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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 12, 1940

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

The uncertainty which exists abroad regarding the European situation had an unsettling effect on the foreign exchange market today. The sterling quotation experienced an erratic decline. Prior to our opening, sterling fell to 3.52 in Amsterdam and then returned to 3.54-1/8. After opening in New York at 3.52, the rate declined to a low of 3.48-7/8 in the early forenoon. It subsequently recovered to 3.52-1/8. During the late afternoon, the rate again eased and the final quotation was 3.49-1/8.

Sales of spot sterling by the six reporting banks totaled £298,000, from the following sources:

By commercial concerns	£ 130,000
By foreign banks (Europe, Far East and South America).....	£ 168,000
Total	£ 298,000

Purchases of spot sterling amounted to £543,000, as indicated below:

By commercial concerns	£ 117,000
By foreign banks (Europe, South America and Far East).....	£ 426,000
	£ 543,000

The following reporting banks sold cotton bills totaling £29,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 25,000	by the National City Bank
4,000	by the Guaranty Trust Co.
£ 29,000	Total

The guilder and belga were subjected to mild selling pressure. The former touched a low of .5308 in the New York market this morning, and the Federal Reserve Bank, acting under the Netherlands Bank's instructions, purchased 350,000 guilders here. The final quotation for that currency was .5308-1/2. It was reported that the Dutch Control was not compelled to support the guilder in the foreign exchange market abroad. The rate for the belga moved off to a low of .1682 and closed at .1682-1/2.

The other important currencies closed as follows:

French franc	.0198
Swiss franc	.2242-1/2

The Canadian dollar improved today to a discount of 15%. It was reported that some covering of short positions in that currency took place. The final discount was 15-1/4%.

The Swedish krona was steady at a nominal quotation of .2383.

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

\$4,000,000	from the Netherlands Bank
<u>1,100,000</u>	from the National Bank of Belgium
\$5,100,000	Total

The Federal Reserve Bank reported that Samuel Montagu & Co., London, had shipped \$503,000 in gold from England to the Irving Trust Company, New York, for sale to the U. S. Assay Office.

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

\$ 353,000	from England, shipped by the Swiss Bank Corporation, London, to the Irving Trust Company, New York.
189,000	from Hong Kong, shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N.A., San Francisco.
125,000	from Hong Kong, shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco.
29,000	from England, shipped by Johnson Matthey, London, to the Manufacturers Trust Company, New York.
<u>\$ 696,000</u>	Total

The shipments being sent to New York will be sold to the U. S. Assay Office and those consigned to San Francisco will be sold to the U. S. Mint.

The Bombay spot silver quotation declined the equivalent of 1/8¢ to 40.96¢.

In London, spot silver was fixed at 20-7/8d, up 5/16d. The forward fixing price was 20-3/4d, up 1/4d. The U. S. equivalents were 33.27¢ and 32.88¢.

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

We made four purchases of silver totaling 239,000 ounces under the Silver Purchase Act. Of this amount, 100,000 ounces represented sales from inventory, and the remaining 139,000 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

April 12, 1940
11:43 a.m.

H.M.Jr: Hello.

Operator: Mr. Johnson.

H.M.Jr: Hello.

Louis Johnson: Hello, Mr. Secretary.

H.M.Jr: How are you?

J: Oh, just fine. I thought you were perfectly swell this morning.

H.M.Jr: Thank you. I thought it was a very good meeting.

J: I did too. How did you get along?

H.M.Jr: Well, they've just left and I got along very well. And I told them that this was an Administration policy, that the Army is charged with the responsibility of national defense and that what you people were asking was only fair and any -- and I endorsed it entirely. And they said that was what they wanted to know; they wanted to know was this an Administration policy and if it was they are prepared to go along.

Now I urged them to quickly sign with Curtis and Lockheed and Bell and that when the Army was ready on these others that you would advise me and I, in turn, would advise them.

J: Fine, and I hope we can advise you about Douglas in the next hour or so and I hope Barton works out too all right before the day is over.

H.M.Jr: Well, as each one comes along, if you'd advise me and then give.....

J: I'll advise you promptly as soon as we get clearance.

H.M.Jr: And give me the same sort of a breakdown.

J: I'll do it.

H.M.Jr: And they went out of here understanding that this -- there was no question of -- I told them it will

be -- the outside figure is seven; it may be less but it will not be more.

J: That's good.

H.W.Jr: And.....

J: And I'll see that that's kept.

H.W.Jr: I gave them my word on that.

J: Well, it will be kept.

H.W.Jr: Now, as I take it, the Army is on these ^{three} companies you've done your signing and it's just up to them to sign with these people now, isn't that it?

J: That's right.

H.W.Jr: O. K. No, it was a very good meeting. They were very -- quite emotional about the whole thing and so forth and so on -- I mean, they.....

J: Well, they did a little checking. Mr. Martin's man, I don't know which one; they wouldn't tell me, told Wall Street Journal -- just talked as I came from your office -- told the Wall Street Journal that they didn't have to go along with this policy at all and that they weren't going to do it. And I said, "Well all I want to say is, since you're talking off the record, is that three companies have gone along. That we are now assured that Douglas will and I think Martin is going to play the American game." That's all I said.

H.W.Jr: Well, he said he couldn't tell me, but he said one of the American manufacturers.....

J: Said what?

H.W.Jr: One of the American manufacturers -- he didn't -- he said he couldn't give me the name and I didn't press him -- came and told the Allies that what the Army was asking was outrageous. See?

J: Well, that's Martin.

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H.M.Jr: And that the whole plan was screwy.

J: Yeah. That's Martin, that's what he told the Wall Street Journal.

H.M.Jr: What?

J: That's who -- that's exactly what he told the.....

H.M.Jr: Well, that was the language. You see? The whole thing was screwy.

J: Yes, that's what he told the Wall Street Journal. The same language.

H.M.Jr: Well then, that.....

J: That's what they phoned me about and I talked to them just when I left your office.

H.M.Jr: Well, they've got the plan. I've told them that it was the Administration's plan and very politely, and they've accepted it.

J: Well, that's fine.

H.M.Jr: And that ends that.

J: That's grand work and I congratulate you.

H.M.Jr: Well, it's good teamwork.

J: Thank you. We'll play ball.

H.M.Jr: O. K.

J: All right. Goodbye.



TREASURY DEPARTMENT

WASHINGTON

April 12, 1940.

OFFICE OF

COMMISSIONER OF INTERNAL REVENUE

ADDRESS ONLY TO

COMMISSIONER OF INTERNAL REVENUE

WASHINGTON, D. C.

MEMORANDUM FOR THE SECRETARY.

Reference is made to the recent statements of Senator Joseph F. Guffey indicating a possible violation of the regulations of the department pertaining to political activity by Mr. William Driscoll, Collector of Internal Revenue, Pittsburgh, Pennsylvania. We have had no complaints of this nature concerning Mr. Driscoll other than the one transmitted by Miss Chauncey to the effect that Senator Guffey wanted Mr. Driscoll discharged because he had been active in the primaries against the senator.

Upon my instructions, Mr. Woolf, Acting Chief of the Intelligence Unit, had one of the experienced special agents contact Senator Guffey today for the purpose of obtaining information of any violation of the regulations mentioned. The senator stated he had no specific charges to make at this time but was "having a watch kept" for possible violations, did not want any action taken before the primaries were over - i. e. before April 23, and suggested that he be further contacted after that date.

An examination of the records does not show that Collector Driscoll has made any recent changes in the personnel for political reasons, there having been only four separations in the Pittsburgh District this calendar year. On January 3, Office Deputy Elizabeth Ann Glenn resigned to take up another profession. On January 12, the collector reported the resignation of Zone Deputy Collector Gordon Wesley Hay, who left the service to accept other employment. The separation of Zone Deputy Edgar E. Thomas was reported on March 15. The records indicate that he had been on leave because of illness since December 4, 1939, and information indicated that his physical condition had not improved. The collector reported his separation in order that someone might be appointed to perform the work. The separation of Neal E. Fiscus was reported effective March 31, 1940. Mr. Fiscus resigned for the purpose of accepting the postmastership at Apollo, Pennsylvania. It would seem that no criticism could be directed against the collector in connection with these changes.

Ray P. Hoover
Commissioner.

April 12, 1940.

MEMORANDUM FOR THE SECRETARY.

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Upon my instructions, Mr. Woolf, Acting Chief of the Intelligence Unit, had one of the experienced special agents contact Senator Guffey today for the purpose of obtaining information of any violation of the regulations mentioned. The senator stated he had no specific charges to make at this time but was "having a watch kept" for possible violations, did not want any action taken before the primaries were over - i.e. before April 23, and suggested that he be further contacted after that date.

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(Signed) C. T. Egan

Commissioner.

April 12, 1940

9 a. m.

Present:

Mr. Louis Johnson
General Brett
Colonel Burns
Major Lyons
Captain Collins

Mr. Johnson: In the questioning on the Hill, and in the private talks I had with Senators and Congressmen who are friends of the Administration, we said that we have been spending on an average of \$6,000,000 a year in experimentation to keep our planes ahead of the others.

We spent on the Wright field \$800,000, without salaries, etc. We are asking the manufacturers that these change orders, to bring the P-40 to P-46, be paid for by the French and that the new experimental ship be built at their expense.

HM, Jr: I am heartily in sympathy with you. There is no argument on that.

Mr. Johnson: The total cost of the contract is \$1,000,000,000. \$6,000,000 or \$7,000,000 for experiment is less than 1/2 of 1 percent.

HM, Jr: Let me do the Curtiss one first. In the case of them, you want a new ship. How much is the Army going to be out of pocket? How much do you have to pay Curtiss to design it?

Mr. Johnson: Nothing.

General Brett: The experimental procedure will cost \$500,000.

HM, Jr: Then I am going to say to the Allies in the case of Curtiss I want them to put up \$500,000. That is development money, and \$239,000 to switch over

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from the P-40 to P-46, or a total of \$739,000. The contribution of Curtiss is \$500,000 and the Army will put up \$250,000. It cost Curtiss \$500,000 and another \$250,000 for the United States Army, in which case you want the Allies to put up \$500,000 on that.

Col. Johnson: We bought 534 P-40s, which we are pleased with, but the Allies found out that we have a P-46 which we will not have for another year, but we cannot give them the P-46s and keep the P-40s for ourselves. Therefore, Curtiss has to switch the P-40s over to the P-46 and deliver 302 planes, and switching that 302 will cost Curtiss \$239,000.

HM, Jr: In other words, you are asking for a total of \$739,000. I figured yesterday that it will cost the Allies \$500 extra on each airplane that they buy and I think it is cheap.

I am going to tell the Allies that this has been extremely difficult. That we have done the impossible. We must tell Congress. In order for us to do what they want, it is going to cost them \$739,000 which I think is very reasonable and that is the license fee that they must pay to get the P-46.

Mr. Johnson: On the Bell. The new model again costs \$500,000 to them, but we are paying \$150,000. Bell has to collect from the Allies \$350,000. The second item of change orders will cost \$150,000 so that Bell has to add on \$500,000 to the Allies.

HM, Jr: We have a better ship and, thanks to the Allies' money, we have been able to experiment.

Col. Burns: The improvement will be on 66 ships yet to be received by the Army.

Mr. Johnson: On the Lockheed, cost of the new model is \$448,000. The item of change orders, \$700,000, so that Lockheed must collect \$1,148,000 from the Allies.

HM, Jr: Now, let me repeat. In the case of Curtiss, it will be \$739,000. In the case of Bell,

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\$500,000. In the case of Lockheed, \$1,148,000. You are yet to hear from Martin and Douglas.

What do you think the total cost will be on all these ships to the Allies?

Mr. Johnson: It will be somewhere between \$6,000,000 and \$7,000,000. Personally, I think it will be nearer \$6,000,000.

HM, Jr.: In order to be safe, let's say it will not exceed \$7,000,000. Is that correct?

Mr. Johnson: Yes. I think that is a safe bet.

* * *

The Secretary then told Captain Collins that the Navy will have to use the same formula.

Mr. Morgenthau thanked Johnson and the three Army officers for their cooperation and said that he thoroughly agreed that a cost of \$6,000,000 or \$7,000,000 to the Allies is fair and that he felt he could defend such a program before Congress.

cents

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Army new ship 450 miles

\$500,000.⁰⁰ development money.
~~239,000~~

250,000.⁰⁰ U.S. Army money

534 P. 40 Agency

232 first to army

cents switch over
P. 46 and deliver

302 —
Switch over cost \$239,000.

total of \$739,000.⁰⁰

Bell

12

total
new model
\$500,000.00

army contribute \$150,000.00

allies

350,000.00

change order

150,000.00

allies to Bell

500,000.00

Improved 66 ships
yet to be received by
army

Lockheed

12-A

new model
\$448,000.⁰⁰
change 700,000.⁰⁰
\$1,148,000.⁰⁰

50 to be changed

not to exceed
\$7. million

April 12, 1940

11 a. m.

Present:

Mr. Purvis
Mr. Pleven
Captain Collins
Mrs. Klotz

HM, Jr: Where are the Allies today as far as planes go?

Mr. Purvis: Well, we are in a little difficult position. You were good enough, two days ago, to bring some pretty quick action into this thing and certain releases were obtained. At that time we thought the releases had been specifically accepted and that we would go on from there. Now, actually, it's turned out in the last day or two that the manufacturers have some -- seem to have some instruction, because they tell us that very definitely, which attaches certain conditions to the releases which are very disturbing because of our lack of knowledge as to really what they are, what they constitute, so on, and we are not in the clear on the releases.

I have not been present at the discussions with all the manufacturers -- I was, the first day -- because I have been doing some other things, but Mons. Pleven and Sir Henry have and I think if Mr. Pleven will give the picture as they have discovered it, it would be very helpful.

HM, Jr: Please.

Mr. Pleven: I think you have the proper picture as to what has happened since we met on the 14th of March with Captain Collins -- this Committee of representatives of the Army and the Navy. At that time we handed a memorandum in which we requested the release of certain types and release of types were mentioned, not release of priority.

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After this memorandum was handed, we read in the papers a number of statements. First we saw the statement of the President stating that he knew that the very important expansion of industry which was the result of the Allied orders was full justification, from the National viewpoint, of granting the release. Then we read with great eagerness in the newspapers what was told in Congress and we understood that releases not only of types but of priority would be granted when the Army would benefit from it. We perhaps made a mistake at this time. We understood it "by benefit" it was meant technical benefit, not financial benefit.

Then there was a period of waiting and we received the visit of one of the leading manufacturers. This man was very embarrassed. He told us, "Well, I am afraid I am breaking the ice to you, but I cannot give you any price now and I beg you to realize that I only quote what was told to me and I don't take what was told to us as my own view." Then he said, "You might have to use a pound of flesh."

HM, Jr: Who was this? Curtiss?

Mr. Plevin: Yes. And he said before quoting us any figures he would have to go to Dayton to see how much would have to be charged us for priority. It turned out that this was indeed a worse case for us.

Then came another manufacturer. This one asked us not to mention his name, but he started by saying "I am afraid that someone is trying to put something over on you." He said, "What we call in America, a "squeeze" position. We are asked to charge you the cost of changes which the Army now wants to make in its order and we think it is a very unfair proposition indeed."

Then came another manufacturer, and this one has no objection to being mentioned. He was Mr. Douglas. And he said to us, "We are told that we would not be able to give you any, to get any

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release unless you agree to pay for the changes which the Army now wants to make in its orders. And Mr. Douglas thinks it's a very unfair position and will not have anything to do with it and is prepared to state it, even publicly if we had no objection. We said we would have objection.

By that time the only information we had of the policy of the Administration was the letter Captain Collins was good enough to send us, in which he was quoting what the War Department had decided. The thing which was a little bit disturbing to us was that the manufacturers were told under what conditions they could discuss with us. Thanks for your intervention, we had these meetings with General Brett and Captain Collins and the first release was Curtiss.

It appears that in all cases the release is made dependent on our agreeing to pay a share in certain expenses incurred by the War Department changes and in all those it is not only the cost of the changes in the new models but cost of models which are released to us two years ago, like the P-36 and the P-40. I must point out that in all dealings with Curtiss in America we were never asked to pay anything for the release.

Now, I am compelled to criticize the situation very much, because when we asked the Army General Board on what basis these things have been accounted for, he told us that he was not able to tell us what was the present expenses we were asked to pay and told us, "You must realize that I am a pick and shovel man and I am not able to discuss the purchasing question."

Well, thanks to Captain Collins, who is always so friendly to us, we were going to explain that we felt that if there was a different side against us in connection with expenses we felt we should be permitted to present our side. We have sent to Captain Collins a memorandum in which we give details of the plant expansion of all sorts which we are responsible for.

Now, you see, decision has been made. This

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way, today, we do not know what is going to be asked from us and we felt it is a situation which is material. It must be realized that each time we are asked to pay \$1,000,000 for something which is not actually our expense, it reduces by 25 the number of pursuit planes that we are able to buy in this country and, second, it has a moral effect.

HM, Jr: That does not include motors?

Mr. Plevin: Engines.

HM, Jr: What do you figure a pursuit plane costs altogether?

Mr. Plevin: All equipped, \$80,000. Then, you see, it has a moral effect. It will be obvious to you it -- we cannot discuss a deal with the Army when everybody knows we want the planes, so if there is a deal to tell it is better to tell us what is the amount of the deal.

We have to find out whether it is War Department policy or whether it is Government policy. If it is Government policy, we are justified to tell us what it is. Today we do not know what it is.

HM, Jr: Where I think it is very unfortunate -- and I had a meeting this morning at which I don't mind telling you Mr. Louis Johnson and three Army officers were here, and I think where the mistake has been made is that they have not told you what the policy is and I am prepared to tell you now what is the United States Government policy, which evidently for some reason they felt they did not want to tell you.

Captain Collins: That was released yesterday, however.

HM, Jr: Pardon me. The discussion which has taken place this morning -- difference of opinion.

Captain Collins: I mean the question of policy. What constitutes the policy was given to both the British and French.

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HM, Jr: What was told them as of yesterday? He's just asking.

Captain Collins: Letter of April 1st sent to the manufacturers.

Mr. Plevin: We want to know what is Government policy.

HM, Jr: The discussion that took place this morning they were not told.

Mr. Purvis: I must admit I don't know the policy. I have an acceptance, as it might be considered to be, in your letter of April 2nd, but that's the one we answered on April 5th asking for particulars.

HM, Jr: Let me tell it in my way. The success you two gentlemen and I have had, we have always told each other the facts and I convinced the people this morning I was going to tell it in my own way and they agreed to it and all this dickering -- as you very well know, it isn't that anyone is trying to take advantage of you and I think when I explain it to you -- like everything else, there are two sides to every story.

I have to go back a little bit on this thing. As you know, the fight we went through on our neutrality legislation and lifting the embargo was a very, very difficult fight and there are a great many people in the country who think we shouldn't

Mr. Purvis: That's right.

HM, Jr: ... sell you armaments. I mean, instruments of war.

Mr. Purvis: That's a fact. Whether we like it or not, that's a fact.

HM, Jr: I want to give you what's back of this thing. There are other people who think that if you are going to spend your own money here, you are entitled to get the best instruments of war that

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money will buy. Between those two poles there is a big ocean. Now -- and there are people in our Army who are not pro-Ally. That's a fact.

Mr. Purvis: It's natural too.

HM, Jr: The Army officers are a cult unto themselves.

So a plan had to be worked out which would be acceptable to the Army and which they could, to use our language, sell to our Parliament, to our Congress, and something that Congress can take. As you remember, the Senate Committee were going to investigate this thing and by a vote of 4 to 3 it was approved, with only one vote to the good. The House started an investigation and all of these investigations have been stopped because this program was explained to them and, I learned this morning, has not been explained to you gentlemen.

Mr. Purvis: That's correct.

HM, Jr: I mean, what did the Army do on the Hill and what did the Administration do on the Hill in order to make it possible not only to give you latest planes, but to give you part of our order.

Mr. Purvis: That is true. We are missing that information.

HM, Jr: After all, out of 534 Curtisses they are going to release 302.

Mr. Purvis: Yes.

HM, Jr: Of the Curtiss P-40. I don't know whether that's news or not. But there must be some plan. They must have convinced these people, who are very suspicious, on the question of getting these planes and only yesterday, whether it's true or not, the Norwegian Curtiss P-40s, which the Norwegians have, all fell into the hands of the Germans. So the Germans claim. I don't know whether it's true. But they pick that up and they say "You see? We

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told you not to release. You see what happened?" And the longer we wait, the more apt it is to happen.

What the Army has done is this: they have told the people on the Hill two things; one, that these Allied orders have interfered with their own orders in the sense that not having a limit on profits for the Allied orders our American manufacturers can make more money out of you than they can out of us. Which is true. Naturally they would rather get an Allied order than they would one from the Army and, therefore, the Army has had difficulty in getting these companies to develop more advanced model where they have to do it out of their own pocket.

Mr. Purvis: Yes.

HM, Jr: We have a certain amount of money, but a great deal of the money has to be advanced by the individual and, if I understand it correctly, they go into competition. With the competition the manufacturer has to take a total loss. That's the way it is done. Therefore, a manufacturer with these orders being held in front of their nose now, for months, naturally would much rather do business with you gentlemen where there is no limit of 12% on profit than he would to do business with our own Army and Navy and, therefore, our Army and Navy are up against it and they can't get some of these people to say "We will spend so many hundred dollars, thousands of dollars, to develop new business." They say, "We are too busy".

Therefore, the Army has worked out a formula whereby they want two things. In the case of Curtiss they want to have a certain amount of money which will be spent to develop something for 1942.

Mr. Purvis: Yes.

HM, Jr: The Army has not got the money. They were cut down on their appropriation of developing money. I don't know how much, but it has been cut down. Due to this testimony they lost \$57,000,000?

Captain Collins: Yes, sir.

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HM, Jr: They lost \$57,000,000 because in explaining it they said the thing is changing so fast. They said, "All right. You don't need the reserve planes" and they took a blue pencil and cut out \$57,000,000. Did you know that?

Mr. Purvis: I had not realized it.

HM, Jr: They explained "You don't need them. You can release them to the Allies. Keep developing new planes? All right. You don't need it. We will take away \$57,000,000." Which they did.

What the Army wants to do -- and I must say I agree with them entirely -- they want to do two things. On the balance of planes yet to be delivered to them, they want certain improvements to be made which they have learned through certain things which are going on and they want the manufacturer to make those certain changes. Also, they want to give the manufacturer a lump sum to go ahead and develop something for 1942.

