me. This should have no hearing, however, upon his decision to proceed. This matter should be cleared up by the end of next week. While Clark has not definitely made up his mind, he indicated that the case would be sent to New York for presentation by Mr. Cahill's office to a Grand Jury in the Southern District.

3. The Reorganization Cases: While Clark has not decided that phases of the Century Fox merger do not involve criminal violations, nevertheless he would like to have us present the civil case involving Lanuck to the Board of Tax Appeals before any criminal action is commenced. After we have made our report in the civil case, Clark will determine in the light of the facts developed whether or not he will proceed criminally against Lanuck, Schenck, Goets, Radis and others.

The Commissioner will send out his 90-day letter sometime next week determining a deficiency against Lanuck and his wife for 1935.

The only question that remains is whether we should include the fraud penalty in Lanuck's deficiency. Knollenberg and Greenham recommended against it. However, it is my opinion that the omission of the fraud penalty will have an unfavorable reaction upon the attitude of the Department of Justice toward the criminal phase of the transaction. Even though we may fail to sustain the fraud penalty, I think Lanuck was fraudulent and the penalty should be asserted.

(Initialed) S. N. F., Jr.

SNF:sn Taped 12/30/39

CANADIAN TRADE AGREEMENT

The estimated revenue loss under normal conditions would be less than \$75,000 a year.

The significance of the Trade Agreement is the establishment of an absolute quota on the importation of silver fox furs to prevent the flooding of the American market with foreign furs which might follow from the reduction of demand in the warring nations.

DEC 30 1939

My dear Mr. Secretary:

The receipt is acknowledged of your letter of December 22, 1939, and the enclosed draft of a proposed trade agreement with Canada supplementary to the agreement signed on November 17, 1938. You state that it is contemplated that the supplementary agreement may be signed within the next few days and you ask to be informed whether the Treasury Department has any objections to any part of the proposed agreement.

The Treasury Department has carefully examined the text of the proposed supplementary agreement and has not found therein the possibility of any administrative difficulty which would warrant objection by us to the signing thereof.

Very sincerely yours,

(Signoil H. ...)

Secretary of the Treasury.

The Honorable

The Secretary of State.

MS:M. 12/22/39

DEPARTMENT OF THE TREASURY
FROM OFFICE OF THE SECRETARY
By Messinger

DRAFT AGREEMENT

The President of the United States of America and His Majesty the King of Great Britain, Ireland and the British dominions beyond the Seas, Emperor of India, in respect of Canada;

Considering the reciprocal concessions and advantages for the promotion of trade provided for in the existing trade agreement between the United States of America and Canada;

Taking cognizance of the emergency which has arisen with respect to the marketing of silver or black fox furs and skins;

Desiring to promote the purposes of the existing trade agreement between the United States of America and Canada by providing measures to assist in the orderly marketing of these products;

Have resolved to conclude an agreement to supplement and amend the trade agreement entered into between the United States of America and Canada on November 17, 1938, and have for this purpose, through their respective Plenipotentiaries, agreed on the following Articles:

ARTICLE I

During the effectiveness of this Agreement, item 1519 (c) of Schedule II of the trade agreement entered into between the United States of America and Canada on November 17, 1938, shall be suspended, and in lieu thereof the following item shall be substituted:

<u>United States Tariff Act of 1930 Paragraph</u>	<u>Description of Article</u>	<u>Rate of Duty</u>
1519 (c)	Silver or black fox furs or skins, dressed or undressed, not specially provided for	35% ad val.

ARTICLE II

1. The total aggregate quantity of silver or black fox furs and skins, parts thereof, and articles made wholly or in chief value of any of the foregoing, whether or not manufactured in any manner or to any extent, and silver or black foxes which may be entered, or withdrawn from warehouse, for consumption in the United States of America in any twelve-month period commencing on December 1 in the year 1940 or any subsequent year, shall be 100,000 units. For the period from January 1, 1940 to November 30, 1940, inclusive, the total aggregate quantity of such furs and skins, parts, articles, and foxes which may be entered, or withdrawn from warehouse, for consumption shall be 100,000 units, less the number of silver or black fox furs and skins/and silver or black foxes entered, or withdrawn from warehouse, for consumption during the month of December 1939, as determined and made public by the Secretary of the Treasury of the United States of America. For the purposes of this Article, a unit shall be a whole silver or black fox fur or skin or any separated part thereof or any article made wholly or in chief value of one of the foregoing, or a silver or black fox; and any article made wholly or in chief value of two or more of the aforesaid furs, skins, or parts thereof shall be considered as consisting of the total number of such units in such article.