Now, in working those things out they have arrived at certain figures for the three companies. In the case of Curtiss, it is \$739,000. In the case of Bell, it is \$500,000. Lockheed, \$1,148,000. Now they say that's the top figure and most likely will not reach that, but the outside figure for the Army on development for a 1942 plane and making certain changes for ourselves, which we have learned, on planes yet to be delivered, the outside figure would be \$7,000,000 but it may be less, but I want you to know what the outside figure is. Now this makes the Army very happy. They have lost \$57,000,000 trying to explain why they should give you part of their orders, why they can release these things, and in that process they have lost \$57,000,000 and their development cost was cut.

Captain Collins: Very materially.

HM, Jr: They get a sum -- I don't know whether it's \$8,000,000 or \$10,000,000, which they can spend for developing and that money they need so desperately for their 1942 program was cut very materially.

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Mr. Purvis: Does the \$7,000,000 include those three items of \$739,000, \$500,000 and \$1,148,000?

HM, Jr.: Oh, yes! I don't know what the Navy would be in connection with dive bombers, but this would be the outside figure with the United States Army and I can say that the Government would ask to release these models and to give you part of the orders which we have on hand. Now, you will have an Army which is entirely satisfied against where it lost this money, where they are sore that the manufacturers won't give them what they want because they can make more money selling to you rather than the Army, due to the Vinson-Trammel Act. And I want to say, after listening to the thing and knowing that the President, myself, Mr. Woodring, Mr. Johnson, and Mr. Edison have to defend this before the Congress, that the Congress of the United States at the moment is satisfied, I don't see any other way of giving this to you people, and after listening to them -- they are not adding on one dollar above what these things actually cost; they are not padding the payroll one dollar; they have been absolutely fair -- and in order to continue their program and not have all this grumbling and making my position absolutely impossible.

But if you people want to go through with this thing, I am saying to you it is not a trading thing. This is the Administration policy and I have gone into it very, very carefully, and considering that we have our Congress, we have our people who have mixed sympathies, and everything else, I am fully cognizant of the development money you have put in here and I am not Henry Morgenthau, Jr., who is in business, has something to sell you ---

Mr. Purvis: No! No!

HM, Jr.: --- or that you are in business to buy. We both have our Parliaments. We have public opinion. We have people who dislike us. We have an election coming along. We have to be on firm ground and on this program the Administration could from the housetops shout it and explain it and we have nothing to apologize for. We don't have to do anything secret on this. It

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is something that I am perfectly willing to go anywhere and defend because I feel on this we are not being injured as far as our National defense is concerned through your program being superimposed on our industry and we can go ahead and develop something for 1942. I don't know whether it has been explained to you in that way.

Mr. Purvis: No.

HM, Jr: And that, Mr. Plevin, is the whole thing. You will simply have to take my word for it. I listened to them and their need for the work to be done. And the models to be developed -- not a pencil or paper is yet on the drawing board for 1942 and this, the money they are asking the manufacturer to put up, has nothing to do with the money the Government is putting in to match what the manufacturer does. It's the only way I see that we can go along with you. I just don't see any other way.

Mr. Purvis: That's the answer.

HM, Jr: I just don't see any other way and I don't feel -- I feel this way, when I know our temper and realize fully the money you are putting into the situation and everything else

Mr. Purvis: That's the point. We want you to know. If you know that and have taken it into account

HM, Jr: I fully appreciate it, but I just, after listening to these people this morning, I have not got a leg to stand on to go to the President and say "The Army is unfair" because I don't think they are. Where they are charged with the responsibility of defending our own country, I don't think they are unfair. Their responsibility is to defend us against any possible aggression and with that in mind I think they are fair. I think they would be negligent in their duty if they did anything other

Mr. Purvis: Mr. Plevin, have you anything to say?

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Mr. Plevin: I wanted the Secretary to let us know the Administration policy.

HM, Jr: I have enunciated the policy.

Mr. Purvis: I would like to say one more thing. If you -- the fact you feel this is a firm and proper thing weighs with me more particularly.

HM, Jr: I do. I feel this is absolutely fair. Mind you, from the standpoint of the War Department who are charged with the responsibility of the National defense of this country. That's their responsibility.

Mr. Purvis: You have been so friendly.

Mr. Plevin: May I ask you a question. We have to explain to our own Government that we have to add to our estimates and I would like to couple it with a statement that all of the models are released.

HM, Jr: The War Department has signed a contract with Curtiss, Bell and Lockheed. Those contracts are signed, on this basis.

Mr. Plevin: We must indicate that we have several millions over and we must be able to say for what we are doing it and I would like to couple it with the announcement that all the models are released.

HM, Jr: Now, wait a minute. Mr. Purvis told me that he was given full responsibility on how to go ahead. You called me up at Sea Island.

Mr. Purvis: That's right. As Chairman of the Allied Purchasing Board, we have authority to do it.

HM, Jr: Now, you have authority?

Mr. Purvis: Within the program total that we had put to them.

Mr. Plevin: \$700,000,000.

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HM, Jr: Then this is 1%.

Mr. Purvis: Yes. Approximately 1%.

HM, Jr: And I don't think

Mr. Purvis:..it will be money poorly spent.

HM, Jr: No, I wasn't going to say that. It just simply -- I don't see any other way out. But I am simply saying that I don't think it will reach \$7,000,000, but in order to be safe and not come back -- Mr. Johnson said between \$6,000,000 and \$7,000,000, so rather than come back and say \$7,000,000 instead of \$6,000,000 and have you think we were trying to trick you, I am saying \$7,000,000.

Mr. Pleven: (In substance: You appreciate that we must know what the estimated cost will be for all manufacturers.)

HM, Jr: You have my word now. The top is \$7,000,000.

Mr. Purvis: Yes.

HM, Jr: You have my word.

Mr. Purvis: That is good enough.

HM, Jr: The War Department have signed contracts with these three manufacturers and the three manufacturers, I take it, are ready to sign with you provided that those three items are in. What I would like to say is this, as long as we are talking very frankly, if you have the authority my advice to you would be to sign, if the ladies don't mind, damn quick before somebody changes his mind. I wouldn't fool around very much. I can tell you this is so today and they are ready, but I would not fool around with it very much if you want to do business.

Mr. Purvis: Then the point you (Pleven) are making is how we stand on the other models besides these three.

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Mr. Plevin: We must know. For the Government to put us in fair position, we must know what we pay each manufacturer for those planes. We must be able to say to Congress, "The contract will be charged by so much."

Mr. Purvis: I can see his point. He wants to protect himself against this position in the actual negotiation where a manufacturer might feel that he could not tell us what he was charging.

HM, Jr.: I will tell you. But I am going to ask the Army to tell me and I am going to ask them to give me an explanation in each case.

Mr. Purvis: So you can see how it grows up to \$7,000,000.

HM, Jr.: I have a page here on which I know exactly what it is for and I satisfied myself in each case that it is fair and I only tell it to you unless I am satisfied.

Mr. Purvis: That seems to answer that. We are free to go ahead, to take our action on those three. On the others we are waiting. Matter of hours or

HM, Jr.: day or two.

Captain Collins: Probably today.

HM, Jr.: I would rather say a day or two. But they are out at Dayton and we will hear. What I am anxious for you to do is to sign one contract, signed on this formula. See? As the formula is set, so someone won't change it, because if they change it it will be for the worse.

Mr. Purvis: Always true.

HM, Jr.: I don't care which one. I would like to see one signed or all three so I could say, "After all, gentlemen, you told me in my office Friday morning this was the policy. You can't change on me."

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It's too late."

But that's the story. I don't think it had been explained that way.

Mr. Purvis: Oh, no. And we are very glad to have it all in the open so we would understand.

HM, Jr: I don't know why it was not explained to you, but for some reason they did not want to explain it, but there is nothing else to it. That's all the facts.

Mr. Purvis: Anything you (Pleven) want to say?

Mr. Pleven: Nothing.

Mr. Purvis: May I return to some other subjects next week and bother you again?

HM, Jr: Yes.

Mr. Purvis: They will be other subjects entirely.

HM, Jr: Yes.

Mr. Purvis: We will get along, meantime, with this, but I don't want to rush you, but later on there will be some things.

HM, Jr: Oh, yes! Yes! I want to see you too. Both of you.

Mr. Purvis: Thank you very much. Thank you for the frank explanation.

HM, Jr: It's the only way. I can't understand between Governments why you should not be told. This has been explained to the two Committees on the Hill. They have this information and if they have the information why shouldn't you? And it was on this basis Congress was willing not to have an investigation, willing to say, "Fine. This is good."

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(Mr. Purvis and Mr. Plevin left the Secretary's office.)

Captain Collins: He's fudging just a little because he was definitely told the policy, not in detail because Brett did not feel he could give them figures and what the breakdown was.

HM, Jr: I did not give him the breakdown.

Captain Collins: You said \$739,000 for Curtiss.

HM, Jr: It was changed orders and development for 1942 where they got bogged down and I don't blame them.

Purvis got it, but I thought Plevin was going to cry.

Captain Collins: He was crying.

Mrs. Klutz: Yes, he was crying.

Captain Collins: He figures he has lost \$60,000,000.

HM, Jr: How does he mean \$60,000,000?

Captain Collins: He thinks this figure should have been used as an offset.

HM, Jr: I put it on such a plane that these fellows could not argue with me. He said, "What is the policy?" and I told him. I can't help it. If I were the Secretary of War, this is the minimum I would ask for. I would get more out of them.

I take it if they signed it, the three of them, Douglas and Martin will fall in line. I don't think much of the manufacturers telling them it is a screwy plan.

They know where they are at now. He can put it up to his Government any way they can.

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RE PRESS RELEASE REGARDING ALLIED
PLANE PURCHASES

April 12, 1940.
4:30 p.m.

Present: Mr. Schwarz
Mr. Bell

H.M.Jr: This story disturbs me very, very much and I want to know, God damn it, where it came from. I am making an issue of it and it is a matter of national policy and I want to know where that story came from. I very seldom ask. Does that say UP?

Schwarz: Yes. The AP just called me and asked me about it.

H.M.Jr: I want to know where they got it from and you can perfectly well call up Lyle Wilson if you want to. I really want to know. Johnson tells me - you see, I have got to keep my position with Purvis. He says that Purvis doesn't know it. I really do want to know it. I have very seldom said that, haven't I?

Schwarz: Yes.

H.M.Jr: How would you do it?

Schwarz: I would sooner try right here first.

H.M.Jr: I consider it very important.

Schwarz: Then if I don't succeed --

H.M.Jr: I definitely want to know. I think there is only one place that could come from and that is from Johnson. I think it is outrageous, because it is all right for me --

Schwarz: But they shouldn't give it.

H.M.Jr: You had better hang on to that.

Schwarz: I will return it to you with the report.

H.M.Jr: But I want to know where that story ends. Now, God damn it, I am just sick and tired of all this business.

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Schwarz: You don't think Woodring did it?

H.M.Jr: Without offending anybody - and if necessary, if they won't - if it is UP, I am perfectly willing to call up Lyle Wilson myself.

Schwarz: I can get it, he will tell me.

H.M.Jr: Because I know him very well. You tell him I don't want to use it, but I want to know for the future how to conduct myself, that here is something that takes place in my office and I want to know where does this thing come from.

ALLIED PLANE PURCHASE PROGRAM DJ - April 12, 1940 - 4:15 p.m.

DJ 4:15 UP - Aviation circles said today that the Allied Purchasing Mission seeking latest type American warplanes has agreed to the final conditions laid down by the Government and is now prepared to sign initial contracts with manufacturers for several hundred planes.

The new orders eventually may total around 5,000 planes. Representatives of the Mission headed by Arthur Purvis conferred with Secy Morgenthau on final details of the program. It was understood that Purvis protested vigorously against a ruling by Asst. Secy of War Johnson that the Allies would be forced to pay part of development costs such as retooling aircraft plants on still newer planes which the U. S. will buy. The Army is permitting manufacturers to sell to the Allies planes that were originally ordered by the Army.

Morgenthau, reliable reports said, told the Allied representatives that as head of the President's special interdepartmental coordinating committee on foreign purchases he felt the War Department's demands were fully justified. His decision was said to have been a 'take it or leave it' matter and the Allied Mission thereupon agreed to begin signing contracts.

Sudden spread of the war was thought to have influenced the Allied decision. Meantime it was disclosed that the War Department has agreed to release for sale to the Allies a new type Lockheed Budson Light Bomber. This is in addition to the Lockheed P-38 Interceptor, the Bell P-39 Pursuit ship and the Curtiss 40-D Pursuit Plane all rated as better than 400 miles per hour craft.

It was understood that the first new allied contracts which are expected to be announced shortly by Purvis will be for hundreds of these four types.

It was understood that the War Department insisted strenuously that the Allies bear a good part of the development costs for the Army's later model ships. This was based upon the fact it was said that the Federal Government had spent large sums in perfecting the present types which are being released to the Allies as an accommodation.

April 12, 1940
4:30 p.m.

John
Sullivan: Hello.

H.M.Jr: John.....

S: Yes.

H.M.J:r: I haven't got time to see you but this is important and I want you to know about it and I can talk to you about it more tomorrow.

S: Yes, sir.

H.M.Jr: At Cabinet Compton brought up the question of this Navy bill.

S: Yes, sir.

H.M.Jr: Spreading the losses over four years.

S: Yes, sir.

H.M.Jr: And And the President told him he knew nothing about it. Compton said it had gone through the Budget. The President said, "Not to my knowledge." And then the President said, "You better forget it." So I said, "Well, will you please also say, Mr. President, the Navy bureau heads should lay off the pressure." And the President said, "Tell --" he mentioned whatever the Navy head is -- "to cut it out." He said he didn't want it, to kill it, he doesn't want any bill this year.

S: Right.

H.M.Jr: So I thought you'd want to know that.

S: Yes, that's very important, and I'm wondering what that does to the other that was agreed to.

H.M.Jr: Well, I don't know but this is the situation as of tonight and I'll see you tomorrow.

S: That's fine, and thank you very much, sir.

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H.M.Jr: And Compton stopped me after we came out after Cabinet to tell me how well he had gotten along with you and so did Woodring.

S: Thank you.

H.M.Jr: It's up to you to see me tomorrow.

S: Yes, sir, I will. And thank you.

April 12, 1940
4:42 p.m.

H.M.Jr: I'm all right. I'm a little tired.

Randolph
Burgess: Well, I should think you might be with what's been going on.

H.M.Jr: I've got good reason to be. Randolph.....

B: Yes.

H.M.Jr:I remember that Earle Bailie had someone lined up to come down here with him if he was coming, and I had Mrs. Klotz call him up. And the person he had lined up to look after the foreign exchange was Dewitt Milhauser.

B: Dewitt Milhauser?

H.M.Jr: Yes, formerly of Speyer.

B: Milhauser, formerly of Speyer, yes.

H.M.Jr: And Earle evidently at that time thought well enough of him to bring him down with him.

B: Yes.

H.M.Jr: But in order not to get wires crossed I thought I'd tell you about it and if you wanted to you might talk to Earle.

B: Yeah. Yeah, all right.

H.M.Jr: See?

B: I'll look him up.

H.M.Jr: But you might look him up and.....

B: Yeah.

H.M.Jr: Have you got anybody that you know of?

B: Well, I've got a real lead here I think. I've been making inquiries and the New York Clearing House, you know, is reducing its work a great deal. They

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are no longer going to examine the banks.

H.M.Jr: Yeah.

B: And their Clearing House staff, when she was composed of about a dozen examiners, is looking around for jobs and some of them haven't yet found them. Now, I've just got the names of three fellows there who could be gotten very quickly and who'd come down temporarily.

H.M.Jr: Could they be here Monday?

B: If you want them. I can get some of them tomorrow morning if you want them.

H.M.Jr: Well, the sooner the better.

B: Well, I think we could have them come and call on Dan in the morning and see if he likes them.

H.M.Jr: Let me ask you this. Is the head of the Clearing House and a staff in any way -- I mean, would that be all the same sort of thing?

B: Well, their work, of course, is this -- checking things of this sort.

H.M.Jr: Yes.

B: There are several of them -- I wouldn't send anybody who hasn't had some experience in foreign credit.

H.M.Jr: Right.

B: But our men know these people.

H.M.Jr: Yeah.

B: And I was just asking our own Comptroller, Assistant Comptroller about them and they are good, able fellows who are used to examining documents and making up their mind what kind of credits they are - whether they are good credits, and so on. So this would be quite familiar work for them.

H.M.Jr: Good.

- 3 -

B: So I think that they're just the kind of fellows we're looking for.

H.M.Jr: Well, they can come down. We'll pay their railroad fare and if we don't use them at least they won't be out of pocket anything.

B: Well, suppose I see if I can get two or three of them.....

H.M.Jr:down to see Bell.

B:down to see Bell in the morning.

H.M.Jr: And you might inquire about this Dewitt Milhauser.

B: All right, I will.

H.M.Jr: Please.

B: And I can call Dan back about him?

H.M.Jr: If you please.

B: So as not to bother you.

H.M.Jr: That's right.

B: All right, that's fine.

H.M.Jr: Thank you.

B: Very good.

H.M.Jr: Goodbye.

April 12, 1940
4:54 p.m.

H.M.Jr: Hello.

Operator: Mr. Johnson has gone for the day. She said I might reach him at his apartment. She's not sure.

H.M.Jr: At the where?

O: At his apartment.

H.M.Jr: Oh. No, I'll talk to him in the morning.

O: All right. Here's Mr. White. Go ahead.

H.M.Jr: Hello.

Harry
White: Hello.

H.M.Jr: What's my diplomat doing?

W: (Laughs) Why he's worrying about the confusion that's being caused and he wants to know particularly whether he will have to apply for a license himself if he wants to - to use some of his own government's money. And I told him that there wouldn't be any difficulty in any case but that I would check and have somebody call him back who would be able to answer his question. I think he.....

H.M.Jr: Harry, he asked the same question of Berle. Berle called me yesterday while the man was sitting there.

W: Yeah. Well, I think he's - he was most unreasonable over the phone but I was very nice to him.

H.M.Jr: Well, why should he call you about it?

W: Well, the Lord knows. He said Berle's away and he called me and I was going to transfer him to somebody else.

H.M.Jr: Well, he called up yesterday and Berle gave him the answer.

W: Well, he - I suppose that we - what I would suggest we do - we'll have somebody call him back to be able to answer him, though I didn't want to give him the answer because I.....

- 2 -

H.M.Jr.: Well, Don't do anything tonight.
 W: I said I would have somebody call him back.
 H.M.Jr.: Well, don't!
 W: O. K.
 H.M.Jr.: It's up to Mr. Bell anyway.
 W: You mean I just won't have anybody -- I won't have anybody.....
 H.M.Jr.: No, tell Bell about it and let Bell handle it.
 W: O. K. Yes. Well, that's what I was going in to do.
 H.M.Jr.: Yes. Now, what I want you -- is this. Tomorrow morning I'm going to ask.....
 W: Yes.
 H.M.Jr.:you to tell me what are the latest figures on the percentages of goods coming in from the British Empire. How much on the free pound; how much on the official rate.
 W: Well, we -- I just got a report from the men up there.
 H.M.Jr.: Yes.
 W: And they are going on March and they have only been over February and they're discovering that most of the invoices were -- they probably -- the original orders were given several months ago, and though the terms are in sterling, most of them, they're -- that applies to February -- they are not in a position to know, though they assume that the sterling could be bought at any rate.
 H.M.Jr.: Well, Harry.....
 W: Any that I was going to make this suggestion.
 H.M.Jr.: Harry, I was just putting you on notice. I want it tomorrow morning.

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W: Yes. Well, I have a proposal to make and meet your permission, but I'll give it to you tomorrow morning.

H.M.Jr: That's all.

W: Yeah. O. K.

H.M.Jr: And in the meantime, take a ski ride.

W: (Laughs) All right. I'll go right around the corner. I'll use my roller skates.

H.M.Jr: All right.

W: O. K.

MEMORANDUM FOR THE SECRETARY:

APRIL 12, 1940.

Shipping Situation.

The falling off in the volume of exports is beginning to be reflected in the performance of the railroads at New York.

The number of cars lightered for export daily is running well under 700 cars.

The number of cars to be lightered for export shows a precipitate drop from 3300 cars on April 1st to 2400 on April 11th.

The cars in storage on railroad piers and in railroad controlled warehouses are about the same as last week - 4816 cars with an unused available capacity of 9827.

The number of railroad lighters on demurrage April 11th was 69; the average since the first of April has been 70 lighters per day.

Grain in railroad cars, elevators and barges has dropped to slightly over one million bushels. The quantities at Boston, Philadelphia and Baltimore have also declined and there is not in evidence any movement to replenish the stocks.

The railroads are said to be considering the establishment of "Train load" rates on Canadian grain from Buffalo for export. If such a plan were adopted it should increase the competitive effectiveness of New York and United States North Atlantic ports with Montreal.

Confusion resulting from the Scandinavian situation has brought trading in export grain to a standstill. A few loads of Antwerp grain were booked at 75¢ per 100 lbs. this week and the best offer now obtainable is 70¢.

The French government is reported to have placed an order with the White Motor Company, Cleveland, for 145 heavy-duty trucks, at a cost of \$1,250,000., delivery to be made by June 1st. These are tank trucks for the transportation of gasoline.

The French government will shortly begin the movement of horses via New York.

Orders for export steel are running at the rate of 20% of the country's productive capacity. England continues the largest purchaser. The urgency of the demand for this steel is such that ships under the direction of the British Ministry of Shipping are reported to be sailing down to their marks but with all of the space not utilized.

The Port of New York Authority states that exports to France through New York in February were valued at \$26,500,000., more than four times the volume of the preceding November. The exports to France almost equaled those to the United Kingdom, which were valued at \$27,908,000.

Carloadings continued to fall, being 4% less for the week ending April 6th, accounted for principally by decline in coal loadings.

The Italian steamer "MILENA" was chartered on net form at 35¢ per cubic foot, North Atlantic range to French Atlantic, presumably for one of the non-Conference operators, but not yet advertised.

The Black Diamond Line have circularized shippers that due to difficulty in obtaining suitable tonnage they are suspending service.

Basil Dennis

April 12, 1940.

Dear George:

I want to let you know how much I appreciate the fine voluntary cooperation extended by the Federal Reserve Bank of New York and the Foreign Exchange Committee of the New York banks in dealing with the financial situation created by the events in Denmark and Norway.

Will you please express my thanks to Mr. Love and the members of his committee and accept also my thanks to you and your staff.

Sincerely,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury.

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

April 12, 1940.

Dear Sumner:

I am enclosing herewith copy of a telegram which I have just received from Reginald Tyler. He has been, on a number of occasions, very useful to the Treasury.

In return for the services which he has rendered, I would be delighted if the State Department could expedite his return to the United States.

Sincerely,

(Signed) H. Maguire, Jr.

Honorable Sumner Welles,
The Under Secretary of State,
Washington, D. C.

By Messenger 5⁰⁰ pm 4/12/40

April 12, 1940.

Dear Sumner:

I am enclosing herewith copy of a telegram which I have just received from Royall Tyler. He has been, on a number of occasions, very useful to the Treasury.

In return for the services which he has rendered, I would be delighted if the State Department could expedite his return to the United States.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Sumner Welles,
The Under Secretary of State,
Washington, D. C.

By Messenger 5⁰⁰ pm 4/12/40

Treasury Department

TELEGRAPH OFFICE

78

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STOCKHOLM 76 12 1825

SECRETARY TREASURY

WASHNDC

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REQUESTING PERSONAL ATTENTION SECRETARY MORGENTHAU STOP RETURNING
FROM LEAGUE NATIONS MISSION TO HELSINKI WISH PROCEED VIA GERMANY
STOP GERMAN AUTHORITIES NOT RECOGNIZING DIPLOMATIC PRIVILEGE
CONFERRED BY LEAGUE HAVE FORWARDED MY APPLICATION FOR TRANSIT VISA
TO BERLIN SAYING DECISION MAY TAKE SEVERAL WEEKS STOP WISHING SAIL
AMERICA URGENT BUSINESS I SHOULD BE MOST GRATEFUL FOR ANY STEPS THAT
COULD PROPERLY BE TAKEN TO EXPEDITE GRANTING GERMAN TRANSIT VISA

Treasury Department

46

TELEGRAPH OFFICE

1WN SHEET 2 MORGENTHAU-STOCKHOLM

THANKS GREETINGS

ROYALL TYLER GRAND HOTEL

229P

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: April 12, 1940, 5 p.m.

NO.: 953

FOR THE TREASURY. FROM HEATH.

Yeaterday in talking with Puhl, the Reichsbank's Vice President, he asserted that the Reich did not contemplate extending its fiscal or monetary control over Norway and Denmark. He asserted in this connection that the Reichsbank had consistently fought for the entire autonomy of the central bank and monetary system of Czechoslovakia. He mentioned that while the protectorate status of the territory made it impossible to allow full freedom in these respects, the Czechs nevertheless still had their own currency, and in its monetary and banking administration the Czech central bank had a substantial measure of independence.

He said that as a result of the military occupation of Denmark the only special financial arrangement made was one with the Danish central bank to accept the special scrip being issued to the German army in paying its troops and expenses at the rate of fifty Reichspfennigs to one Danish crown. Puhl said that the scrip which is being used consisted of the same Reichskreditkassenscheine which were issued for Poland during the first stage of its occupation by the military - reference, telegram of September 30,

No.

- 2 -

No. 1512 from the Embassy. The Danish Bank would gain by the scrip arrangement, Puhl asserted, since the nominal exchange rate for the two currencies was 48 Reichspfennigs to one Danish crown. The German military authorities in Denmark preferred to adopt the round rate of 50 pfennigs, however, for reasons of accounting convenience. When the Danish banks presented the Reichskreditkassenscheine through the regular exchange clearing mechanism they would be honored by the Reichsbank. The Danish banks would be given Reichsmark credit for them, which could be used by Denmark to purchase goods from Germany.

Puhl said that the occupation of the two countries had raised no question of Germany's adding to its gold reserves, since he had private though not official information that some time ago the gold reserve of Denmark was removed to New York, and he understood that the gold reserve of Norway had been or was being taken away.

Puhl admitted that trade and exchange problems were brought up by the occupation. He made reference to the problem of providing sufficient fodder for the livestock industry of Denmark because of the probable interruption of imports from overseas for Denmark.

END OF MESSAGE.

KIRK.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 12, 1940, 7 p.m.

NO.: 467

FOR THE TREASURY DEPARTMENT. FROM MATTHEWS.

In financial and business circles in Paris I find a growing albeit cautious optimism based on the few facts which can be sifted from the mass of rumors circulating today on developments in Norway and elsewhere. At lunch today I was told by both Pearce of the National City Bank and Arragon of Morgans who had talked with Amsterdam this morning that the atmosphere there was tensely anxious, with a somewhat calmer feeling in Belgium.

Marcus Wallenberg flew to London yesterday from Paris, where he has been negotiating a trade treaty. Pearce had talked with him this morning, and found his attitude toward the outlook for Sweden "extremely depressed". I was told by General de Chambrun that a joint Franco-Italian concern which operates in Djibouti had been scheduled to hold its usual meeting of directors at Milan in a few days. Suddenly and without explanation the meeting place was changed to Verona. Standard Oil and Sinclair Oil Company representatives feel that for the duration of the war their stocks, installations, and rolling stock in the Netherlands are as good as gone. The Standard Oil representative remarked however that the British acquiring tanker tonnage of

- 2 -

of Norway should help bring down freights - despite the charter deal effected some time ago with the Government of Norway, it had only been about 70 percent applied.

END SECTIONS ONE AND TWO.

BULLITT.

ATP

GREY

Paris

Dated April 12, 1940

Rec'd 6:28 p.m.

Secretary of State,
Washington.

467, April 12, 7 p.m. (SEC THREE)

Today's Journal Officiel publishes a series of decrees and arretes introducing various changes and modifications in the existent exchange control regulations.

One. The provisions of Article No. I of the decree of September 9, 1939 fixing the terms of application of the decree of the same date prohibiting or regulating in time of war the export of capital, foreign exchange operations, and trading in gold (telegram No. 1894, September 10, 4 p.m., enclosure No. One to despatch No. 4988 of September 11 and enclosure No. Two to despatch No. 5105 of September 18, 1939) are abrogated and replaced by a new text which differs from the original in two respects.

BULLITT

LEAD:EMB

GRAY

PARIS

Dattd April 12, 1940

Rec'd 4:12 p.m.

jt

Secretary of State,
Washington.

467, April 12, 7 p.m. (SECTION FOUR)

(a) revision is made in the phraseology of numbered paragraph two (failure to bring to France income or revenue accruing abroad) embodying the change set forth in the decree of March 9 (see enclosures numbers one and two to despatch No. 6268, March 19, 1940) is embodied in the new text and (b) an additional paragraph (No. 5) is added to Article 1 setting forth that "all transactions in foreign exchange or currencies against other foreign exchange or currencies effected, in France or by policy referred to in Article 2 (i.e. residents in France) other than through the intermediary of the foreign exchange office", are in principle prohibited (foreshadowed in my telegrams numbers 437, April 8, 7 p.m. and 461, April 11, 6 p.m.)

BULLITT

JT

GRAY

PARIS

Dated April 12, 1940

Rec'd 5:44 p.m.

Secretary of State,
Washington.

467, April 12, 7 p.m. (SECTION FIVE)

The provisions of Article VIII of the aforementioned decree of September 9, 1939 are also abrogated and replaced by a new text which provides that the importation of French colonial and foreign coins and banknotes is prohibited unless effected under authorization of the Foreign Exchange Office by the Bank of France and "approved intermediaries" within the conditions to be fixed by the Foreign Exchange Office or by persons entering France within the limits to be fixed by an arrete of the Minister of Finance (see 4 below) an additional article (8 b.i.s.) is added: It provides that the importation into France of "all stocks and shares property titles, evidence of indebtedness and coupons" is prohibited unless imported through the Bank of France or "approved intermediaries".

BULLITT

LMS:EMB

JT

GRAY

PARIS

Dated April 12, 1940

Rec'd 4:16 p.m.

Secretary of State,
Washington.

467, April 12, 7 p.m. (SECTION SIX)

Two. The date for the declaration of holdings abroad (see telegram No. 2912, December 6, 7 p.m.) in case of "force majeure" is extended where requested to June 30, 1940.

Three. The provisions of Article 1, Chapter 1, of the arrete of November 30, 1939 describing prohibited and authorized exchange operations (see enclosure No. 1, to despatch No. 5386 of December 6 and enclosure No. 1 to despatch No. 5467 of December 15, 1939) are changed so as to exclude from the definition of "means of payment":

BULLITT

CSB

LTP

GR.Y

PARIS

Dated April 12, 1940

Rec'd 4:49 p.m.

Secretary of State,
Washington.

467, April 12, 7 p.m. (SEC SEVEN)

"All coupons and all government securities or other negotiable securities of a fixed maturity" as well as subscription rights and dividends. These same documents are also excluded from the definition of "foreign exchange". They will henceforth be considered as either "properties in France" or "properties abroad" according to their physical location.

The necessary changes are effected in the aforementioned arrate in order to bring themselves in line with the provisions of this new decree (see section one above) and with the new regulations issued regarding customs control (see section four below).

BULLITT

EMB

JT

GRAY

PARIS

Dated April 12, 1940

Rec'd 6:42 p.m.

Secretary of State,
Washington.

467, April 12, 7 p.m. (SECTION EIGHT)

Four. The arrete of September 9, 1939 regarding customs control (see enclosure No. 6 to despatch No. 4938 of September 11 and enclosure No. 6 to despatch No. 5105 of September 18, 1939) is abrogated and replaced by a new one. The principal provisions embodied in this new measure are: (A) every person leaving France must make a customs declaration covering the "means of payment" (i.e. "French, Colonial or foreign coins and bank notes, checks, letters of credit bills drafts and all other or short term credits of the same type"), stocks and bonds, property titles, evidence of indebtedness and coupons securities carried by him.

BULLITT

HTM:EMB

LTP

GMEY

PLMS

Dated April 12, 1940

Rec'd 5:10p.m.

Secretary of State,
Washington.

467, April 12, 7 p.m. (SECRET).

He, furthermore, must be in possession of a permit issued by the Foreign Exchange Office to carry out such funds if their combined value is in excess of five hundred francs. (B) Persons habitually residing outside of France may not take with them on leaving the country "means of payment" in excess of the value of that bought by them on entering France. (The original transitory provisions are now omitted). In addition they must be in possession of a special permit issued by the Foreign Exchange Office to take out stocks and bonds, property titles, evidence of indebtedness, and coupons on securities.

DULLITT.

LMS:EMB

JT

GRAY

PARIS

Dated April 12, 1940

Rec'd 4:57 p.m.

Secretary of State,
Washington.

467, April 12, 7 p.m. (SECTION TEN)

(C) Every person entering France must furnish the customs with a declaration covering the "means of payment" in his possession as heretofore; (D) any person entering France may not bring with him more than 10,000 francs in French or colonial coins or banknotes or the equivalent of 10,000 francs in foreign coins or banknotes. Sums in excess of this amount must be deposited with the receiver of customs against a receipt. They will be returned to the interested party when he leaves France or on his written instructions may either be transmitted to a bank abroad or in the case of foreign coins and banknotes sent to a bank in France to be sold to the Foreign Exchange Office.

BULLITT

EMB

JT

GRAY

PARIS

Dated April 12, 1940

Rgd 9:11 p.m.

Secretary of State,
Washington.

467, April 12, 7 p.m. (SECTION ELEVEN)

(E) Persons entering France "who have in their possession securities, stocks and bonds or coupons" must deposit them with the receiver of customs. They will be either returned at the time of departure or disposed of in the manner outlined above. (F) Persons leaving France and carrying "means of payment" in excess of the amount authorized to be taken out must deposit this excess with the receiver customs. The funds will be returned to them on their return to France or on their written instructions may be sent to a bank in France. (G) The above provisions do not apply to "means of payment" stocks and bonds, securities, and coupons in the possession of travellers in direct transit through France.

BULLITT

EMB

JT

GRAY

PARIS

Dated April 12, 1940

Rec'd 7 p.m.

Secretary of State,
Washington.

467, April 12, 7 p.m. (SECTION TWELVE)

A notice of the Foreign Exchange Office to "approved intermediaries" states that without prior authorization of the Office, the "reinvestment of properties abroad" of residents of France shall be limited to sight or short term securities including Government securities and negotiable securities of a fixed maturity in the same currency.

Today's Journal Officiel also publishes a notice of the Ministry of Blockade to importers stating that the special consular certificates of origin regarding imports of merchandise from certain neutral European countries (my telegram No. 452, April 10, 6 p.m.) will not be applicable to merchandise sent to France before April 16, 1940.

BULLITT

DEM

LTP

GR.Y

Paris

Dated April 12, 1940

Rec'd 5:07 p.m.

Secretary of State,
Washington.

467, April 12, 7 p.m. (SEC THIRTEEN)

Under a further decree published in the Journal Official of today the appropriation of 2,400,000,000 francs for war refugees under the civil budget for 1940 see pages 7 of despatch No. 566 of January 8, 1940 was increased by 1,300,000,000. On the other hand the appropriation of 1,100,000,000 francs under the same budget to cover the 1939 operating deficit of the railways was canceled see page 11 of Embassy's despatch No. 5420 of November 30, 1939. The securities market was weaker today some variable revenue securities registering losses up to 2%. This is attributed in part to the fact that "successful" war activity in the North has already been "discounted" and the unwillingness of speculators to hold commitments over the week end at a time when the scene is changing and can change so rapidly.

(END OF MESSAGE)

GULLITT

EMB



DEPARTMENT OF STATE
WASHINGTON

April 12, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information three copies of telegram No. 211 of April 11 from the American Legation, Stockholm, Sweden, transmitting an inquiry from the Governor of the Riksbank of Sweden.

MR

GRAY

STOCKHOLM

Dated April 11, 1940

Rec'd 7 p.m.

Secretary of State,
Washington.

211, April 11, 8 p.m.

The Governor of the Riksbank desires to be informed whether or not the United States has blocked Norwegian accounts in American banks. He also says that it would assist the bank to know the precise juridical status of Norway if it has been determined by the Department. An early reply to both questions will be appreciated.

STERLING

EMB

APR 11 1940
12:00 PM
U.S. DEPARTMENT OF STATE

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

64

INTER OFFICE COMMUNICATION

DATE April 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

In accordance with the Secretary's instructions, arrangements were made over the telephone with Messrs. Harrison and Knabe of the Federal Reserve Bank shortly after noon on April 10 that any Norwegian or Danish banking transactions which the Federal Reserve Bank thought it urgent should be consummated that day for its customers or those of New York banks would be considered and acted upon promptly by the Treasury if the details were phoned to Mr. Cochran. It was made clear to the officers of the Federal Reserve Bank that this was a provisional arrangement pending a decision as to what formal procedure should be established.

On the afternoon of April 10, Mr. Knabe telephoned me concerning several contemplated transactions. I made pencilled memoranda thereof and reserved a decision until I had opportunity to speak with my colleagues who had been designated to pass on these cases with me, namely, Messrs. White and Bernstein. At a meeting in the Secretary's office late in the evening, which Mr. Berle attended, I reported to the Secretary the cases which had already been acted upon, in order that he and Mr. Berle could see the types of transactions which would be covered by the executive order which was shortly to be submitted to the President for signature. The following are the transactions as reported to me by Mr. Knabe:

The Federal was instructed by cabledgram dated April 8 from Denmark's National Bank to pay \$900,000 from its account with the Federal to its account with the Guaranty Trust. This was a payment to take care of coupons maturing April 15 on the $\frac{4\frac{1}{2}}{8}$ Kingdom of Denmark external gold bonds, 1962, which issue was floated on this market. Under the bond contract, the Guaranty Trust was named as paying agent and Denmark is obliged to provide funds to it five days before coupons fall due. This was a case, therefore, involving simply a transfer from the account which the Bank of Denmark has with the Federal to its account with the Guaranty, and obviously in the interest of American economy. It was approved.

Under instructions dated March 15, 29 and April 2 respectively, the Federal Reserve Bank had been directed by the Norges Bank (the central bank of Norway) to make three payments:

\$9,500 to the Bank of Manhattan
4,800 to the Bank of Manhattan and
9,000 to Harrison Ripley.

against delivery to the Federal Reserve Bank of Norwegian Government bonds. For several years past the Norwegian Government has been buying its own bonds on this market, utilizing such banks as the two above mentioned, and leaving standing instructions with the Federal Reserve Bank of New York to accept

- 2 -

these bonds when turned in, placing them in the security account of the Norges Bank with the Federal, and debiting its dollar account. This change of assets with the Federal Reserve Bank of New York under standing instructions was approved.

The next category involved payments totaling \$571,000 under orders of the Norges Bank dated April 8 and requiring that payments be made on April 10. Seven of these payments were to banks in the United States for the credit of Norwegian banks other than the Norges Bank, the total to be debited to the account of the Norges Bank with the Federal Reserve Bank. These seven payments totaled \$771,000. They were approved. The final transaction involved under these instructions was an order to the Federal from the Norges Bank to pay to the Bankers Trust in New York \$100,000 for the account of the Copenhagen Handelsbank. This transaction differed from the other seven in that it involved a transaction to a bank in Denmark. It was not approved as an emergency case and will have to be gone into further before any final decision is taken.

Brown Bros. Harriman & Company reported to Knake that a draft for \$10,000 had been presented to this firm by a Canadian bank under a credit opened with Brown Bros. Harriman in its favor covering shipment of grain loaded at a Canadian port and destined for Norway. This was a transaction based on an outstanding credit. The ship had not left the Canadian port. Both the dollars paid to the Canadian bank and the wheat were thus within Canadian jurisdiction. This transaction was approved.

The Guaranty Trust reported to Knake commercial transactions covered by commercial credits opened by the Guaranty on account of two Norwegian private banks, with the funds already set aside under these credits to cover shipments of merchandise, namely, \$955 of steel; \$6,479 of steel; \$4,640 of flour; \$7,309 of oranges; and \$2,293 of flour. The first four transactions were for the account of one Norwegian bank and the fifth transaction for account of the other. The payments were to be made to American exporters for merchandise previously contracted for and were approved.

Late on the evening of April 10, Mr. Knake submitted two other transactions to me which I approved on my own responsibility, lacking time to consult my colleagues, as the transactions were still to be put through that date. The first of these involved the payment of a check dated March 20 and drawn on the Guaranty Trust, payable to a party in Paris, by a private concern in Norway, for \$350. The second of these transactions resulted from a telegraphic instruction dated April 8 from a private Danish bank to the Guaranty Trust to pay to the Denmark's National Bank's account with the Guaranty \$95,000. This transfer had to be made on the 10th.

Since the executive order was signed on the night of April 10 and it had not been possible to have the complete machinery operating effectively on April 11, it was arranged by telephone with Messrs. Harrison and Knake that the Treasury would continue to receive by telephone from Mr. Knake to Mr. Cochran my transactions urgently required to be cleared on April 11, upon the condition that the Federal follow up its telephone requests by formal application upon which formal licenses should be eventually issued. In my conversations with

- 3 -

Mr. Knake I emphasized the fact that this was still a provisional arrangement. I emphasized further the desire of the Secretary that the Treasury expedite transactions as efficiently as possible, but made it clear that we desired the data required by the pertinent forms before passing on such cases. If an emergency existed, a telegraphic request would be considered, or if an extreme emergency developed, the telephone could be used, formal applications to be forwarded in both cases to supplement the requests by telegram or telephone. Knake understood that this system would have to be perfected by experience. The first transaction which Knake submitted to me yesterday was one involving an order by the Norges Bank, made at the request of the Ministry of Foreign Affairs of Norway, that the New York Trust hold at the disposal of the Norwegian Legation a sum of \$10,000. After discussing this transaction with Messrs. Bell, Bernstein, Riefler and Vinar, I told Mr. Knake this transaction was approved, but the letter of explanation from the New York Trust Company to the Federal should be followed up by a formal application.

The second and final operation which Knake telephoned to me yesterday evening at 6 o'clock involved the transfer of funds from the following account to reimburse the Guaranty Trust for payments which it had effected, under a letter of credit covering shipments of merchandise:

The account of a private bank at Sandefjord, Norway. The amount was \$8,526.76 which had been paid out to the National Malleable Steel Casting Company of Cleveland, Ohio for goods and to Norton Lilly and Company, Steamship Agents, for freight. The goods in question were loaded on a ship due to sail for Cuba on the morning of April 12. The Guaranty desired the transaction approved before the ship, bearing its merchandise collateral, cleared from New York. Our group, consisting of Messrs. Bell, Riefler, Vinar and Dietrich, approved this transaction.



TREASURY DEPARTMENT

67

INTER-OFFICE COMMUNICATION

DATE April 12, 1940

TO Secretary Morgenthau
FROM Mr. White
Subject: Shipments to U. S. S. R.

The S. S. Kanfai Maru (Japanese) (scheduled to sail from pier #3, Erie Basin, Brooklyn, N. Y., April 16, 1940) will carry a re-export item of 336 slabs of Straits tin, valued at \$16,128 consigned to Vladivostock via Kobe. This is the first report we have received of shipments of strategic materials via Japan to Russia.

This item of tin was originally scheduled for the Greek vessel, S. S. Mount Helmos, which was to carry a load of metal to Vladivostock. The Mount Helmos voyage was cancelled and she was sent to Latin America for a cargo of sugar destined for Vladivostock.

c.c. Mr. Gaston
Mr. Basil Harris
Mr. Cochran

68
BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

April 12, 1940

From DIRECTOR

To Hon. Henry Morgenthau, Jr.
Secretary of the Treasury.

For Sent at the request of Mr.
Hobbs, Under Secretary of Com-
merce.


Carroll L. Wilson,
Acting Director

ECONOMIC DEVELOPMENTS

THE MAIN AREAS of interest at the moment are exports and consumer purchasing. The first because foreign sales have been a major source of support to current business volumes, and the second because of the importance of the rate at which goods are moving into domestic consumption. March preliminary data now available make possible an appraisal for that month. The export statistics are not yet fully tabulated by commodity, but enough material is at hand to show the general changes.

EXPORTS IN MARCH were up about \$5 million from the February total, reaching \$244.4 million. The increase over February was less than the usual seasonal advance. March exports were 30 percent higher than a year ago, and for the 7 months ended March, they were up one-third.