2. In accordance with the principles set forth in Article III of the trade agreement entered into

between

between the United States of America and Canada on November 17, 1938, a share of the total quantity of imports provided for in paragraph 1 of this Article shall be allocated to Canada equivalent to the proportion of the total imports for consumption into the United States of America of silver or black fox furs and skins which was supplied by Canada during the period from January 1, 1939 to November 30, 1939, inclusive, and shares to individual countries other than Canada may be allocated on the basis of the proportion of the total imports of such furs and skins supplied by such countries during the same period, account being taken in so far as practicable of any special factors which may have affected or may be affecting the trade in such articles. Accordingly, of the total number of units which may be entered, or withdrawn from warehouse, for consumption in the United States of America during any quota period, no more than 58,300 units shall be imported from Canada, nor more than 41,700 units from other foreign countries: Provided, That for the quota period from January 1, 1940 to November 30, 1940, inclusive, there shall be deducted from such specified quantities, respectively, the number of silver or black fox furs and skins (not including parts) and silver or black foxes imported from Canada, and from other foreign countries, which were entered, or withdrawn from warehouse, for consumption during December 1939, as determined and made public by the Secretary of the Treasury of the United States of America; Provided further, That no more than

than 25 per centum of any quantity entitled to entry during any quota period may be entered, or withdrawn from warehouse, for consumption during any single month; and Provided further, That the President of the United States of America may by proclamation allocate to individual countries other than Canada shares of such total number of units on the basis set forth above.

It is agreed that, if after consultation with the Government of the United States of America the Government of Canada so requests, the President of the United States of America shall proclaim that on and after the date fixed in such proclamation no articles imported from Canada and subject to the quota herein provided for shall be permitted to be entered, or withdrawn from warehouse, for consumption unless such articles are accompanied by official certificates of the Government of Canada stating them to be of Canadian origin.

3. The following shall not be subject to or affect any quota limitations provided for in this Article:

(a) articles of wearing apparel imported by returning residents or other persons arriving in the United States of America for their personal use and not intended for sale;

(b) articles admitted to entry under paragraph 1615 of the Tariff Act of 1930, as amended.

4. The Government of the United States of America reserves the right to terminate paragraphs 1 and 2 of this Article and to substitute therefor an autonomous quota regime. Should the Government of the United States of America avail itself of this right, it agrees to allocate to Canada the same share of the total quantity permitted to be entered, or withdrawn from warehouse, for consumption as is provided in paragraph 2, and it likewise agrees that the total quantity permitted to be entered, or withdrawn from warehouse, for consumption in any twelve-month period shall not be less than the quantity provided for in paragraph 1 of this Article.

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- 4 -

ARTICLE III

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1. The present Agreement shall be proclaimed by the President of the United States of America and shall be ratified by His Majesty the King of Great Britain, Ireland and the British dominions beyond the Seas, Emperor of India, in respect of Canada. It shall enter definitively into force on the day following the exchange of the Proclamation and the instrument of ratification, which shall take place at Washington as soon as possible.

2. Pending the definitive coming into force of this Agreement, it shall enter provisionally into force on January 1, 1940.

3. So long as the present Agreement remains in force it shall constitute an integral part of the trade agreement entered into between the United States of America and Canada on November 17, 1938, and shall be subject to termination as a part of that Agreement.

4. Should it appear to either the Government of the United States of America or the Government of Canada that the emergency conditions with respect to the marketing of silver or black fox furs and skins which have given rise to the conclusion of this Agreement have ceased to exist or have become substantially modified, that Government may, after consultation with the other Government, terminate the present Agreement on 90 days' written notice. Moreover, the present Agreement may be terminated at any time by agreement between the Governments of the two countries.

5. Should

ARTICLE III (Continued)

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5. Should the present Agreement be terminated in accordance with the provisions of paragraph 4 of this Article, the provisions of item 1519 (c) of Schedule II of the trade agreement entered into between the United States of America and Canada on November 17, 1938, which have been suspended by this Agreement, shall thereupon automatically reenter into force.

In witness whereof the respective Plenipotentiaries have signed this Agreement and have affixed their seals hereto.

Done in duplicate, at the City of Washington,
this day of December, 1939.