Export Totals Since Outbreak of Business War

(Millions of Dollars)

1939		Year ago 1938	Percentage In- crease over preceding year
September	283.8	243.6	16.5
October	303.1	274.1	17.9
November	286.8	248.8	14.8
December	397.5	344.4	34.2
1938		1937	
January	399.1	230.3	73.6
February	338.6	214.2	56.6
March	344.4	214.8	59.5
Total for 7 months	2,785.3	1,714.4	33.8

REMARKS: The March figures show a sustained high volume of exports, but indicate some decline from the December-January totals. The February drop was accounted for by the short month, but the daily average for March was less than in February and usually it is higher. However, as pointed out before, usual seasonal influences in the trade have been outweighed by the shifting character of the export movement which has resulted from the war in Europe. The sharp drop in the percentage increase over a year ago in March reflected the abrupt rise in March of 1939 which ended a year of decline.

- 2 -

COTTON again had an important influence on the total movement as exports of this commodity dropped off \$27 million from February to March. Therefore, there was an increase of \$23 million in all exports, other than cotton. The largest increase from February to March occurred in the machinery and vehicle group, but 7 of 11 group totals recorded increases.

EXHIBIT**Changes in Export Group Totals from February to March**

	From	To	Change
	(million dollars)		
Increases			
Machinery and vehicles	97.9	115.0	+17.1
Metals and manufactures	61.4	63.9	+ 2.5
Petroleum products and other			
nonmetallic minerals	34.4	36.6	+ 2.2
Chemicals and related products	16.7	18.8	+ 2.1
Decreases			
Textile fibers and manufactures	57.9	40.9	-17.0
Animals and animal products,			
other	9.7	5.1	- 4.6

SIGNIFICANCE: Examination of the available preliminary statistics reveals that the tendency toward concentration detailed in our report of March 14, continued during March. Note that while total domestic exports rose only about \$6 million in March, the exports of machinery and vehicles recorded an increase of \$27 million. The increase in total-weight machinery was \$1.9 million, in tractors and parts \$3.9 million, and in automobiles, parts and accessories (mainly trucks), \$2.6 million. Aircraft shipments did not increase in March despite the large order backlog of the manufacturers. The exports for both months were \$203 million.

CHANGES IN THE COUNTRY distribution of our trade in March were not of a major character. Shipments to the United Kingdom declined \$4.5 million from the February total. Exports to Canada and France, on the other hand, increased \$5.4 and \$3.0 million, respectively. Exports to both the U.S.S.R. and Japan rose \$2 million. Shipments to the major Latin American countries increased noticeably in March. Exports to Norway and Denmark, to which war operations spread this week, totaled \$6.6 million in March.

- 3 -

EXAMPLES:**Change in Exports - February to March**

	<u>From</u>	<u>To</u>
	(Billion	dollars)
Increases:		
Canada	40.1	45.5
France	38.2	41.2
U.S.S.R.	6.7	8.8
Norway	4.7	5.4
Finland	2.9	4.6
Sweden	8.4	8.4
Japan	15.1	17.4
Argentina	9.1	10.8
Decreases:		
United Kingdom	57.9	51.5
Belgium	9.6	4.3
Denmark	2.9	1.2

SIGNIFICANCE: Both the export gains and losses can be explained largely in terms of the general trends over the past few months and by special circumstances in February. The decrease in shipments to United Kingdom represents continuation of the decline in raw cotton exports to this country. The large drop in trade with Belgium is accounted for by the fact that the February totals were unusually high because of the sale of merchant vessels to that country. The rise in exports to Japan follows the large reduction in February, immediately after the abrogation of the trade treaty.

CONSUMPTION OF COMMODITIES (based on retail sales data) has held up very well during the first quarter of this year. The Department's index (confidential) shows a slight decline since the December high but the estimated March figure is well above that of last August.

EXAMPLES:**Commodity Consumption Index
(1929=100)**

August	--	87.4
December	--	95.3
January	--	95.2
February	--	94.7
March	--	94.0 (preliminary)

SIGNIFICANCE: It is evident that the maintenance of consumption has not been sufficient to hold production to the high December level. This is due to the sharp decline in investment expenditures—particularly for inventories.

THE LEVEL OF CONSUMPTION has been maintained in large part by the heavy retail sales of consumers' durable products, notably automobiles. Automobile sales ran about 35 percent ahead of last year in January and February. March sales were about 400,000 units, an increase of almost 45 percent over February. While this gain is not so large as the usual seasonal increase, it is a relatively favorable showing in view of the high sales in February. The increase in March over a year earlier of about 20 percent is likewise quite substantial.

EXAMPLES:

Sales of Passenger and Commercial Automobiles

	1948	1939	Percent in- crease over 1939
January	286,000	218,000	31
February	284,000	202,000	41
March	400,000*	331,000	21
First quarter	970,000	751,000	29

*Preliminary

SIGNIFICANCE: We have heard that the industry attributes the high first quarter sales to a moving forward of the spring buying season—that is, they think some sales usually made from April to June were made in the November-March period of this model year—and, therefore, that there will not be the usual seasonal rise during the second quarter. We have been inclined to the view that sales were high during the first quarter because income was high, and that there would not be the usual seasonal increase because income was falling. Important point is that both agree as to trend of sales; i.e., less-than-seasonal increase and therefore, no seasonal increase in automobile production.

SALES OF GENERAL MERCHANDISE have not been particularly good since the first of the year. They have slumped off somewhat from the December high and are now not much above August or March 1939.

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EXAMPLE:**Department Store Sales****(1923=100)**

1932		
March	--	88
August	--	89
December	--	94
1933		
January	--	92
February	--	89
March	--	89

SIGNIFICANCE: Pre-Christmas sales of general merchandise were disappointing. Weather may have had some influence in particular areas, but it does not appear to have been a major factor in the national results. The trend has been downward since the end of 1932.

FOREIGN TRADE REVIEW

Japan: Recent reports emphasize the growing economic strain in the country. Commodity prices are sky-rocketing, not only on account of the artificial scarcity of certain products and the currency inflation, but also because of loss of confidence in the value of money and the desire to invest it in some tangible object. Particular attention is called to the fabulous prices paid for second-hand cars, pianos, and old typewriters and photographic equipment.

The intensified foreign trade drive is interpreted as an effort to show that Japan is not entirely dependent on the United States as a source for raw materials for its important industries. The drive is directed at Latin America, Spain, Italy, and the Netherlands Indies, although in the case of some of these countries the reported negotiations have little factual basis.

It is interesting to note that in reported negotiations with the Netherlands Indies, the emphasis was placed on the desire of Japan to obtain definite commitments for obtaining certain raw materials.

It is significant that the statistics for January imports omit the importation of foreign rice, which is attributed to the desire of the Government to conceal the amount spent on imported rice to make up the deficiency in the local supply.

According to our observer, the only solution for the economic difficulties of Japan lies in a shift in the export trade from the yen to the foreign currency markets and a reduction in the heavy expenditures on military supplies and equipment. Thus far there has been no indication of any such change in policy.

Germany: In commenting on the Leipzig Spring Fair (March 3 to 8, 1940) as a reflection of the present industrial situation in that country, it is pointed out by our official observer that the lack of innovations and novelties, which has been noted for a few years, has become more pronounced in the present Fair and is ascribed to a growing shortage of skilled labor and raw materials.

The leather goods section was marked by the dominance of substitute articles, and it is rather significant that the Vienna dealers in high-quality leather goods were absent from the Spring Fair of 1940.

The exhibits illustrate the subordination of the domestic consumer to the policy of acquiring foreign exchange. All leather goods, decorated china, and musical instruments such as pianos and accordions, were restricted to export orders. The production of photographic equipment is limited to the military demands and export orders. In the case of chinaware, a price reduction of 50 percent is granted for export.

German retailers came to the Fair in frantic search of merchandise to replenish the exhausted stocks, and were willing to pay almost any price, but could not obtain definite promises as to deliveries, and some exhibitors frankly informed their customers that they could not make deliveries until the end of the war.

Foreign sales were negligible.

While the official German press claimed that the war has affected this year's Fair to a very small degree, it should be pointed out that the Technical Fair, which covers about half-a-dozen huge buildings full of machinery and apparatus, many of which are operated during the Fair and furnish one of its principal attractions, has been "postponed" this year. This omission is ascribed to the fact that the German machinery industry is now operating at capacity on military orders and has little to spare for export trade. It is reported that even for Italy, German machine tool manufacturers have lately been quoting terms providing for delivery in 18 months.

Bureau of Foreign and Domestic Commerce,
April 11, 1940.

WEEKLY WHOLESALE PRICE INDEXES
(1926=100)

Group	1939			1940		Percent increase, 'Aug. 6, 1940 from-	
	Apr. 8	Aug. 26	Sept. 16	Mar. 30	Apr. 6	Apr. 8, 1939	Aug. 26, 1939
All commodities	75.9	74.8	79.3	77.9	77.6	2.2	3.7
Farm products	63.8	61.1	69.7	68.1	67.0	5.0	9.7
Foods	68.4	66.7	75.5	69.8	69.7	1.9	4.5
All commodities other than farm products and foods	80.6	80.4	82.4	82.8	82.7	2.6	2.9
Hides and leather products	91.8	92.6	98.3	102.0	101.6	10.7	9.7
Textile products	66.1	67.4	71.4	72.5	71.9	8.8	6.7
Fuel and lighting materials	73.6	73.2	74.1	72.3	72.5	-1.5	-1.0
Metals and metal products	94.4	93.5	94.9	95.5	95.4	1.1	2.0
Building materials	89.9	89.7	90.7	93.1	93.2	3.7	3.9
Chemicals and drugs	75.9	74.2	77.1	77.2	76.9	1.3	3.6
House-furnishing goods	86.5	87.0	87.1	89.5	89.4	3.4	2.8
Miscellaneous	73.9	73.1	76.1	76.6	76.6	3.7	4.8
Raw materials	68.3	66.2	73.0	71.8	71.1	4.1	7.4
Semimanufactured articles	74.5	74.4	82.0	79.5	79.1	6.2	6.3
Finished products	80.2	79.3	82.3	81.0	80.9	0.9	2.0

Sources: U. S. Department of Labor, Bureau of Labor Statistics.

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		April 12	August 30	Sept. 13	April 3	April 10
Copper, electrolytic, New York	per lb.	10 3/4	10 1/2	12	11 1/8	11 1/2
Lead, prompt shipment, New York	do	4.75	5.05	5.50	5.00	5.20
Zinc, New York	do	4.84	5.14	6.64	6.24	6.34
Tin, straits, New York	do	46 1/4	49 3/4	75	45 1/2	47 1/4
Rubber, plantation, N.Y.	do	15 13/16	16 13/16	22 1/2	18 9/16	18 7/8
Hides, light native cows, Chicago	do	9 1/2	11	15	12 1/2	13 1/2
Milk, 13-15 denier, 78% seriplane, N.Y.	\$ per lb.	2.40	2.72	3.21	2.44	2.93
Cotton, middling, aver- age, 10 markets	\$ per lb.	8.32	8.53	9.01	10.40	10.48
Wool cloth, 60x64, 1/2 inches, N.Y.	\$ per yd.	4 1/8	4 5/8	5 3/8	4 7/8	5
Wool tops, May 1940 futures, New York	\$ per lb.	77.8	81.5	111.9	96.0	96.5
Sugar, raw, 96°, duty free, New York	do	2.90	2.92	3.70	2.77	2.80
Cocoa, Acara, New York	do	4.55	4.38	6.45	5.88	5.87
Coffee, Santos, No. 4, New York	do	7 3/8	7 5/8	7 3/4	7 1/4	7 1/4
Wheat, cash, Chicago	do	6.17	5.65	7.75	5.65	5.97
Cottonseed oil, May 1940 futures, N.Y.	do	6.55	5.61	7.30	6.97	6.87
Wheat, Chicago	\$ per bu.	68 3/4	67 1/4	85 3/8	1.04 3/4	1.06 3/4
Hogs, good and choice, 220-240 lbs., Chicago	\$ per cwt	7.23	6.88	8.13	5.13	5.20
Beers, beef, medium, 750-1,100 lbs., Chi.	do	9.25	8.38	8.88	8.13	8.70

Nominal. ^{2/} May 1939 futures. ^{3/} December 1939 futures. ^{1/} Hogs weighing 220-250 lbs.

Source: All commodities, with the exception of wool tops, cottonseed oil, hogs, and
beers, are taken from the Journal of Commerce; wool tops and cottonseed oil are taken
from the Wall Street Journal, and hogs and steers are from the U. S. Department of
Agriculture, Bureau of Agricultural Economics.

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Date	'Motor gasoline, 65 octane	'Light fuel oil, number 2	'Diesel oil, 'ships' bunkers'	'Bunker oil, grade 'G', cargoes
	(Cents per gallon)			(Dollars per barrel)
1939:				
April 12	4.75 - 4.875	3.00 - 3.375	1.45	0.75 - 0.75
August 30	4.75 - 5.00	3.375 - 3.75	1.45	0.75 - 0.80
September 13	6.25 - 6.875	3.875 - 4.00	1.45	0.825 - 1.00
1940:				
April 3	5.25 - 6.00	4.125 - 4.25	1.70	0.90 - 1.00
April 10	5.25 - 6.00	4.00 - 4.125	1.70	0.75 - 0.98

Sources: Platt's Oilgram.

COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

Date	Pig Iron ^{1/}	Steel Scrap ^{2/}	Finished Steel ^{3/}
	(Dollars per gross ton)		(Cents per pound)
1939:			
April 11	20.61	15.08	2.286
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.20	2.236
1940:			
April 2	22.61	16.08	2.261
April 9	22.61	16.04	2.261

^{1/} Based upon average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

^{2/} Based upon No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

^{3/} Based upon steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Source: The Iron Age.

AMERICAN MEMORANDUM
 11:00
 DIVISION OF RESEARCH
 SECRETARIA DE INVESTIGACION
 CIENCIA

Paraphrase of telegram No. 191 from Helsinki, April 13, 1940.

Secretary of State,
Washington.

STRICTLY CONFIDENTIAL.

Some of the committees and departments of the government are studying the problems arising out of the peace and are getting together information. A preliminary report only can now be made. More complete information may affect the following data:

A heavy charge against the country's economy--no estimate of the cost can now be made--arises out of resettling those who were forced to give up their homes and livelihood in the areas ceded, four hundred and seventy thousand people in all. In addition to this loss, there were killed eighteen thousand and wounded forty thousand, twenty thousand of whom will be disabled permanently, and there will also be the cost of taking care of the wounded and disabled, death benefits and pensions.

An estimate has been made of the physical losses caused by the war, (remembering that the new border has not yet been finally delimited) of forty thousand farms in addition to forest areas and wood-working industries; industrial establishments to the number of four hundred

which

Handwritten notes on the left margin:
 The cost of care of the wounded and disabled
 will be considerable
 The cost of care of the wounded and disabled
 will be considerable

Handwritten note on the right margin:
 copy to White

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which provide work for twenty thousand persons and worth about 2,500,000,000 marks; a fifth of the Finnish State railways, about a thousand kilometers of railway lines, worth more than 1,500,000,000 marks; Hango and Viborg ports and facilities which were owned by the State; the Saima Canal, of great utility since it was used to float lumber to Viborg; at Rouhiala, the new hydro-electric power station which can generate 132,000 horsepower; and perhaps the power plant almost completed at Enso, which has the same capacity.

It is believed that in the ceded areas the real-estate was worth 2,500,000,000 marks, and that bombing damage in other towns may amount to 2,000,000,000. Probably the total loss in the foregoing will be more than 20,000,000,000 marks; and if you include the amount expended directly in war operations, more than 30,000,000,000 marks will perhaps represent the total cost of the war.

Reconstruction problems involve consideration of many angles. The maintenance of quasi-mobilized defense forces to fight off further encroachments is of first importance. Previous experience would indicate that this cost will be at least 5,000,000 marks a day. Much larger amounts will be needed to restore industry, repair damage, resettle evacuees, and develop mineral resources.

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resources. Tanner has said that it will be necessary to import yearly, for a number of years, from 250,000 to 350,000 tons of grain.

A sudden jump in the stock market recently is a reflection of the fear that inflation will have to be resorted to by the Finnish Government. It would appear likely that there has been an expansion in the currency issue of a billion and a half marks, though the government insists that every effort to avoid inflation is being exerted. On the fifteenth of September 1938, the value of the notes in circulation was 2,100,000,000; it was 3,378,000,000 on October 31, 1939. It is thought now to amount to 4,500,000,000 marks; although foreign missions cannot obtain statistics thereon. A very high degree of liquidity is being required on the part of insurance companies and banks; and it is believed likely that the funds they have will be placed at the disposal of the government instead of being used for investment in reconstruction, which would result in increasing rates of interest.

No decision has yet been reached as to how reconstruction can be financed by the Government without inflation. The (*) is now working up a capital levy tax aimed at compensating those who lost either directly or indirectly

when

(*) apparent omission

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when territory was ceded by apportioning the total among all who have, regardless of the form which their wealth may take. In its early stages, there were indications that either 10% of gross wealth or five percent of net would be taken, but yesterday the Prime Minister said that undoubtedly the rate would be a great deal higher and that there were still being considered technical features of the plan.

The Government is looking for large foreign credits, since it needs large amounts immediately and it is realized that this need cannot be met from internal financial resources without endangering the Finnish mark. Should its efforts to obtain such credits prove unsuccessful it would mean that Finland's currency or credit would be inflated with disastrous results for the country.

Equally serious is the question of how supply lines, to and from the outside world, can be kept open. If the country's export industries cannot be made to function, it will be difficult to get foreign credits and sources of exchange to finance imports will not be created. Foreign trade for Finland is now almost impossible because Scandinavia has been brought into the theater of war, though this has been so recent that
future

- 5 -

future trends cannot now be predicted.

The Government is working diligently and with resolution, however, in its efforts to ascertain the problems it must face in utilizing the nation's energies in such a way as reach a higher degree of self-sufficiency and in apportioning costs among those in the best position to stand them. Nevertheless, in large measure, the success of these efforts will depend upon the war's course in the West and whether America will be willing to make loans to them.

SCHOENFELD

DCA: GHK: MCK

4-13-40

**Activities of Government Agencies
in the Field of the
\$2,500 House**

**Prepared by
Wesley Lindow**

**Summary and
conclusions**

SUMMARY AND CONCLUSIONS

Several Government agencies are engaged in activities connected with the \$2500 house. These activities may be grouped into two main categories, namely, financing and technical research. It is hard to escape the conclusion that, viewing the Government as a whole, the progress in both fields leaves much to be desired. Probably the most serious difficulties have been caused by honest differences of opinion, plus conflicts in the responsibilities of the various Government agencies.

A summary of the findings and conclusions of the writer of this report follows:

- (1) A \$2500 house can be constructed. Such houses are being built every day.
- (2) The financing of \$2500 houses presents a special problem because costs of servicing generally run as high as in the case of larger loans, even though income to the financing institution is necessarily lower.
- (3) The \$2500 house is supposed to be encouraged by FSA Title I insurance of such loans, but it is hard to see any particular stimulus in Title I loans as compared with Title II loans. Each has its advantages and its disadvantages.

Summary and Conclusions - 2

- (4) Several Government agencies provide plans, specifications and other suggestions for houses in the \$2500 group.
- (5) It must be recognized that technical progress in the production of the small house may result in losses through obsolescence just as the rapid development of automobiles at lower and lower prices brought on losses to the owners of existing automobiles.
- (6) The financing agencies of the Government may resist technical developments because of adverse effects on present property values which they have a vested interest in maintaining.
- (7) Only a very small amount of technical research is being done by Government agencies to produce a better and cheaper small house.
- (8) It seems obvious that it would be desirable to initiate a program providing for a large increase in physical testing and experimentation in the field of the small house.

In the course of the present inquiry, it developed that information concerning the activities of the various Government agencies in connection with the \$2500 house was to a large extent available only upon direct questioning. It appears that no one has previously endeavored to draw up a complete picture with respect to the work of the various agencies. Accordingly, it is interesting to note that Mr. Horace W. Peaslee, Secretary of the Central Housing Committee, suggested that I bring this matter to the attention of the Central Housing Committee on Economics and Statistics, of which I am a member. It would seem that the very least that could be done would be for each agency to prepare a statement, for the use of the other agencies, relating its activities in the field of the \$2500 house.

The United States Housing Authority has not been included in the present inquiry because of the fact that two of its most successful projects were discussed in some detail in my recent field trip report.

**Federal Housing
Administration**

FEDERAL HOUSING ADMINISTRATION

Introduction

Under its original program, as provided in the National Housing Act (1934), the Federal Housing Administration insured two quite different types of loans. Short-term loans for the purpose of modernization were insured under Title I, while long-term mortgage loans covering new or existing houses were insured under Title II. No special emphasis was put on the \$2500 house, although some material was published containing sample layouts and sketches for such houses, together with a discussion of the principles involved. All but a minor fraction of the loans insured under Title II covered homes well in excess of the \$2500 size. Even by 1957, only 5.2 percent of new homes with mortgages accepted for Title II insurance had a property valuation (including land) of less than \$3000.

Beginning in 1938, however, the scope of Title I insurance was expanded, under authority of the February 1938 amendments to the National Housing Act, to include mortgages not exceeding \$2500 on new small homes. This resulted in some stimulation to small homes inasmuch as there were less restrictions effective for loans insured under Title I than for those insured under Title II. It is true, however,

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that mainly summer cottages and cheap suburban homes were financed by Title I loans.

Although the Title I program providing insurance for new small homes has been tightened up in recent months, it is still commonly thought of as the FHA program for the \$2500 home.

Present Title I program for new small homes

The regulations of the FHA now require that the land and construction of a Title I house conform to the same standards as a Title II house. This requirement became effective January 1, 1940. Previously, FHA underwriters had been required to disapprove sites for Title I loans if those sites were acceptable for development with the proceeds of mortgages insurable under Title II. Moreover, the FHA now inspects Title I homes to ensure that they have been completed in conformity with FHA requirements, whereas prior to January 1 this consideration was left to the lending institution. The present regulations thus represent an about face from the situation prior to this January. Without attempting to pass judgment on the position of the FHA with respect to Title I loans, it seems obvious that the new regulations reduce the usefulness of Title I insurance as a medium for the promotion of small home construction. This appears to be

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true notwithstanding the fact that Title II standards themselves have been liberalized somewhat.

The procedure followed for insuring Title I loans on new homes may be briefly described as follows: The lending institution obtains a credit statement from the borrower, and makes an advance appraisal of the property. (A fee of 1 percent may be levied by the institution to cover its closing costs and appraisal expenses.) The FHA is then requested to approve the eligibility of the property. The application for this approval must be accompanied by plans or drawings and specifications and a \$10 examination fee. The lending institution certifies the amount of its appraisal and that a properly completed credit statement has been or will be obtained. After the FHA has approved the property, the institution may make advances on the loan, but must satisfy itself concerning the value of work done and materials purchased. Not more than 80 percent of the loan may be disbursed, however, until the FHA has made a final inspection of the structure and approved it. It should be noted that the FHA does not make an appraisal at any time.

The maximum loan on new homes which may be insured under Title I is set by law at \$2500. The loan must be secured by a first mortgage or similar instrument, and the borrower must be an owner in fee simple or a long-term lessee. No second

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mortgage or other junior financing is permitted, the borrower being required to certify that the property is free and clear of all liens other than the Title I Mortgage. The loan may be for an amount as high as 95 percent of the value of the property as appraised by the lending institution. With a maximum loan of \$2500, therefore, the borrower would have to have an equity of only about \$130.

The amortization period for Title I loans on new homes has been set by the Administrator at a maximum of 15 years and 5 months. Prior to September 1939, the maximum had been 10 years and 32 days, and prior to July 1939, it had been 7 years and 32 days.

The maximum interest rate is 4-1/2 percent (although discount loans are still permitted). A service charge of 1/2 of 1 percent is authorized to be charged by the lending institution, and there is an insurance premium of 1/2 of 1 percent. The total of interest, insurance premium and service charge, therefore, may not exceed 5-1/2 percent.

The volume of loans on new dwellings insured under Title I has been relatively small. From the beginning of the program in 1938 through February 1940, some 18,000 loans, aggregating \$43 millions, had been insured. The monthly volume of loans insured has been as follows:

	: Number :	: Amount
		(Millions)
<u>1938</u>		
Mar. & Apr.	417	\$.5
May	334	.7
June	602	1.7
July	567	1.5
Aug.	891	1.8
Sept.	708	1.4
Oct.	700	1.5
Nov.	765	1.6
Dec.	861	1.8
Total 1938	5,845	\$ 12.6
<u>1939</u>		
Jan.	798	\$ 1.8
Feb.	756	1.8
Mar.	910	2.1
Apr.	1,013	2.4
May	1,229	2.8
June	1,291	2.6
July	1,375	2.9
Aug.	772	1.8
Sept.	567	1.4
Oct.	590	1.5
Nov.	537	1.4
Dec.	945	2.9
Total 1939	10,783	\$ 25.3
<u>1940</u>		
Jan.	872	\$ 2.8
Feb.	796	2.5
Total to date	<u>18,296</u>	<u>\$ 43.2</u>

The monthly average for the year 1939 was about 900 cases and \$2 millions. For perspective, the size of this program may be compared with the volume of mortgages accepted for insurance under Title II covering new construction. For

the year 1939, the monthly average of the latter series was around 10,000 by number, and \$43 millions by dollar amount.

RFC Mortgage Company provides liquidity

Lending institutions are permitted to buy and sell Title I loans on new homes. Until last December, however, there was no assurance of a market for them. At that time, Federal Loan Administrator Jones announced that the RFC Mortgage Company would purchase these Title I loans from originating institutions with satisfactory financial responsibility. Eligible mortgages must bear interest at 4-1/2 percent and provide for a service charge of 1/2 of 1 percent. Loans will be purchased at par, but will be subject to a fee of 1/2 of 1 percent. The selling institution is required to service the mortgage and may retain the service charge of 1/2 of 1 percent paid by the mortgagor, and, in addition, is allowed another 1/2 of 1 percent. Notes written on a discount basis are not eligible.

Comments

At the present time, it is hard to see why Title I loans should provide any particular stimulus in the construction of \$2500 homes. Title I insurance presents only a few advantages over Title II insurance. In the first place, the purchaser of a new house is required to have only a 5 percent equity, instead of 10 percent as required under Title II.

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This advantage is qualified, however, by the fact that the insured loan cannot be greater than the value of the house. Hence, a very low-priced lot is required. Another advantage of Title I loans is that no FHA appraisal is required. It is reported that these appraisals have been a damper on small house construction under Title II because the valuations set have frequently been too low. This has apparently been the result of inadequate allowance for the increase in average unit costs which necessarily appears in the small house as compared with a larger house.

(The effect of setting the appraised value too low may be disastrous for a project. The purchaser may be perfectly willing to pay the contractor's price — that is, actual cost plus a profit — but if the FHA sets a valuation of less than this amount on the property, the effect is to reduce the size of the permissible loan. In this event, if the contractor is to get the full sum agreed upon, the purchaser must provide a larger cash down payment than was contemplated. If this is not possible, and the contractor refuses to reduce his price, the deal may be called off.)

On the other hand, there are certain disadvantages to Title I loans as compared with Title II loans. Perhaps most important is the fact that there is a 1/2 of 1 percent service charge effective on Title I loans which does not apply to Title II loans. Moreover, the maximum amortization

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period for Title I loans is shorter than in the case of Title II loans.

There is also a disadvantage to the lending institution in that the insurance provided under Title I is less complete than that provided under Title II, although the insurance premium charge is the same. It will be remembered that Title I insurance uses a pooling device under which losses to each lender are paid as they occur up to an amount equivalent to 10 percent of the total amount of his insured loans. Subsequent losses must be borne by the lender himself. Title II insurance, on the other hand, pays each loss in full and there is no limit to the aggregate amount of losses which will be paid to a lending institution. Prior to the enactment of the June 1939 amendments to the National Housing Act, no premium was charged for Title I insurance, but that legislation provided for a premium charge not in excess of $\frac{3}{4}$ of 1 percent per annum of the net proceeds of Title I loans. For loans on new residential structures insured under Title I, however, the Administrator has set the premium at $\frac{1}{2}$ of 1 percent, the same as under Title II.

From the standpoint of the FHA, it is interesting to note that the 95 percent Title I loan amortized in 15 years soon becomes a much safer loan than the 90 percent Title II loan amortized in 25 years. At the end of 5 years, for

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example, the 95 percent loan (at 4-1/2 percent interest) has been reduced to 70 percent, whereas the 90 percent loan has been reduced to only 78 percent.

Irrespective of the relative advantages of Title I and Title II insurance, it should be noted that a certain amount of resistance on the part of financing institutions would be expected in any event with respect to small amortized loans at relatively low interest rates. The servicing costs of a mortgage are approximately the same regardless of size. Monthly payments on a \$2500 mortgage amortized over 15 years would provide very small amounts of interest income in the later years. It is understood that this difficulty has been responsible, to some extent, for a lack of interest on the part of some financial institutions with respect to loans on \$2500 houses. Apparently, the 1/2 of 1 percent service charge permitted on Title I loans is considered inadequate by many institutions.

Illustrations

Although the \$2500 house tends to be box-like in its appearance, the illustrations which follow indicate that considerable variety has been achieved in the houses financed by Title I loans.

Dwellings Costing \$2,500 or Under Financed Through Title I Loans

The recently amended FHA regulations governing new-home loans under Title I have opened a new, profitable field to lending institutions. A few of the many homes constructed through such loans are illustrated here



California has proved a fertile field for Title I, Class 3 (new-home) loans, since the climate facilitates building of homes within the \$2,500 loan maximum



This Chicago home was financed through a \$1,475 Title I loan, the borrower himself doing the installation work in plumbing, wiring, and the interior finish



Barbark, Calif., is the site of this attractive small home, financed through a Title I loan

Source: FHA Insured Mortgage Portfolio, Nov. 1939



Source: FEA Insured Mortgage Portfolio, Nov. 1936

Department
of Commerce

DEPARTMENT OF COMMERCE

Introduction

Several months ago, the Department of Commerce instituted an investigation with a small staff into methods of stimulating the construction of houses in the \$2500 field. It is my understanding that the project ran into so many difficulties raised by some of the Federal agencies engaged in housing that it was slowed up considerably. The various agencies presumably did not want a new agency to undertake investigations which might embarrass them or which might be successful in reducing costs to such an extent that existing property values would be damaged. In any event, a compromise arrangement was worked out, under which the project was to be guided by the Central Housing Committee, although the Commerce staff was to continue the actual work. This is the arrangement as described to me by Mr. Robinson Newcomb of the Commerce staff. It will be noted in the discussion of the work of the Central Housing Committee, however, that confusion exists as to the scope of the "guidance" of the Central Housing Committee.

It is reported that particular opposition to the Commerce project came from the FHA. The case for FHA's point of view is presented in the following paragraph taken from a memorandum received by Commerce from Mr. Stewart McDonald January 24, 1940:

Commerce - 2

"In considering the total demand for houses of low price, the important part played by the used house cannot be ignored, since traditionally it has provided the bulk of housing at this level. It has not been demonstrated that new houses should be built in large numbers to compete in all price ranges with existing properties. Serious question arises as to whether an over-stimulus of new houses in this field might not result in more serious disruptions in other parts of the economic organization than might be added in that of construction. Recognizing this problem, the Federal Housing Administration is during the current season placing special emphasis on the need for rehabilitation of existing dwellings, particularly for rent, in the older sections of our cities, so as to improve existing housing facilities and to preserve a sound mortgage situation."

This paragraph was given to me by Mr. Newcomb but I did not see the rest of the letter. Presumably the quotation did not lose anything by removal from the context.

Present Program

Briefly, the objective of the Commerce staff is to "engineer" a small house. In this respect, they have been guided by four main principles: (1) the development of the most efficient small house plan, (2) the development of the cheapest and most efficient building materials for use in the structure, (3) the endeavor to use materials which conform as nearly as possible to sizes and specifications now commonly available, and (4) the endeavor to utilize such materials and such sizes and forms as would cut down labor costs.

In accordance with these principles, the staff has

Commerce - 3

worked out plans for a small house which meet the approval of architects from all of the Federal agencies which might be interested. These architects appear to agree that for the time being, they have as efficient a plan as may be devised. Copies of sample plans follow this discussion of the work of the Commerce Department.

With respect to the development of efficient inexpensive walls, the staff has done some experimenting with new materials. Particularly promising is a material called "cemesto". This consists of celotex board in varying thicknesses (they have a sample about two inches thick) covered on each side with asbestos cement. This material is available in sheets eight feet long and four feet wide, and provides satisfactory wall panels. It has a good degree of insulation, and the exterior covering requires no painting. Mr. Newcomb told me that a house built to their standard plan could be constructed of cemesto at around \$1500. With wood, the same house would cost from \$2000 to \$2200 in New York and Detroit and around \$2700 in Washington. Commerce has done no actual building with this or any other materials. Mr. Newcomb said, however, that an airplane company may build around 1500 of these houses with this material within a few months.

As an example of how "engineering" may reduce house

Commerce - 4

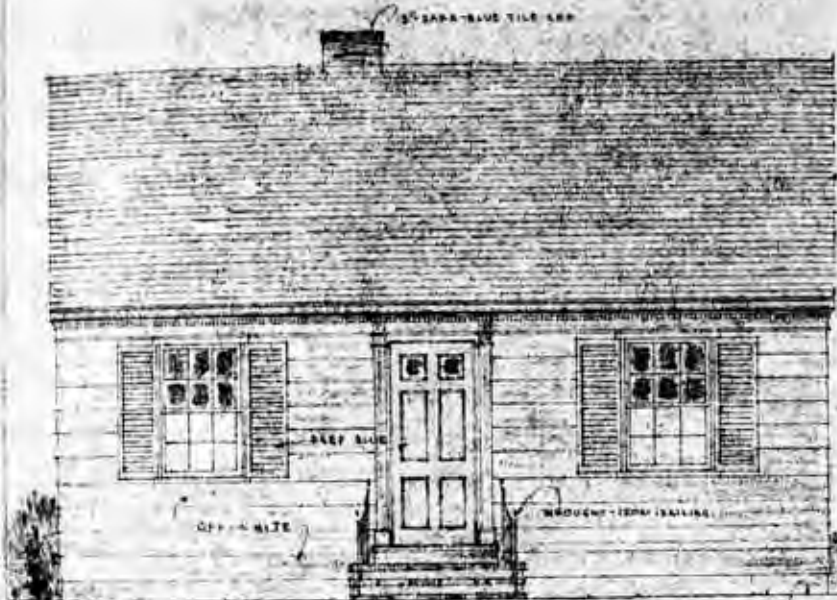
costs, Mr. Newcomb pointed out the large savings possible with the use of a plumbing plan they have designed for the small house. The material and labor costs which may be saved by use of this plan are such that full plumbing costs would amount to approximately half the average plumbing costs on USHA projects. The economies are achieved by improved planning or location of pipes, size of pipes, and similar items, with no change in the actual fixtures used. The plumbing design has been approved by the Bureau of Standards and by various Federal agencies, although antiquated building codes may, in many cases, prohibit its use.

The Commerce project has published no pamphlets or other reports as to its activities. They have used the Bureau of Standards for testing, and have been in frequent contact with industry representatives. In order to avoid any repercussions from industry or vested interests of any kind, it is planned that no report will be issued until the staff has finally decided that a particular arrangement for a small house is fool-proof. This position also avoids the charge that home building is being adversely affected as prospective builders decide to wait in order to obtain the benefits of any new technical developments. Meanwhile, interested persons in industry will be kept abreast of developments on an informal basis.

Commerce - 5

Bureau of Standards

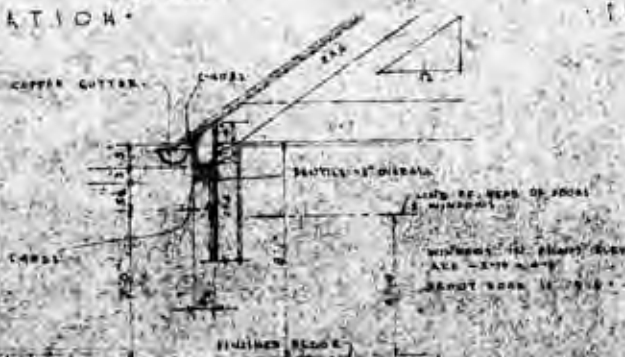
The Bureau of Standards is contributing to the \$2500 house field through tests of particular materials and structures. Technical reports on such tests are being released from time to time. Apparently, the Bureau does not have a particular project directed to the \$2500 house in its entirety, however.



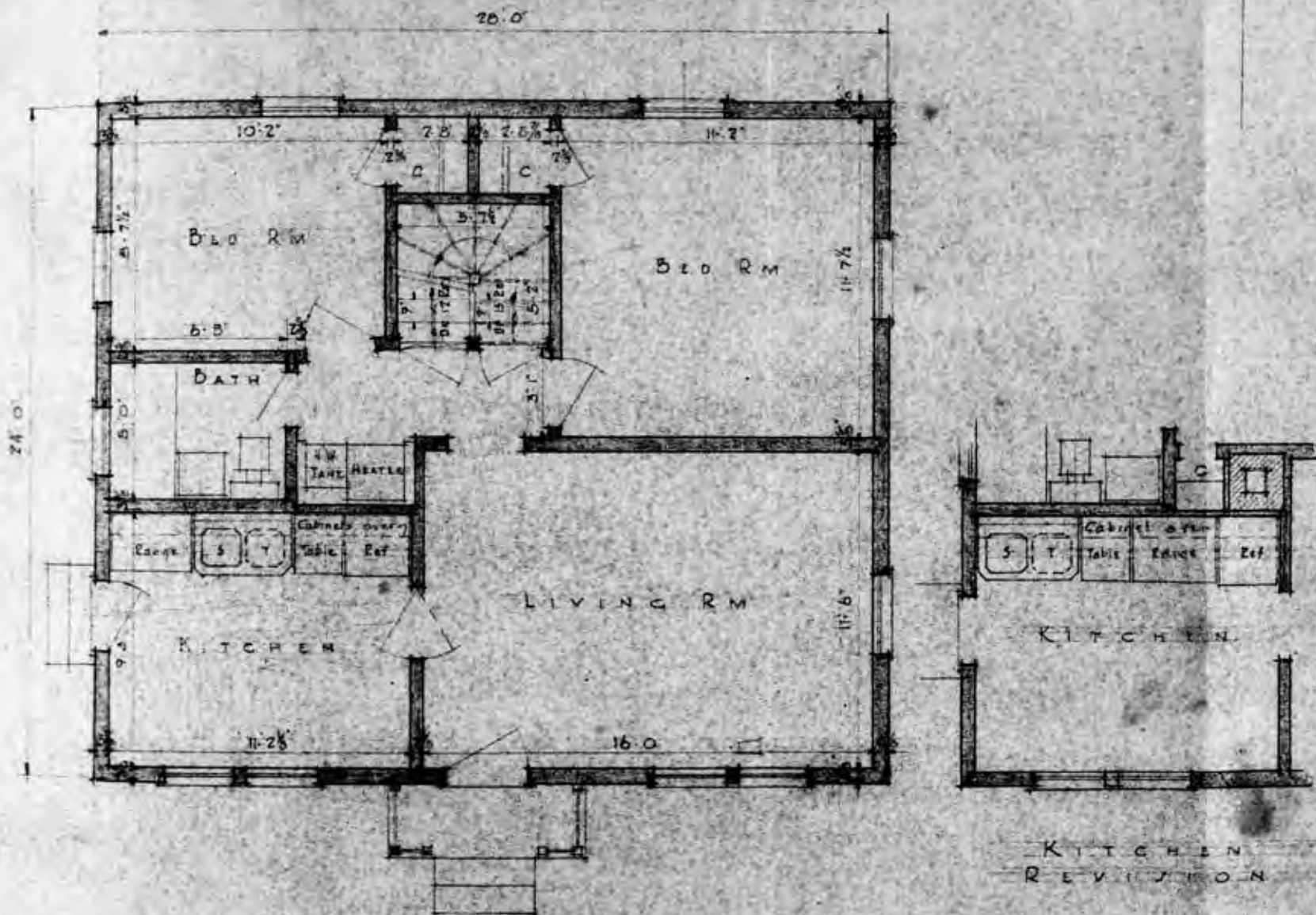
FRONT ELEVATION



SIDE ELEVATION



PROVIDE
 ELEVATION DRAWINGS FOR THE ARCHITECT



FLOOR PLAN

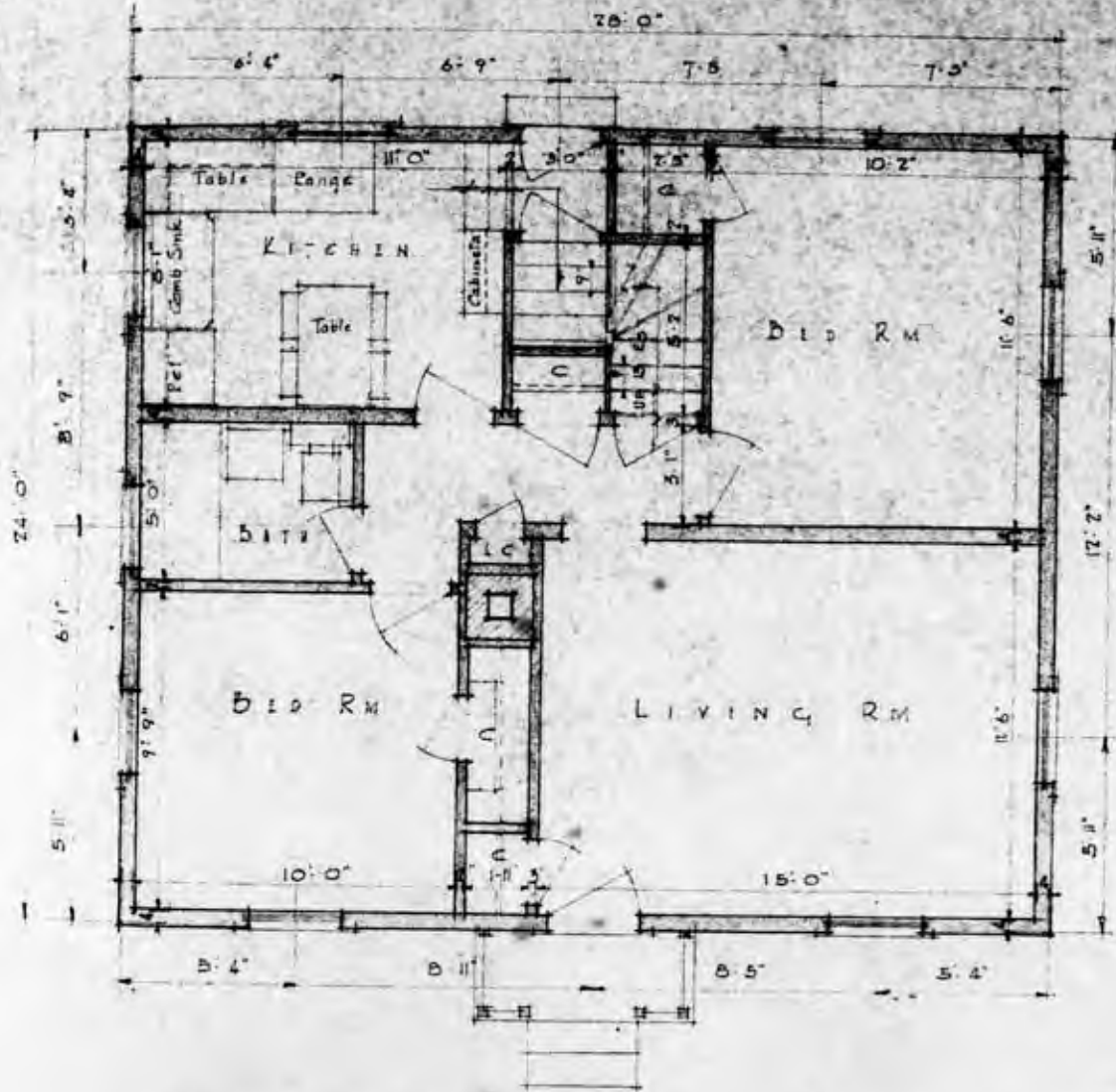
SCALE 1/4" = 1'-0"

DATE FEBRUARY 20 1930

Job No

DWG No

SET SHEETS L



ALTERNATE PLAN Z
 SCALE 1/4" = 1'-0"

DATE MARCH 27 1940

JOB NO

DWG NO

Caruth

Central Housing
Committee

CENTRAL HOUSING COMMITTEE

In the preceding discussion on the project of the Department of Commerce, it was stated that under the compromise agreement worked out a short time ago, the Commerce project was to be guided by the Central Housing Committee, although the Commerce staff was to continue the actual work. As already noted, this statement was based on my conversation with Mr. Robinson Newcomb of the Commerce staff.

There seems to be some confusion, however, concerning the part played by the Central Housing Committee in the project. I talked with Mr. Horace W. Peaslee, Secretary of the Central Housing Committee, and received the impression that the Committee had taken over the Commerce project. Moreover, when I asked whether Commerce was providing the staff for the project, Mr. Peaslee replied that they were doing no more work than the other agencies.