For the President of the United States of America:

Secretary of State
of the United States of America

For His Majesty, in respect of Canada:

Envoy Extraordinary and Minister
Plenipotentiary to the United
States of America.

MJB

GRAY

480

Paris

Dated December 30, 1939

Rec'd 9:05 a.m.

Secretary of State,
Washington.

3065, December 30, 8 p.m.

FOR THE TREASURY FROM MATTHEWS

The Senate last night by a unanimous vote of the 301 present approved the national defense budget (published in this morning's Journal Official) carrying appropriations for the first quarter of 1940 of slightly under 55 billion francs and authorizations to contract national defense expenditures for the year 1940 of approximately 249 billions (my telegram No. 3013, December 20, 7 p.m.). In his strong statement concerning this budget Daladier made the following interesting declaration:

"I have spoken to you of the positive material guarantees without which France will not lay down her arms. I wish also to tell you that although I am skeptical of those great utopian architectural structures that brilliant minds can build in the favorable silence of universities and if I am a partisan like the peasants of our country of what I call material guarantees - the only ones which history teaches are sure and which would permit in effect the avoidance

avoidance

avoidance of a return of the present catastrophe - on the other hand I perceive very well that the new Europe which will come out of the present war can not live if it is not given an organization vastly different, vastly greater than the present organization and we conceive a freedom of movement of men between nations and we envisage exchanges of goods, and we even admit that once the material and positive guarantees are assured the construction of federative systems between the different nations of Europe; and for that the Franco-British economic accord already affords solid bases under which other countries of Europe can in their turn build by our side if they are animated by the same liberal spirit as we".

(END SECTION ONE)

BULLITT

WSB

JR

GRAY

Paris

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Dated December 30, 1939

Rec'd 9 a.m., 31st.

Secretary of State,
Washington.

3065, December 30, 8 p.m. (SECTION TWO)

The new Franco-Yugoslav economic agreement which comes into effect on January 1 provides that France will buy from Yugoslavia products of which "because of the war it has become a great consumer: meat, wood, tobacco, mineral ores, flax". These purchases which will have a total annual value of approximately a billion dinars will operate for the most part under the terms of the payment agreement to cover the service of Yugoslav loans in France without compelling Yugoslavia to deplete its foreign exchange reserves. French exports to Yugoslavia, it is stated, will remain approximately at their normal volume. The press reports that agreement was easily reached on questions of price and quality "but that those of quantity required careful study in view of conditions created by the war". There is published an expression of pious hope that this re-directing of commercial channels may have "durable" results surviving the war. The Yugoslav Foreign Minister is quoted in part in a statement to the press as follows: "as a factor of peace Yugoslavia attempts

-2- #3065, December 30, 8 p.m. (SECTION TWO) from Paris 483

attempts by all means at its disposal to maintain with other states at least the ties which are possible under present circumstances. The commercial agreement reached with France constitutes an important step in this direction."

(END SECTION TWO)

BULLITT

WSB

JR

GRAY

Paris

414

Dated December 30, 1939

Rec'd 8:55 a.m., 31st.

Secretary of State,
Washington.

3065, December 30, 8 p.m. (SECTION THREE)

The period for the declaration of assets in enemy countries has been extended to March 31, 1940, according to a measure carried in today's Journal Officiel (my telegram No. 2284, October 2, 7 p.m.).

Reports from Belgium indicate that the government has introduced a bill for the dissolution of the Credit Anversois. It is reported that liquidation of this bankrupt institution will involve intervention on behalf of the depositors by l'Office de Liquidations et des interventions de Crise to the extent of approximately 80,000,000 francs. A previous plan that other banking institutions would be called upon to furnish assistance is said to have dropped (my telegrams Nos. 2896, December 4, 7 p.m.; 2904, December 5, 5 p.m.; and 2912, December 6 7 p.m.) (END MESSAGE).

BULLITT

NSB

PARAPHRASE OF TELEGRAM RECEIVED

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FROM: American Embassy, Paris, France

DATE: December 30, 1939, 2 p.m.

NO.: 3059

RUSH.

The following is personal and confidential for the Secretary and the Secretary of the Treasury:

Reference is made to telegram No. 3047 of December 28 from the Embassy.

At noon today Dayras invited (Matthews?) to call at the Ministry of Blockade, and said that now the Allies have estimated the supplies of molybdenum they are prepared to purchase from the United States. Dayras permitted him to read the two-page telegram being sent to Purvis by Monnet. It is stated in the telegram that during the year 1940 eleven million pounds will be purchased from the Climax Molybdenum Company by the French and British Governments. It stated further that in 1940 consumption by the Allies is estimated to be between seven and eight million pounds, which should replace German consumption in large part. There was a specific request in the telegram that the Climax interests be not informed of this confidential figure.