Mr. Peaslee told me that three committees of representatives of the various housing agencies had been organized for this work. Their functions are, respectively, planning, procedure and economics. The membership of these committees, according to Mr. Peaslee, is as follows:

Central Housing - 2

Planning Committee

Vermilya, Federal Housing Administration,
Chairman

Blouke, Home Loan Bank Board

Newcomb, Commerce

Stock, Farm Security

Shire, United States Housing Authority

Procedure Committee

Mitchell, Farm Security, Chairman

Daiger, Federal Housing Administration

Hughes, Commerce

McNeal, Home Loan Bank Board

Vinton, United States Housing Authority

Economics Committee

Gilbert, Commerce

Stoner, Federal Housing Administration

Walker, Farm Security

Fergus, Home Loan Bank Board

Shiskin, United States Housing Authority

The Economics Committee has not elected a chairman, as yet. Mr. Peaslee stated that Laughlin Currie attended the first meeting and presided. It is now planned that Isadore Lubin will attend the next meeting and preside.

Central Housing - 3

A committee on rural housing has also been organized by the Central Housing Committee. The following representatives from Government have been selected:

Babcock, Federal Housing Administration

Smith, Agriculture

Williams, Reconstruction Finance Corporation

McNeal, Home Loan Bank Board

Newcomb, Commerce

Five representatives from industry are also to be selected.

**Home Loan
Bank Board**

FEDERAL HOME LOAN BANK BOARD

The Federal Home Loan Bank Board has done very little in the field of the \$2500 house. The operation of its newly instituted "Federal Home Building Service Plan" may provide a certain stimulus as it grows in use. This service, which is local in nature, is designed to provide prospective home owners with a complete home building service, including financial and architectural advice and supervision of construction. The plan is especially designed to serve those families who are usually not able to afford the services of an architect. Lending institutions are supplied with a portfolio in which economical and attractive home designs are arranged according to size and cost of construction. Plans are available for various size houses, mostly well above the \$2500 group. A few, however, come within the \$2500-\$3500 range in the North.

Where the plan has been put into operation, local architects and technicians provide advisory and supervisory services at a moderate fee. The service includes advice in selection of an economical design suitable to the site and neighborhood and meeting family requirements. Complete and detailed working drawings and specifications are supplied and quotations and bids are checked, materials

FHLEB - 2

inspected, and there is periodical supervision of construction.

I talked with Mr. Corwin A. Fergus, Director of Research and Statistics, about the financing being provided by building and loan associations for small houses. He said that these associations were providing financing for many homes in the \$2500 class. When asked if he was aware of any resistance on the part of building and loan associations to these small loans, he replied in the negative. In fact, he expressed the opinion that it would be far better for the associations if they did resist the making of such loans. Servicing costs are almost as high on a small loan as a large one, he explained, and yet in the case of an amortized small loan, the monthly income after a few years is so small that it may not actually cover the allocable operating costs.

**Farm Security
Administration**

FARM SECURITY ADMINISTRATION

Introduction

The Farm Security Administration is charged principally with helping needy farmers become self-supporting. From earlier programs, it has inherited a large group of homestead projects and 3 greenbelt projects. Under its present program, it does not build any houses itself (except in the case of migratory labor camps), but in some cases it finances through loans the building of houses for farmers. In such cases, the low cost farm houses developed over the past five years by the Farm Security Administration and its predecessor agencies are being duplicated by private contractors.

Construction Experiments

Farm Security has experimented a great deal with different methods of construction. Houses have been built of wood, steel, rammed earth, adobe, and recently an experimental cotton house has been constructed. Low costs have been made possible largely through pre-cutting and pre-fabrication methods which eliminate waste and require the minimum amount of labor. Pre-cutting was frequently done at a central plant where supervision was easy, and where the selection of material was simplified so that odds and ends of lumber could be put

FSA - 2

to good use. The pre-cut material was assembled in paneled sections in a shop yard located near the building site. Prefabricated panels and structural members for an entire house could then be delivered to the building site in a single truck load. At the house site, the building could be assembled in a short time on pre-cast concrete foundation pillars.

Present Program

During the fiscal year 1939, private contractors built about 2800 of the Farm Security Administration's specially designed low-cost farm homes for an average cost of only \$1500. Some 1600 of these homes, built in the South, were of frame construction without bathrooms, costing an average of about \$1350. Around 800 units, built in the West, included bathrooms and were constructed at a cost of slightly over \$1500. Northern homes ran to a maximum of \$2635 for a story and a half house, fully plastered, with a central hot air heating plant. The cheapest house constructed was put up in Georgia for only \$825. It has three bedrooms and is built of cheap local lumber.

The only houses now being built by the Farm Security Administration itself are those structures making up migratory labor camps. The average camp has around 300 shelters consisting of a single 12' x 20' room with no facilities or equipment other than one electric light outlet. Each camp

includes a community building, laundries, and group lavatory facilities. Including a proportionate share of land, roads, and group buildings, the average shelter has cost around \$1000. In addition to the shelters there are a few more-complete homes built for the use of migrants who find permanent employment in the vicinity.

The Farm Security Administration has divided the United States into several districts for the purpose of its administration. Each district has prepared a booklet of illustrations of typical dwellings and farm structures developed for use within its jurisdiction. These plans, of course, are based on the experience of the Farm Security Administration on its own construction projects. Working drawings and specifications are available free of charge.

Typical Northern Houses

The Denver, Colorado district, for example, illustrates in its booklet eleven different houses ranging in estimated cost from \$1525 to \$2237 (without basements). Mr. Leo F. Stock, Jr., of Farm Security told me that these houses are typical of those designed for Northern climates. Standard construction details are briefly described in the booklet. The foundations would be of solid concrete. The walls would be frame, and the interior would be covered either with wood, plaster, or wall board. The estimated costs are based on wall board interiors. The

FSA - 4

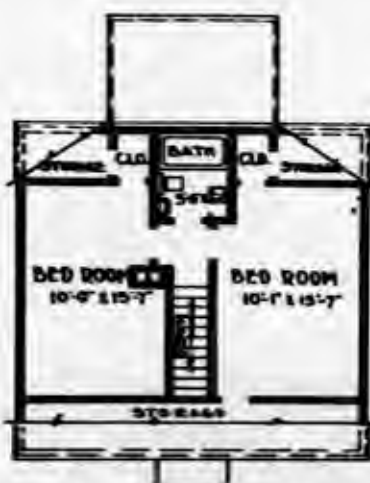
typical construction may be observed in the following illustrations of five of the Denver houses. The estimated costs include wiring for electricity but do not include bathroom fixtures or basements.

The illustrations of houses in the Denver district are followed by a discussion of houses in the Montgomery, Alabama district.



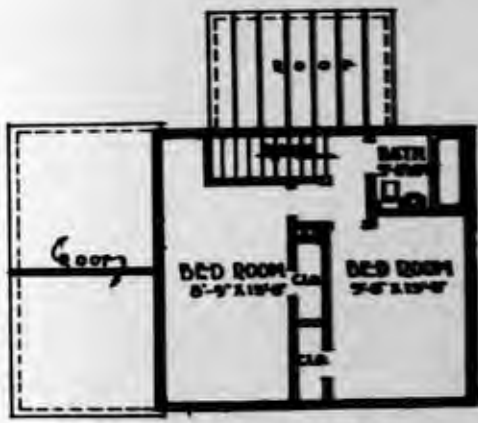
HOUSE
D7H - 31
WITHOUT BASEMENT

D7H - 31B
WITH BASEMENT



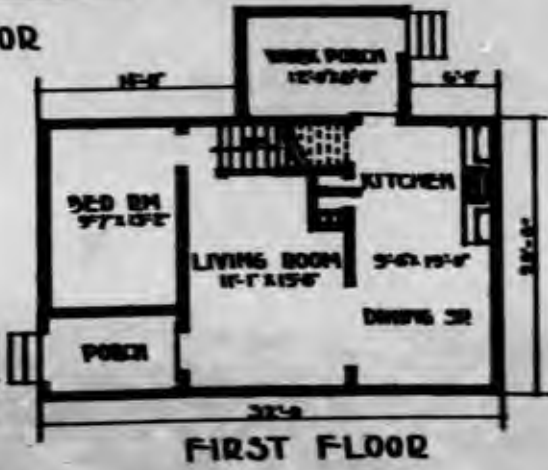
UNITED STATES
DEPARTMENT OF AGRICULTURE
FARM SECURITY ADMINISTRATION
DISTRICT No 7
810 - 14TH ST. DENVER-COLO

Denver, Colorado district.
Estimated cost of construction: \$1,225



SECOND FLOOR

HOUSE
 D7H-33
 WITHOUT BASEMENT
 D7H-33B
 WITH BASEMENT



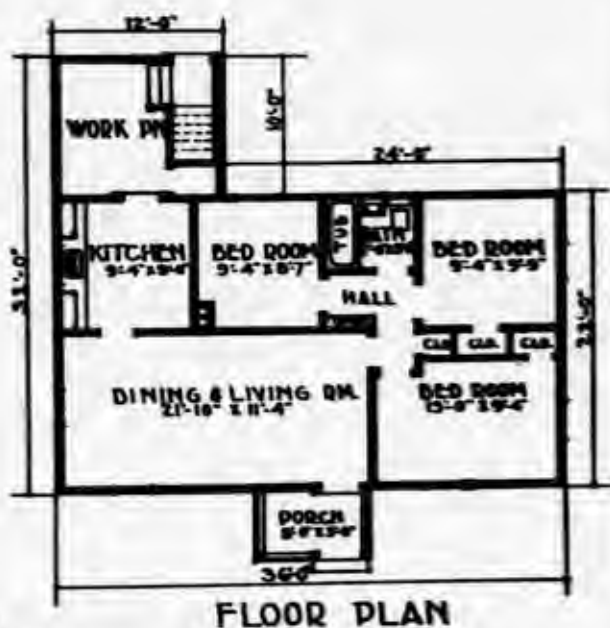
FIRST FLOOR

UNITED STATES
 DEPARTMENT OF AGRICULTURE
 FARM SECURITY ADMINISTRATION
 DISTRICT NO 7
 810-14TH ST. DENVER-CO

Denver, Colorado district.
 Estimated cost of construction: \$1,895



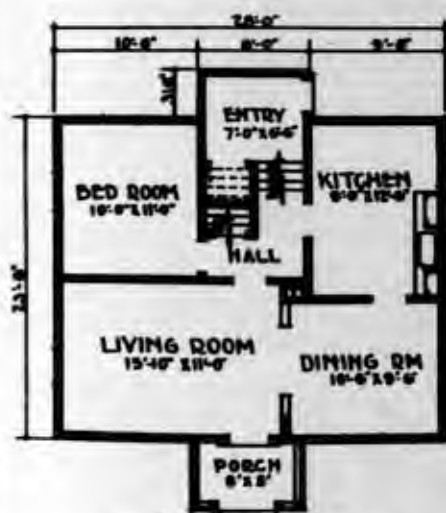
HOUSE
 D7H - 30
 WITHOUT BASEMENT
 D7H - 30B
 WITH BASEMENT



FLOOR PLAN

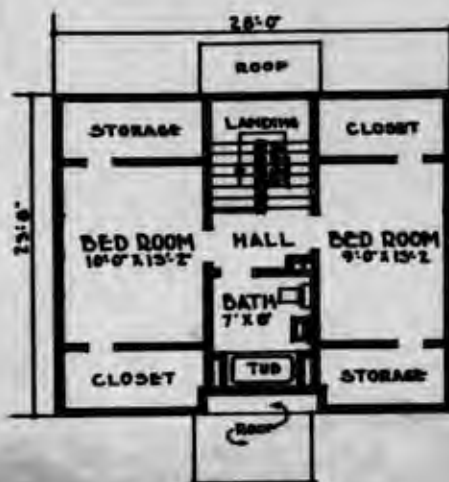
UNITED STATES
 DEPARTMENT OF AGRICULTURE
 FARM SECURITY ADMINISTRATION
 DISTRICT NO 7
 810 - 14TH ST. DENVER-COLO

Denver, Colorado district.
 Estimated cost of construction: \$1,932



FIRST FLOOR

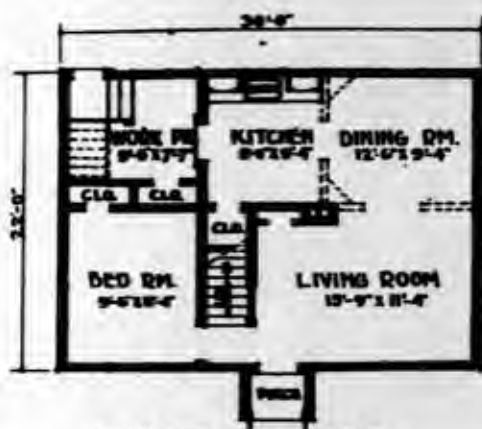
HOUSE
D7H - 37
WITHOUT BASEMENT
D7H - 37B
WITH BASEMENT



SECOND FLOOR

UNITED STATES
DEPARTMENT OF AGRICULTURE
FARM SECURITY ADMINISTRATION
DISTRICT N97
610 - 14TH ST DENVER-COLO

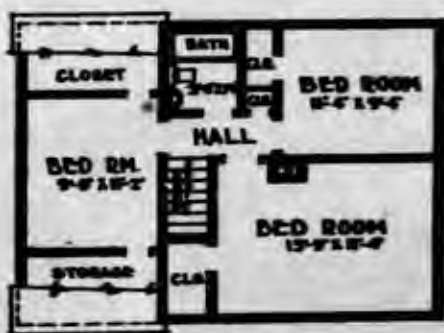
Denver, Colorado district.
Estimated cost of construction: \$1,976



FIRST FLOOR

HOUSE
D7H-41
WITHOUT BASEMENT

D7H-41B
WITH BASEMENT



SECOND FLOOR

UNITED STATES
DEPARTMENT OF AGRICULTURE
FARM SECURITY ADMINISTRATION
DISTRICT No 7
810-1428 ST DENVER-COLO

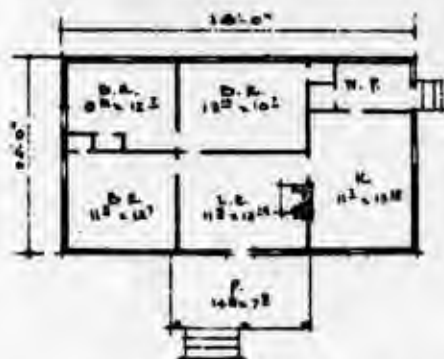
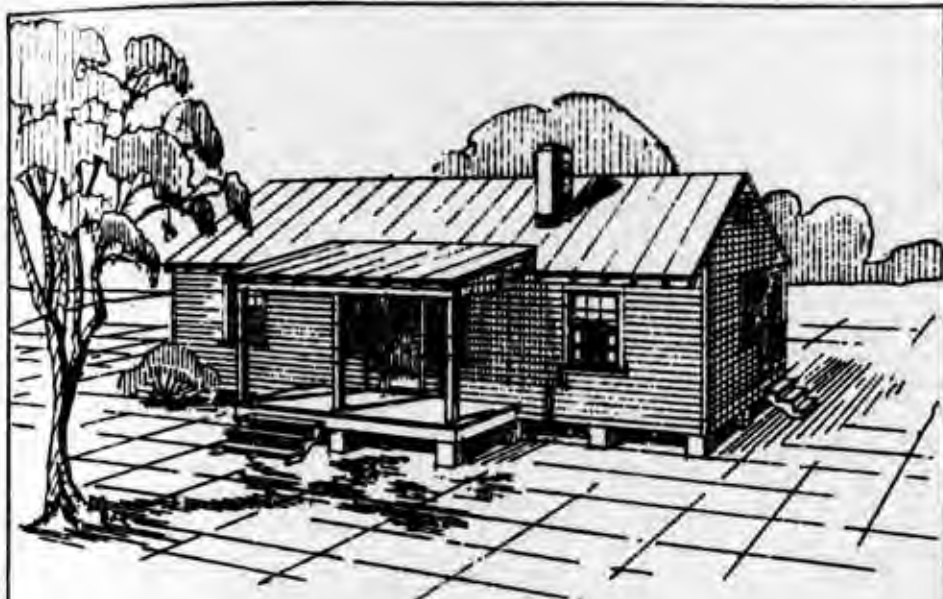
Denver, Colorado district.
Estimated cost of construction: \$2,237

FSA - 5

Typical Southern Houses

The plans prepared by the Montgomery, Alabama office of the FSA give a good idea of what is being done in the South. The booklet published by the Montgomery office presents illustrations of 12 houses. Illustrations of five of them follow this discussion. Fortunately, Farm Security has compiled data as to the actual construction costs of the Montgomery houses, and I have used these figures instead of the estimates published in the Montgomery booklet. Actual construction costs ran from an average of \$1110 on the cheapest house to \$1850 on the most expensive. These figures do not include bathroom fixtures, even though bathrooms are shown in the plans.

A discussion of the housing activities of other divisions of the Department of Agriculture follows the illustrations of Montgomery houses.



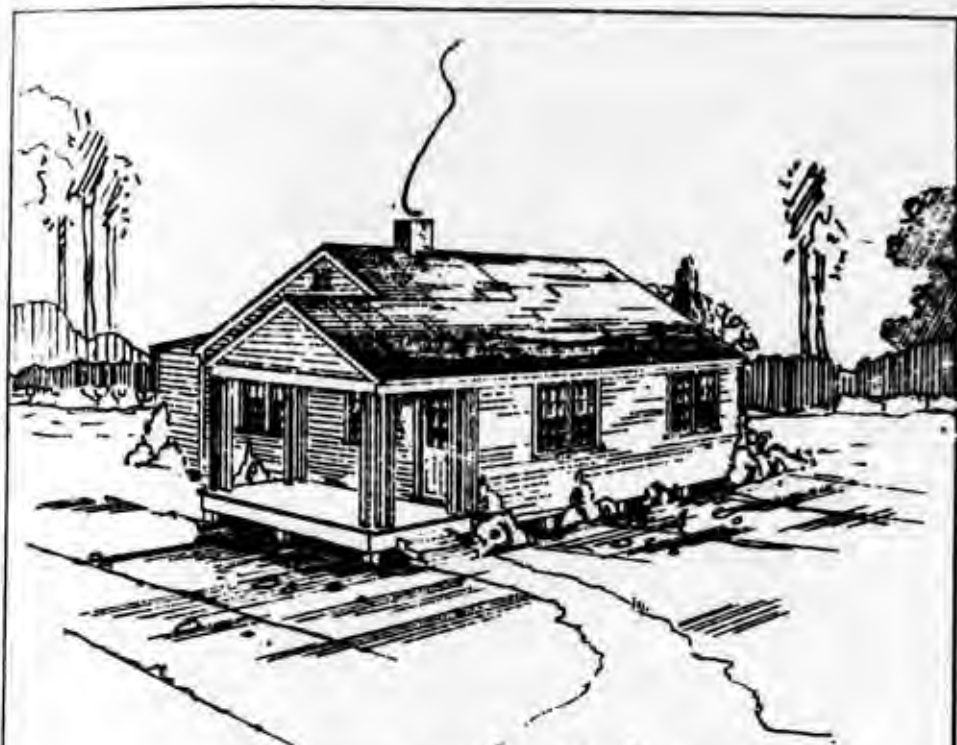
FLOOR PLAN
18'-0" x 20'-0"

- FIVE - ROOM - HOUSE - 315-97.

U. S. DEPT. OF AGRICULTURE
FARM SECURITY ADMINISTRATION
REGION 5 DIST. 2. MONTGOMERY, ALABAMA.

Dwn. J.C.M.

Montgomery, Alabama district,
Average cost of actual construction: \$1,110



FOUR-ROOM-HOUSE-

314-96-REV

U.S. DEPT. OF AGRICULTURE-

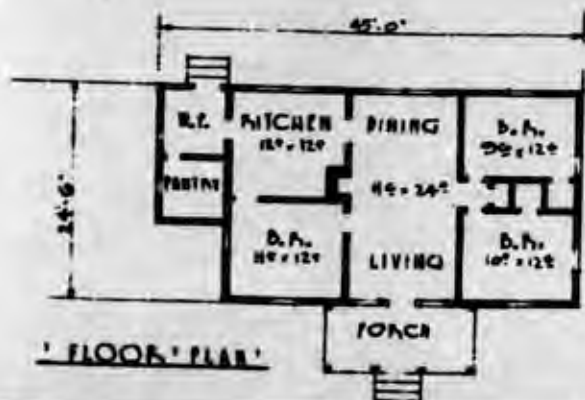
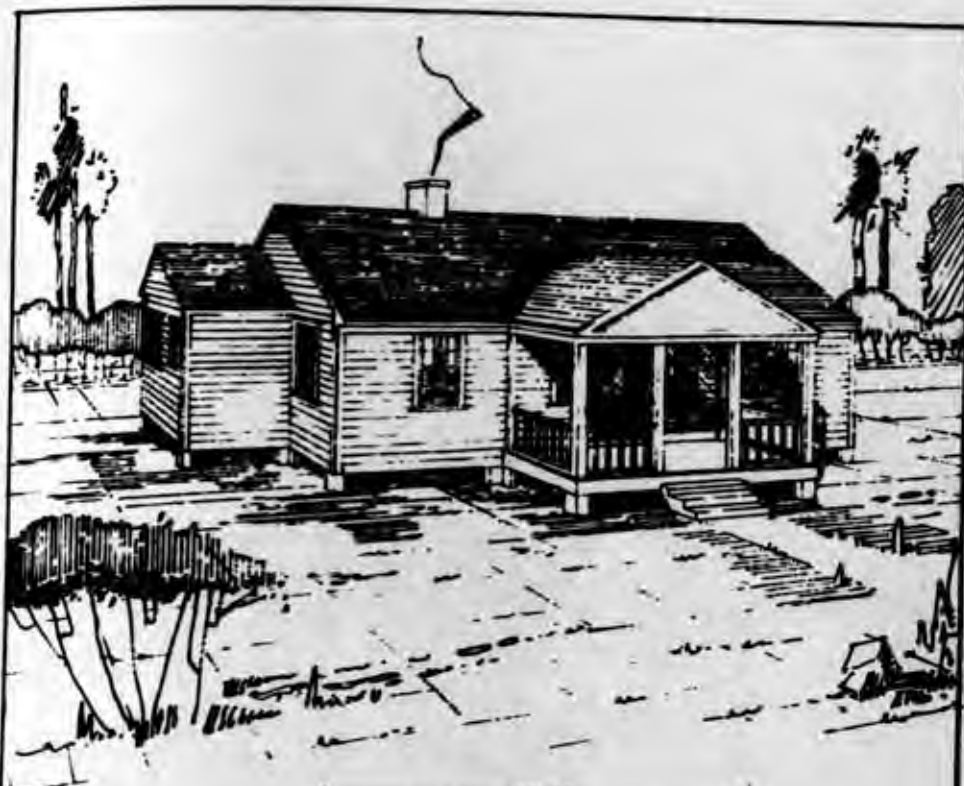
FARM-SECURITY-ADMINISTRATION-

REGION 5-DIST. 2-MONTGOMERY, ALABAMA

DWH-BTT

Montgomery, Alabama district.

Average cost of actual construction: \$1,290

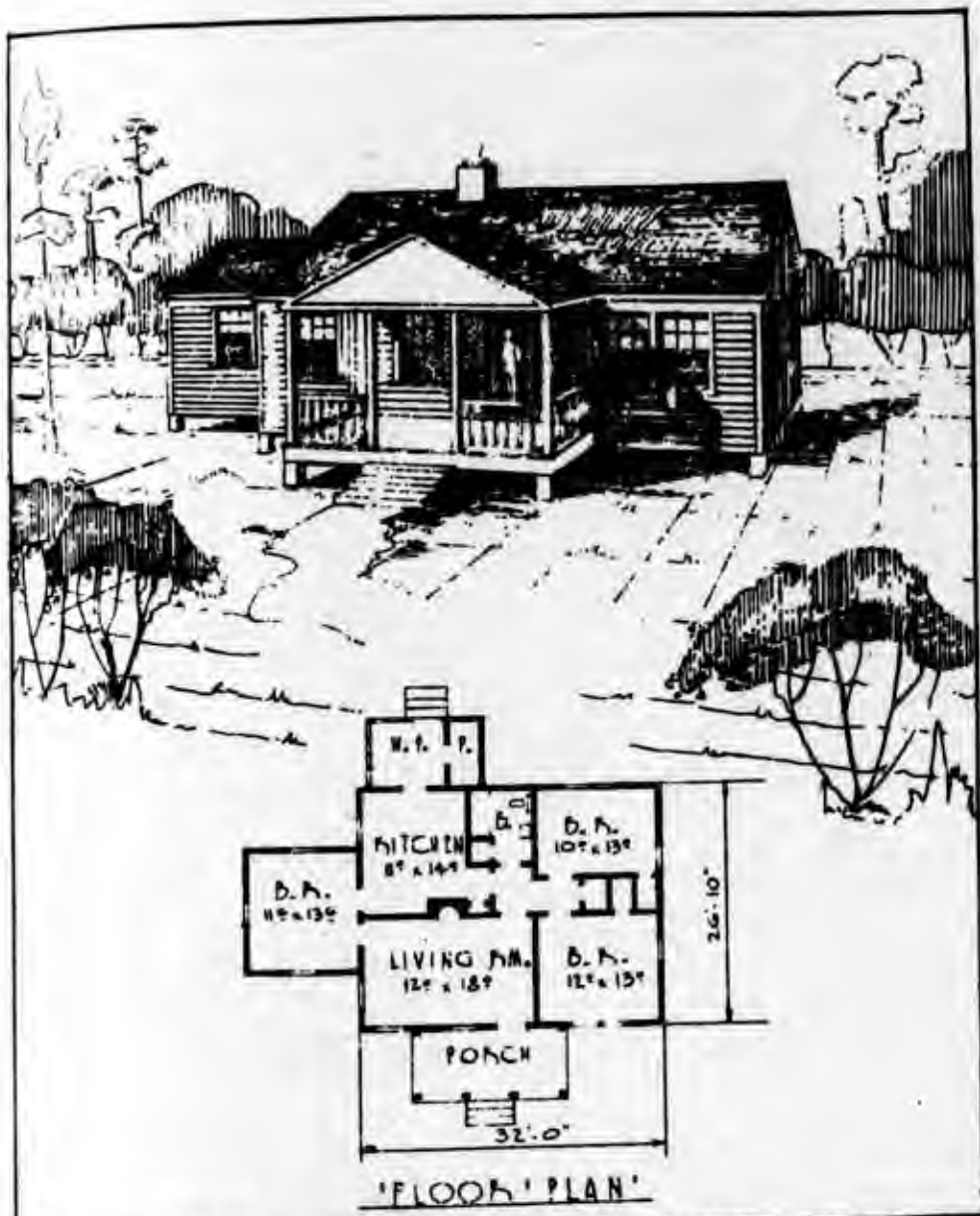


FIVE ROOM HOUSE

315-95 REVISED

U. S. DEPARTMENT OF AGRICULTURE
FARM SECURITY ADMINISTRATION
 DISTRICT NO. 2 MONTGOMERY ALABAMA REGION NO. 5

Montgomery, Alabama district.
 Average cost of actual construction: \$1,440

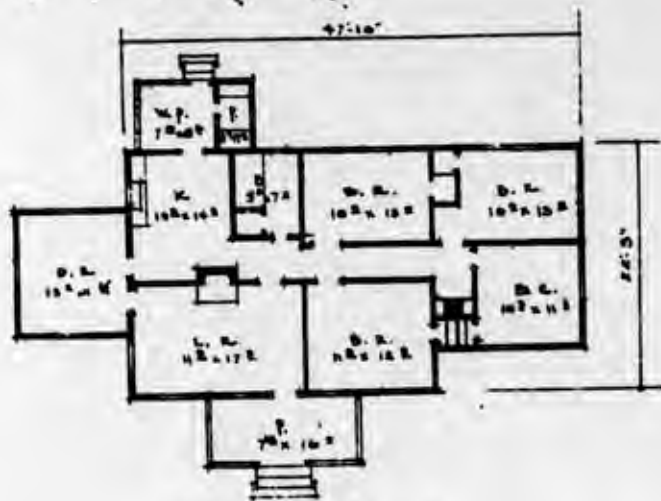


'FIVE' ROOM 'HOUSE'

315-96 REVISED

U. S. DEPARTMENT OF AGRICULTURE
 FARM SECURITY ADMINISTRATION
 DISTRICT NO. 2 MONTGOMERY, ALABAMA REGION NO. 5 7-13

Montgomery, Alabama district.
 Average cost of actual construction: \$1,625



FLOOR PLAN
SCALE 1/4" = 1'-0"

FIVE ROOM HOUSE.

317-96

U. S. DEPT. OF AGRICULTURE
FARM SECURITY ADMINISTRATION
REGION 5 - DISTRICT 2 - MONTGOMERY - ALABAMA.

Montgomery, Alabama district.
Average cost of actual construction: \$1,850

FSA - 6

Other Divisions of the Department of Agriculture

In addition to the work being done by the Farm Security Administration, other divisions of the Department of Agriculture are contributing to developments in the low-cost housing field. The Forest Service conducts extensive research in the uses of wood in building and construction work. The Bureau of Agricultural Chemistry and Engineering is engaged in rural housing research in connection with its studies of the design and construction of farm buildings and appurtenances and of buildings for processing and storing farm products. A survey was recently made of farmhouse conditions and repair needs. Farmers' Bulletins on farmhouse plans and modernizing farm houses are also being used to further the Government's efforts "to increase employment in the construction field". Farmers and others may obtain plans for farm houses upon application.

April 13, 1940
9:59 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis in New York.

H.M.Jr: O. K.

O: Go ahead.

H.M.Jr: Hello.

Arthur
Purvis: Good morning, Mr. Secretary.

H.M.Jr: How are you?

P: Very well, thank you.

H.M.Jr: Mr. Purvis, the reason I tried to get you last night I was terrificly upset.....

P: Yes.

H.M.Jr:when I saw this United Press story come over the Dow Jones ticker.

P: I've only -- I didn't get it until I got in either. We were very sorry to see it.

H.M.Jr: And I called up -- it's needless to say it did not come out of the Treasury.

P: No, I have my own opinion as to where that came from immediately.

H.M.Jr: I called up Mr. Louis Johnson.

P: Yes.

H.M.Jr: And told him how shocked I was and that I'd have to call up this morning and say I'm sorry to you people.

P: Yes, quite.

H.M.Jr: Well, of course, he denied all knowledge of it and said that please to say that he also was sorry.

- 2 -

P: Thank you very much. He -- we've been flooded as a result with inquiries and also they've taken the turn -- I've just seen our publicity man and trying to give him the type of line that I thought would be helpful. The story that has been -- come in to the public relations end here is we understand that everything has gone wrong down there; that you've been forced to accept all sorts of things. The very kind of story that I wanted to get away from.

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

P: And a really rather silly one, because after all I've just, of course, told him that I -- there has been no negotiation whatsoever with the Government. That the Government has been good enough to consider a request we had made to them and has acted upon it.

H.M.Jr: That's right.

P: And it is purely an Administration matter. I think that's my line, don't you?

H.M.Jr: Definitely, and of course you realize -- your people must have told you the fight that's going on between Woodring and Johnson.

P: Yes, yes.

H.M.Jr: And my -- what I've been trying to do is not to get in it or get between it.

P: Exactly.

H.M.Jr: And it's very -- well, I can only control the Treasury. I can't control the War Department.

P: Yes, I fully understood when I heard the story that obviously it was due to that situation.

H.M.Jr: Well, it -- I was very much annoyed and -- but the fat's in the fire and there you are.

P: That's right. Well, you -- you -- thank you very much for calling and I think we understand that those things are really very difficult just now.

- 3 -

H.M.Jr: Yes, very, and -- as I say, I can only repeat there is nothing I can do.

P: No, quite.

H.M.Jr: But there you are.

P: Well now, thank you for calling very much, Mr. Secretary, and thank you also for having made it your business this week to break that deadlock.

H.M.Jr: Well, I really didn't do much else except that and the Danish and Norwegian, and a few other things but.....

P: I'm sure of it.

H.M.Jr: But you see if I jump on Louis Johnson with hob-nail boots.....

P: (Laughs) Yes.

H.M.Jr: I -- I just don't get -- I won't get any more cooperation.

P: No, that's right. That's right. And after all this -- one doesn't know how long this kind of thing is going to go on. I think it was -- of course, personally, I felt that it had to be done that way. I felt entirely that we could not afford to have disgruntled feelings.

H.M.Jr: No. But look, Louis Johnson is calling me through the White House. Would you mind holding on a minute?

P: I will. I will.

H.M.Jr: Thank you. He's calling me. Just hold on.

P: I'll hold on. Thank you.

(Pause.)

H.M.Jr: Hello. -

P: Yes, Mr. Secretary.

H.M.Jr: Hello.

P: Hello.

H.M.Jr: I'm sorry but he's -- I've got a little news for you anyway.

P: Good.

H.M.Jr: Good news. On the Douglas A-20.....

P: Yes.

H.M.Jr:the Army is releasing that.

P: Yes.

H.M.Jr: And no cost to you at all.

P: Yes. Thank you.

H.M.Jr: There will be no cost.

P: No, quite.

H.M.Jr: And -- but what the Army is getting out of it/^{amongst other things}is an acceleration of deliveries to them.

P: Yes, I see.

H.M.Jr: So the A-20 Douglas is released and it won't cost you a penny.

P: Yes. Thank you very much.

H.M.Jr: That ought to cheer up Plevan a little bit.

P: (Laughs) Yes, his face was a study, wasn't it?

H.M.Jr: What?

P: His face was a study.

H.M.Jr: Well -- all right.

P: Thank you so much.

H.M.Jr: Goodbye.

P: Thank you very much indeed.

H.M.Jr: Goodbye.

P: Goodbye.

April 13, 1940
11:28 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur Purvis: Hello.

H.M.Jr: Mr. Purvis.....

P: Yes, Mr. Secretary.

H.M.Jr: Have you decided to go ahead and make a statement in regard to this -- what was supposed to have taken place in my office?

P: No, I thought better leave it alone.

H.M.Jr: Better leave it alone.

P: Don't you feel that?

H.M.Jr: Well, I have Mr. Gaston and Mr. Schwarz here with me now. We were talking about it.

P: Yes.

H.M.Jr: And I would be very glad to have Mr. Schwarz tell the newspaper men that you and Mr. Plevan called on me yesterday and asked me to explain what the Government's policy was.

P: Yes.

H.M.Jr: And when I explained it you accepted it and there was no discussion.

P: I think that would be -- I think that would be very useful.

H.M.Jr: Now, if you want to let the thing die, let it die, but if you'd like to see the Treasury make this kind of a statement I'd be very glad to do it.

P: Well now, may I call you back in about ten minutes? I'll have a word with Plevan and Self about it. May I do that?

- 2 -

H.M.Jr: Between now and a quarter of twelve?

P: Between now and a quarter of twelve.

H.M.Jr: Please.

P: Thank you very much.

H.M.Jr: Right. Goodbye.

April 13, 1940.
11:44 a.m.

141

H.M.Jr: Hello.

Operator: Mr. Purvis calling.

H.M.Jr: Please.

O: From New York.

H.M.Jr: Please.

O: Go ahead.

Arthur Purvis: Is Mr. Morgenthau there, Mr.Purvis speaking.

H.M.Jr: I'm talking Purvis.

P: Hello.

H.M.Jr: I'm talking.

P: Oh, Good - we had a little difficulty in getting you back, I was getting anxious.

H.M.Jr: Oh!

P: Mr. Secretary, the - I think, on the whole, we would just as well let it lie where it stands, we really don't feel that that statement in the final analysis after all, harms us. The only - the man who gave it out really is more the one I think who would, might object to it, and I think perhaps it might be better to let it go.

H.M.Jr: Well, I just feel this way. You and I have had a very fine relationship.

P: Yes.

H.M.Jr: And the same with Mr. Pleven.

P: Yes.

H.M.Jr: And I didn't want a statement accredited to me, which I considered was most -

P: Yes, quite out of keeping with the -

- H.M.Jr: And very ungentlemanly if I had said it.
- P: Well now, on that count, we would be delighted to have the other thing of course.
- H.M.Jr: Yes.
- P: I mean whatever you do in that regard, Mr. Secretary, will be thoroughly satisfactory.
- H.M.Jr: But if you people would rather let it die. Now, in talking here while we're waiting.
- P: Yes.
- H.M.Jr: Schwarz has said of course, if I make it then it throws it right back on the Army again.
- P: Yes.
- H.M.Jr: And I don't know what they'll say again.
- P: No, that's right, that's - we would - that point came up with us too, we thought that anything that came out might cause something that would be more objectionable than what had come.
- H.M.Jr: Well, -
- P: And that was really, I think, a good deal to do with our feelings.
- H.M.Jr: Well then supposing we forget it.
- P: But I quite agree that anything on the other hand would, from your view, in view of what, the comfortable relations we've had I would just accept teetotally.
- H.M.Jr: Well -
- P: With the greatest pleasure.
- H.M.Jr: If, when I see the press normally, if it comes up on Monday, if, and if it comes up I will explain the relationship between the Allied Purchasing Mission and ourselves.
- P: Yes.

H.M.Jr: And on either side have we ever -

P: No, I mean that's not been our line of
at all.

H.M.Jr: Right.

P: No, and I fully understand that angle. That's a
different angle entirely from what we were thinking
about.

H.M.Jr: Well -

P: Thank you very much for giving us the opportunity.

H.M.Jr: We'll - I'll say nothing today.

P: All right, fine.

H.M.Jr: Thank you.

P: Thank you very much.

April 13, 1940
11:32 a.m.

Operator: Captain Collins.

H.M.Jr: Collins.....

Harry
Collins: Good morning, sir.

H.M.Jr: Good morning. The best information that I have now is that that story that I was so worried about last night came from Brett and Lyons.

C: Who?

H.M.Jr: Brett and Lyons.

C: Yes, sir.

H.M.Jr: Now, the -- I don't want you to call up Brett but the first time you see him I want you to ask him.

C: I shall.

H.M.Jr: See?

C: Yeah. Well now, in that connection I don't see how the -- I read that story in this morning's Post. I don't know whether that was the same one that.....

H.M.Jr: Well, it didn't have quite as much detail.

C: It didn't have as much detail. Well, I don't know how he got that detail because I did not give him any details at all. I just made to him a very general statement along the lines that I told you last night.

H.M.Jr: But all of this language about change-over and all that, it certainly is technical language.

C: It is. And I never mentioned change-over. I just simply stated to him very concisely and very briefly that at the meeting at eleven o'clock in your office that you had explained in detail the reasons for the application of development expenses to their contracts. And that was all that was said.

- 2 -

- H.M.Jr: Well, anyway, when you see him -- I don't want to make it so important that you call him.....
- C: Yes, sir.
- H.M.Jr: You can simply say that our public relations office understands that the story to the U.P. came from General Brett and Major Lyons.
- C: I was thinking that over last night after you phoned me. Of course the fact that you were going to explain it was probably -- was all known to Louis Johnson and the whole -- and to the rest of the people from the War Department who were present, and it would be very easy for any one of the four people from the War Department to have assumed that you did say exactly what was put in the paper.
- H.M.Jr: Well, of course, I didn't.
- C: No, of course you didn't. That's just it. And that's just what makes it look screwy. It makes it -- it leads it right back to the War Department's lap.
- H.M.Jr: Well, I'm thinking of giving out a statement through Schwarz in which I'm simply going to say that the Allied Purchasing Mission called on me yesterday and asked me to explain the Government's policy in regard to procurement of planes; it was explained to them and they accepted it in toto.
- C: Uh-hm.
- H.M.Jr: And that's all, and that there was no discussion.
- C: Well, that's -- I think that will clarify the atmosphere and put the ball back in somebody else's lap.
- H.M.Jr: Well, I think it's just a question of fairness. I mean, if I don't say something why then Purvis could perfectly say, "Well, why didn't you deny it."
- C: Yeah.
- H.M.Jr: I'm -- I called him and told him that I'd be glad to say this if he wants me to and he's going to call me back in ten minutes.

- 3 -

C: I see.

H.M.Jr: But you think it would clarify the air.

C: I do.

H.M.Jr: Yeah.

C: I certainly, as far as the Treasury's position and your position is concerned, and after that gorgeous dissertation you gave them yesterday I hate to see things of this sort break when things were mentioned in there that you didn't say.

H.M.Jr: That's right. That's right. O. K.

C: All right, sir.

H.M.Jr: Incidentally, Johnson called me this morning and said on the Douglas, they are releasing that with no cost to the Allies.

C: Yes, and then Hartson called me last night and said they are releasing the Martin at a cost of eight hundred thousand dollars.

H.M.Jr: And did Hartson tell you that he pledged Louis Johnson not to disclose that to the Allies?

C: No.

H.M.Jr: And I've refused to go along with that.

C: No, he did not tell me that at all.

H.M.Jr: That under those circumstances where we'd disclose that to the Allies and they would simply hide it secretly and add it to the price, and I refused to go along on any such.

C: Now, I think you're just a thousand per cent right on that, I don't see how you could assume that attitude.

H.M.Jr: Well, I told them, I asked them had they signed with Martin yet, and they said no. I said, well when they actually sign up with Martin let me know, but I would

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tell the French just how much there was to be added. I wouldn't do business any other way.

Q: Well Rogers called me on the Douglas this morning, and told me that he had gone out there, and under instructions from Douglas that they were not going to soak the French any money on development expenses.

H.V.Jr: Yes.

Q: So he said the change over that they have to take is going to cost them a little money, but they'd rather assume it than add this to the price. Now I've been wondering whether the Army has got firm ground for that figure of eight hundred thousand, that looks to me like a tremendously large amount of money, because the -

H.V.Jr: It's to improve the P-26.

Q: Yes, I know, but even that - even so, gee whizz, that's an awful big bunch of money.

H.V.Jr: Well, it isn't so big if you consider the Douglas is nothing. I mean they're nowhere near their figure of seven million.

Q: Euhhuh.

H.V.Jr: But let's see, I'm not doing anything on Martin until Monday.

Q: I see sir.

H.V.Jr: O.K.

Q: Well then I'll sit tight until I hear from you further on that.

H.V.Jr: That's right.

Q: Aye aye sir.

PARAPHRASE OF TELEGRAM RECEIVED

From: Rangoon
To: Secretary of State
Date: April 13, 1940

Strictly Confidential

During the second half of March the value of munitions reexported from Rangoon to China was approximately \$132,000 or 439,500 rupees. Cartridges from Czechoslovakia and shells from Russia made up the principal part of the shipments. Materials described as parts of arms with a value of \$657 were the only ones from the United States.

THE RATES OF STERLING

April 13, 1940.
10:00 a.m.

Present: Mr. White
Mr. Foley
Mr. Harris
Mr. Feidler

H.N. Jr: This is the situation. Yesterday at Cabinet, the first part of the Cabinet, the President told Bob Jackson he could sign the opinion backing up the Treasury that 4.02 $\frac{1}{2}$ is the official rate and Hull said he was no longer interested. He had been originally interested in the question of agriculture and prices and everything was lovely. Then when they got around to Wallace, Wallace said the difference between 3 $\frac{1}{2}$ and 4 cents is one cent a pound on cotton and he was bothered and worried, and so forth.

Well, when the President heard that, he said, "I would get up my Scotch and see whether you can't do a little trading and get the English to maybe buy some more cotton and use the four-dollar rate." Well then, the President said we wouldn't give Henry an opinion. So I wrote a little note to Hull and said I was on the spot and I wished he would have a meeting at 10:00 o'clock and he said, "Do you want it in the Treasury?" and I said, "No, over there," at which Wallace and the Attorney General are going to be present.

Wallace called me last night and I spoke to him this morning and he said he was very sorry he brought the thing up, but what he really wanted to know was what were the British after, because whether they were going to sell us goods at four dollars and buy from us at three and a half, was that their game, so I said, "Well, it might be, and it might not," but this was a legal matter and I was just standing on my legal rights and I wasn't going to get into the economic discussion.

Therefore, what I want you men to do, and Harris and Foley and White will go with me when I see Mr. Hull at 10:00, Monday, I want a legal document prepared which I can put on Hull's desk and give one to Wallace and say why, in

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our opinion, it is up to us on goods coming in that there should be 4.02 $\frac{1}{2}$.

Then when it gets to the economic thing, I will simply say, "Gentlemen, I am not going to get in on this discussion. This is the law. This is what my General Counsel tells me and I understand the Attorney General is prepared to back it up the minute the President tells him to. Now, this is the law. I can't bend the law to suit the question and if the Department of State wants to find out more about it, or Mr. Wallace, that is up to you people, but that is the question that I have to carry out under the law," and I want to put it on purely legal grounds.