It was stated further in the telegram that American consumption would probably be greater than heretofore, in expectation of the large orders already placed and to be placed in the United States by the Allies. It was not believed

believed reasonable by Monnet that the Allies be asked to purchase more, particularly as there was reason to believe that increased production is contemplated by Climax. In the (omission) it was pointed out that increased purchases would likewise mean increased stocks on the market when the war ended, and such a condition would be undesirable so far as Climax was concerned. Furthermore, Monnet said he hoped production would not in fact be increased by the Climax Company beyond what it was estimated would be consumed; he said he was "confident" that the assistance of Secretary Morgenthau on this point could be enlisted by Purvis.

It was furthermore stated in the telegram that if it seemed inevitable that there be overproduction, would it not be possible for additional quantities to be bought by the United States as a war reserve; Matthews explained to Dayras why he did not feel that it would be feasible for the United States to take such a step. Then Purvis was asked in the telegram just what are the present restrictions on exports to Japan and to Russia and to inquire whether it was contemplated that there be a total embargo on exports to these countries. In conclusion the telegram urged Purvis to find out exactly what the situation was regarding exports to countries which are neutral neighbors to Germany, and contiguous to that country, particularly with regard to Italy.

Italy. The telegram indicated the hope that exports to those countries would be limited to their normal consumption needs, and that the Allies would be happy to cooperate with Italy if she would give guarantees that the product would not be reexported in any form.

Neither tungsten nor nickel were mentioned in the telegram above mentioned.

Note: It is hardly likely that Purvis will not show you the whole text of the above-mentioned telegram; however, if he does not, it is respectfully urged that due caution be exercised in referring to it unless of course London has sent the text of it to you. At the present Dayras, at the request of Monnet, seems inclined to keep Matthews fully and frankly informed, and we should not wish to close this channel of information.

While Matthews was with Dayras, Rist came in to consult with the latter for a moment, and asked whether any information about soya beans (reference: telegram No. 3928 of December 8 from the Embassy) had been received by Matthews.

END OF MESSAGE.

SULLIV.

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

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January 2, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his strictly confidential information one copy of paraphrase of telegram No. 3059 of December 30, 1939, from the American Embassy, Paris.

RECEIVED

JAN 2 1940

TREASURY DEPARTMENT
Office of the Secretary
Treasury Building, Washington, D. C.

GRAY

Paris

Dated December 30, 1939

Rec'd 1:10 p.m.

489

Secretary of State

Washington, D. C.

3057, December 30, 1 p.m.

Department's 1568 of December 27; and Embassy's 3046 of December 28.

Reynaud in the course of his strong budget speech before the Senate on Thursday emphasized the determination of the government to reduce to the limit French expenditures not strictly indispensable to the conduct of the war. He described this policy as a moral as well as a financial necessity. He said that wartime production problems were not peace time production problems and that at such a time as this the energies of the nation must be strained toward a two-fold goal: the feeding of the nation and of the army. As regards purchases the French public in time of peace had been urged to encourage French industry by buying. The situation had changed in the past few months. It was now the duty of every Frenchman to realize that every useless expenditure was an offense against his country. He said, for example, that to buy a pleasure car in these days was wrong on two counts: first because the money needlessly spent in this fashion should be invested in armament

armament bonds; second because the specialised workmanship devoted to the pleasure car should be diverted to the making of tanks. To purchase a pleasure car of French manufacture was, however, a venial sin; to purchase a pleasure car of foreign (repeat foreign) manufacture was a mortal sin. To do that meant the export of French gold. Reynaud said that his administration (the Ministry of Finance) approves know how to combat that sort of thing through the machinery which had been set up for exchange control.

Further on, in his speech, Reynaud stated that France was faced with the problem of finding foreign exchange to create its gigantic purchases from abroad. One way was through increasing French exports at the same time that as little as possible was imported. Another way was to use the gold of the Bank of France but this gold was the national patrimony and once spent it was lost. He pointed out that the world was at this time divided into two zones—a zone in which French buying meant the sacrifice of French gold; and a zone in which French buying could be accomplished with British pounds. The latter zone was now open to France by virtue of the Franco-British accord of December 4. Repeat to Commerce.

FINANC