White: Mr. Secretary, even putting it on purely legal grounds, I think I am right in saying, am I not, Ed, that if the British modify their practice so that most of the transactions or almost all of the transactions with us are taking place at the free market rate, then we still collect one rate, which is a legal decision, but we may shift that rate from the 4.02 rate, the official rate, to the low rate. Now, I haven't checked that with them, but that is something we have discussed today, so there still may be an out if you, sometime later, want to move in that direction.

E.M.Jr: I won't muddy the water.

White: I tell you why, the information we have now, we have just checked up on this week's imports and all except five percent of those items which they permit to be exported to the United States, payable in sterling, are invoiced in sterling and payable in free sterling, which means 70 percent of our imports.

E.M.Jr: Are what?

White: Payable in the free sterling rate.

E.M.Jr: That is what you told me before.

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- White: We thought they might cut down on it and they may cut down still further and if they alter their practice, we may have to alter the rate.
- H.M.Jr: You told me that as far as you had gone in February, that 70 percent of the goods which came in from Britain were at the free rate. Now you tell me the same thing. What the hell difference has it got to do on the legal opinion?
- White: It is providing the possibility for an out and doesn't affect the legal opinion, but just does change the rate.
- H.M.Jr: What do you want an out for?
- White: I didn't know but what sometime later you might want to go down.
- H.M.Jr: You are doing just what I don't want to do. I don't want - if you don't mind my using the word - to be smart about it. I want to carry out the law and I want these fellows to tell me what is my law and I don't want to maneuver.
- White: Well, in that legal decision, Mr. Secretary, when that was first decided and the question was whether there shall be one rate selected or the other alternatives, they decided first that it shall be one rate. Then the second decision was, which rate? Then they decided it would be the official rate, because we went according to the British Government's own statements to the effect that the amount of transactions taking place at other than the official rate were negligible. We accepted their statement.
- Now, if in the light of facts we find that it continues to be different, they still have an out now, because they can say these are past transactions. If they don't do most of their transactions at another single rate, then it may require another rate. At the moment, it doesn't.
- H.M.Jr: Well, listen --

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- Foley: On the 9th of April, Mr. Secretary, the Chancellor of the Exchequer on the floor of Parliament said that by far the greater part of sterling transactions are carried through at the official rate. I am satisfied that the proportion of transactions carried through outside the official market is a very small one.
- White: And we have accepted that.
- H.M.Jr: Just a second, Harry, will you please? Let me get a legal opinion here.
- Foley: The facts that Harry has developed from an analysis of the entries that have been made since certification on the 25th of March by the Federal Reserve Bank of the two rates, which necessitates our selecting which one we are going to use, doesn't bear out the official explanation that the British Government is making as late as the 9th of April on the floor of Parliament.
- Harris: Well, I think that one explanation of this is that Harry is taking too small a period. Now, I just happen to know that for quite a period one of these items, whiskey, which is one of the biggest ones - they just sat quiet and didn't ship a case of whiskey. At the present moment there are very heavy consignments of whiskey on the way which Harry hasn't been able to get in his figures.
- H.M.Jr: What rate are these coming in at?
- Harris: Official rate.
- Foley: There are certain commodities, Mr. Secretary, that only the official rate can be used for, jute, tin, rubber --
- Harris: There is a tremendous movement of jute which, because of the season, hasn't reached this market yet and I think it may very well reverse Harry's figures.

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- White: Quite possibly. There is another reason also, that a good many of these invoices are the result of sales and contracts made a couple of months ago.
- H.M.Jr: God damn it, you fellows have been telling me 4.02 for weeks and I told the President that. Now, have you changed?
- White: Oh, no.
- H.M.Jr: What is all the argument about?
- White: I wanted to make clear, Mr. Secretary, that even though the 4.02 rate is the proper and official and legal rate for you to stand on now, that that doesn't mean that a month from now or two months from now you may not decide that the appropriate rate has changed.
- H.M.Jr: Let him put that in his argument. The point I am trying to get here, I want a Treasury presentation of the facts legally.
- White: I just wanted to make sure that I got that idea across to you, sir. That is the status as it is now, that you can still change your mind in the future.
- H.M.Jr: Every time I ask you, you change your base. Have you got the figures for February?
- White: We just got the figures for the first - this last current week because we introduced a new system.
- H.M.Jr: But I am asking you for February.
- White: The February figures are still 70 percent of the total trade and that is approximately tentative.
- H.M.Jr: What about March?
- White: March, we skipped to April to get the current figures. We skipped March.

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H.M.Jr: What about April?

White: April is running the same and the reason we are able to get them now is because they are now requiring the importers to fill in a special form just as we did with Germany.

H.M.Jr: What are they, Harry?

White: They are all except five percent of these items which we haven't totaled, all except five percent are coming in payable as a free rate. That excludes this tin, fir, so on and so on.

H.M.Jr: That 95 percent of them are at the free rate?

White: Assuming that these five items will take up 25 percent. We don't know that yet.

H.M.Jr: What I want to do - the President said that Tom Lamont told him that 90 percent are coming in at the official rate.

Foley: That is the British explanation.

H.M.Jr: He told me to call up Tom Lamont and tell him to justify it.

Foley: That is what this statement of the --

H.M.Jr: Why does Tom Lamont make a statement like that?

White: I don't know where he gets his information.

Foley: From here, this is the official explanation of the Chancellor of the Exchequer.

H.M.Jr: Supposing I just took what the English told me as gospel. What you are telling me, or trying to tell me, Harry, is this, that we go over there Monday and say to Mr. Hull and Mr. Wallace, as of today we have to advise them legally the rate should be 4.02-something. But if the situation should change, a paragraph should be put in that the way the thing is running now, it looks as though that from 70 to 90 percent is at the free rate. Now, if that

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should continue, then you would recommend that the rate would be the free rate?

- White: Not 70 to 90, but from 70 percent down. Around 70 percent. If that continues, we will be confronted with the decision and we might, it seems to me - it is conceivable that you might decide to go from the 4.02 rate to the 3 - whatever rate prevails at that time.
- Foley: The British can change that situation, Mr. Secretary, by changing the official rate. They are the ones that are causing the situation to exist. It seems to me that this explanation --
- H.M.Jr: Wait a minute. I know I am right, see.
- Foley: Sorry.
- H.M.Jr: The purpose of this meeting is for you fellows to get together. Don't get together in my office and when we walk over there Monday at 10:00 o'clock, I want something. I may want something late Sunday afternoon. Are you going to be here, Basil?
- Harris: No, I was going to go over to New York and fly back at 7:00 o'clock Sunday morning.
- H.M.Jr: I wouldn't take a chance on it, Basil. You had better come down on the midnight train tomorrow.
- Harris: Very good.
- H.M.Jr: This is your business.
- Harris: Yes.
- H.M.Jr: And I would like you, if you don't mind, to stay with this thing long enough until you are satisfied.
- Harris: Good.
- H.M.Jr: Will you please, because this is really - will you stay with this long enough today - what have you got, a date tonight?

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Harris: No, it is perfectly all right.

H.M.Jr: Well, stay with the boys long enough today until you are satisfied. And then if you will take the midnight down --

Harris: I will.

H.M.Jr:so you will be here the first thing. I wouldn't ask you to be here - I may want to see these boys sometime after 4:00 Sunday. That is not necessary, but if you will have somebody representing you.

Harris: Johnson will be back by then.

H.M.Jr: But see this thing through today.

Harris: Yes, all right.

H.M.Jr: And we will have another Treasury rehearsal, which it is not necessary for you to be at, sometime Sunday afternoon, but please get together.

White: I don't think we are apart.

H.M.Jr: Well, I don't want to be upset, because Wallace has got something which is quite different. I mean, they are absolutely mixing the things up and that is the question of exports. Now, what prices are cotton paid for, do you know?

White: As far as we know, in dollars, but we have no way of checking up on the invoices which are always in dollars. They may make special terms with the English in which they may permit them to pay in sterling or not, that is something we would have to find out from the individual exporters, but we don't know.

H.M.Jr: Well, supposing he asks that - well, that is - our fixing the thing at 4.02 wouldn't preclude Hull and Wallace going ahead to try to get a higher rate for the cotton, would it?

White: Well, our fixing it at 4.02 means that the British would have to pay a little higher import

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duties on their exports to the United States.

H.M.Jr:

Yes.

White:

Therefore --

H.M.Jr:

A little higher import duties.

White:

Through higher import duties.

H.M.Jr:

Our importers of British goods - how about our exporters?

White:

That is a separate matter. It is a question of bargaining between the American exporters and the British importers. If the British importer wants to pay in sterling and the British Government wants that, naturally, then let the American exporter get whatever he can for the sterling. The American exporter, on the other hand, wants dollars and between that there is a bargaining position.

Foley:

Isn't it true, Harry, that the exchange control business fixes those dollars at the official rate?

White:

Oh yes, the dollars they buy, but if the British importer of American cotton can buy that cotton and pay for it in sterling, then the British Government and the British importer prefers that, because then it is up to the American exporter to get what he can on the American market for his dollars.

H.M.Jr:

And Wallace figures that is a cent a pound cheaper for the exporter.

White:

That depends on what the --

H.M.Jr:

I don't think either Wallace or Hull understand this thing.

White:

I gather that they do not, from what you said.

Foley:

Mr. Secretary, it seems to me that this explanation of the British on the floor of Parliament removes

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the problem that the State Department was so concerned about, as to the attitude of the British Government in the event that we required goods to be entered at the official rate. In other words, I don't think they are going to be terribly upset if that is what they do. On the other hand, the point that Harry is bringing out is that if we go to the official rate, the protests that may develop from importers of British goods, if the preponderance of transactions occur at the unofficial rate, may force us to take a different position later on.

White: Which would be still consistent.

Foley: Which would be still consistent with the position that the legal department is urging, that there has to be one rate.

Harris: In that case, probably the first one to do that --

Foley: As far as your legal responsibility at the present time is concerned, Mr. Secretary, you have to protect the revenue and the safest course for you to take is the official rate, because even though we are upset in the courts later on, you have protected the revenue and all you have to do is to pay out a little money, but if you take the unofficial rate you haven't collected the revenue and all your accounts in the hands of your collectors in the United States are in danger.

White: What do you mean, if you are upset in the courts? You are not going to be upset.

H.M.Jr: The point --

Foley: I am talking about the safest course, Harry.

H.M.Jr: I think when we go over there, one person should present it and I think it should be Ed, don't you, so the question is to have your moot court here and not over there or here in my office.

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- White: I just said that because I wanted you to understand it. I didn't want you to make the statement that you have to stick to the official rate.
- Harris: By the way, that rate is $4.03\frac{1}{2}$, not 4.02, just to get that clear.
- H.M.Jr: Just for fun, let me get hold of Tom Lamont and ask him what the hell he means by telling Roosevelt that.
- White: I would merely ask the source of his information, because we don't know about this whiskey and jute.
- H.M.Jr: I am just going to say that the President mentioned at Cabinet that Mr. Lamont advised him that 90 percent of the goods coming in the United States were on the official rate and that doesn't check with our Customs and I would appreciate it if he would furnish me with the information.
- White: With the invoice data on our Customs declarations.
- H.M.Jr: Yes.
- White: Even with that true, you see, we would want much more time to have it continue to be so before we would take a position which is contrary to what the British Government says.
- H.M.Jr: I have got a fellow to be here Monday that Danny Bell said I couldn't get to come down. His only answer when I called him up was, "When do you want me?" Jay Crane. Do you boys know Jay Crane?
- White: Standard Oil?
- H.M.Jr: He was Vice President in charge of foreign exchange for Federal Reserve and he is bringing down his Chief Clerk who handles all this stuff. He is going to let him stay here as long as we need him.
- Foley: On this problem?
- H.M.Jr: On the thing that Danny has got.

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Foley: Yes.

H.M.Jr: He is bringing down his Chief Clerk who handles all of their foreign exchange documents, I mean, a man who handles all of that stuff.

White: With respect to this problem, Mr. Secretary --

Foley: I think that helps, because --

White: With respect to --

Foley: Irrevocable letters of credit and all of the rest of the stuff you get, you don't know exactly what the implications are and if you got somebody that understands technically what is involved, it helps.

H.M.Jr: This fellow and Crane will stay as long as we need them. Crane is an awfully nice and able fellow.

White: You asked us to see somebody that Mr. Burgess has been talking to with respect to foreign exchange. You asked me to have our man in New York see him. You did last week, you suggested that we ought to get in touch with him, since he seems to know so much about the British exchange sales.

H.M.Jr: Who?

White: You spoke to me about it.

H.M.Jr: Who did I say to see?

White: Mr. Burgess, and Mr. Burgess would refer us to somebody. I didn't send anybody up because the only persons we have up in New York are two clerks.

H.M.Jr: Forget about it.

Foley: Did Bob know very much about this yesterday?

H.M.Jr: I saw that, so I didn't crowd him. I simply said, "Bob, you know you have got it over there," and he said, "Yes, I know it is ready for my

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signature," but he didn't get in on the discussion.

Foley: Because they only talked with him on the telephone. It came up while he was away.

Harris: We have only had one complaint from an importer so far. That doesn't say we won't have more.

H.M.Jr: Have you got any stuff that is landed and waiting?

Harris: Yes, they haven't had the time really to protest as yet.

Foley: Then handle it at the official rate.

H.M.Jr: Which way are they handling it?

Harris: Official rate.

Foley: That is one of the reasons we haven't had so much pressure. They have to do something and we haven't decided the problem, so they have decided themselves.

H.M.Jr: Who did, the Customs boys?

Harris: They had to take some rate. They can always protest it if they don't like it.

Foley: They took the safest way they could.

White: Our difficulty is calling it an official rate. We think by calling it the official rate we are selecting it because it is the official rate. It doesn't matter what we call it.

(Telephone conversation with Tom Lamont follows:)

April 13, 1940
10:43 a.m.

H.M.Jr: Hello.

Operator: Mr. Lamont at his residence.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Lamont: Hello.

H.M.Jr: Mr. Lamont?

L: Yes.

H.M.Jr: Henry Morgenthau, Jr.

L: Oh, yes. Hello, Mr. Secretary.

H.M.Jr: How are you? The reason that I'm calling you is at the request of the President because he mentioned at Cabinet yesterday that you had advised him that ninety per cent of the imports from Great Britain that were coming to this country were at the official rate.

L: Oh, wait a second. What I advised him was that according to our information ninety per cent of the -- of the purchases of British products were paid for at the official rate.

H.M.Jr: Well, the thing -- we get our figures from the documents.....

L: What's that?

H.M.Jr: We get our figures from the documents of the.....

L: Your figures would be much more likely to be accurate than ours.

H.M.Jr: Well, there's nothing like that and they're running about seventy per cent of the imports at present are on the so-called -- the lower rate, the three and a half dollar rate. That's the way they're running.

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- L: Seventy per cent?
- H.M.Jr: Pardon?
- L: Seventy per cent?
- H.M.Jr: About seventy per cent.
- L: Well, but the -- but the lower rate, Mr. Secretary, -- the lower rate is a terribly narrow market.
- H.M.Jr: Well, but that's -- but that's what's been happening and we've been -- we have people going over every invoice that comes in, and when I made that statement to the President he seemed surprised and suggested that I call you.
- L: Yes.
- H.M.Jr: And ask what the -- whether you would care to give us any data or anything that you have.
- L: Yes, of course. I haven't got the data personally but I'll get ahold of our people and have
- H.M.Jr: Will you do that and then whatever you get if you'd just -- could write a letter or send somebody down and give it to Dan Bell, the Under-secretary?
- L: Yes, of course I will.
- H.M.Jr: But my information is just -- just the opposite.
- L: But you see all the -- all the people here that are buying rubber or tin and all that sort of thing.....
- H.M.Jr: That's true.
- L: have to pay for that and that -- most of the stuff we have at the four-dollar rate.
- H.M.Jr: But on the actual merchandising arriving at the port of New York, over seventy per cent of the documents that we've examined are at the so-called -- at the unofficial rate.

- 3 -

- L: Well, that will be news to all the foreign exchange people here, because the -- it will be news to the Canadian people too.
- H.M.Jr: Well, would you take another look at it?
- L: What's that -- why certainly I will.
- H.M.Jr: And either -- if you'd communicate with me or with somebody that you give it to, if you'd let them communicate directly with Mr. Bell.
- L: Indeed I will.
- H.M.Jr: Thank you so much.
- L: Thank you for calling up. Goodbye.

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Harris: He is talking about placing orders, you see, for future delivery. We are talking about that stuff that came in.

H.M. Jr: I sat next to that fellows 2 $\frac{1}{2}$ years ago at that dinner that I spoke at and he got talking on the amount of securities sold and he was just as far wrong then on the British securities sold as he is now. I was amazed how little - and on the other side of me was a fellow who has since died, Parker Gilbert, and he whispered to me, he said, "You know, Mr. Lamont is wrong and you are right," but he was just as far wrong then as he is now and Parker Gilbert, who was the other Morgan partner, said to me, "He is wrong," but it is too bad the President gets misinformation like that.

O. K., gents. I will know in the morning tomorrow what time in the afternoon I will be free, but I would like another, because when we go before three other Cabinet fellows, I want the Treasury to put on a good show.

Foley: Right, and I will get hold of Bob in the meantime and get him on our side.

Paraphrase of telegram No. 969 from Berlin, April 13, 1940.

Secretary of State,

Washington.

It was stated here by a Danish Legation member, during a conversation concerning the economic results of the entry of the Germans into Denmark, that there had not yet been canceled the usual quarterly negotiations to discuss trade adjustments between Denmark and Germany. Whether a meeting of the negotiators would be held, or not, would not be known definitely until Dr. Walther, the chief of the German delegation, returned to Berlin.

A member of this office had expressed to him the opinion that as a result of stocks which had accumulated and because the market in Great Britain had been lost exports to Germany from Denmark of such farm products as live cattle, hogs, poultry, bacon, meat, butter and eggs would be quite a bit larger for the next two to three months, but that the totals thereafter would decline until there was a leveling off, with the net result that the year's total exports would be substantially the same as last year. It was made clear that no definite information could be given.

Danish butter exports to Germany in 1939 totaled 44,000 metric tons; fresh eggs exports 798,000 hundred

scores;

- 2 -

scores; exports of live hogs for slaughtering, 136,000 head; 150,000 head of live cattle for the same purpose; together with 3,000 metric tons of slaughtered poultry and ten thousand metric tons of fresh meat.

Also according to the informant of the Embassy around 20% of the country's feedstuffs and almost all its fertilizers come from abroad, so that if agricultural exports are to be maintained at their previous levels some provisions will have to be made to assure adequate supplies of fertilizers and feedstuffs.

KIRK

DCA:GHK:MEK

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its designation is indicated by a symbol printed above or preceding the address.

WESTERN UNION

1320

SYMBOLS

DL	Day Letter
NL	Night Letter
LC	Deferred Cable
NLT	Cable Night Letter
Ship Radiogram	

R. B. WHITE
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. P. FERRY
VICE PRESIDENT

NEVER

131

The time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time at point of destination is 168

Received at

WG194 90=TD PALISADES NY 13 223P

APR 13 PM 5 24

SECRETARY MORGANTHAU=

2211 30 ST TREASURY DEPT=

REFERRING TO THIS MORNINGS CONVERSATION WILL FORWARD INFORMAL DATA MONDAY TO BELL BUT AM INCLINED TO BELIEVE DISCREPANCY ARISES FROM FACTS THAT BRITISH EXCHANGE RESTRICTIONS HAVE BEGUN TO APPLY ONLY RECENTLY AND PROBABLY PORT RETURNS HAVE TO DO WITH SHIPMENTS ENTERED OR CONTRACTED FOR PRIOR TO RESTRICTIONS WHICH HAVE BROUGHT ABOUT RADICAL CHANGE OR WILL DO SO IN IMMEDIATE FUTURE STOP CANADIAN BANKING OFFICIALS FOR (AMPLE INFORMED US LAST WEEK THAT AS HIGH AS 98 PERCENT OF CANADIAN DEALINGS IN STERLING EXCHANGE WAS BEING DONE AT THE FOUR DOLLAR RATE=

=THOMAS W LAMONT=

98

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

April 13, 1940

10:15 am

Louis Johnson called me and said that the Army had agreed to release to the Allies the Douglas A-20 at no cost to the Allies, because the Army had just gotten Douglas to make a refund to the Army of \$1,800,000. Also, to accelerate deliveries on the A-20 by four months.

(I am going to ask what this \$1,800,000 is. I want more details. But what it amounts to is they have not got the nerve to ask the Allies to put up any money.)

They have practically come to an agreement with Glenn-Martin on the B-26 and they want to charge the Allies \$850,000 to be used to make certain improvements on the B-26 which the Army expects to get from Glenn-Martin, but Martin's representative, Hartsorn, insisted that the Allies not be told about the \$850,000 because they were going to hide it and add it on the cost. I absolutely refused to go along on this basis and said that I would insist on telling the Allies about the \$850,000 and I said that Johnson should not hold me to this agreement and he said he would not. I asked him if they definitely signed with Martin and he said no. So I said, well, why not wait until Monday.

In the first place, I would not be a party to a deal like this and, in the second place, the fact that Martin has been acting so peculiarly is all the more reason he should conform to the same formula that everybody else does.

Johnson did not say anything to me about publicity although I spoke to him last night at 7 o'clock and asked him to try and find out where this U.P. story originated. Of course, I would be willing to bet 30 to 1 that it originated with Louis Johnson.

EN

PLAIN

Oslo

Dated April 13, 1940

Rec'd 10:50 a.m., 19th.

Secretary of State,
Washington.

151, thirteenth.

FROM COX.

Can Department telegraph outline of new regulations covering Norwegian owned assets reported blocked in United States and procedure for obtaining licenses.

HARRIMAN

HJD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 13, 1940, 1 p.m.

NO.: 470

FOR THE TREASURY DEPARTMENT. FROM MATTHEWS.

Rueff had been in London and has just returned. He is somewhat chagrined that the British are determined that they will take no step towards strengthening the pound on the free markets. Last night he told me that the British held the view that it was only the ignorant people who had no understanding of the nature of the question who were concerned about the free market behavior of the pound, and that the problem was of no importance. The attitude taken by the British obviously annoyed Rueff. He seemed anxious to know what you felt about the free market drop of the franc and sterling.

In various telegrams - for example, No. 417 of April 1 from the Embassy - I have pointed out that the French are particularly exasperated that because of the official link of the franc to the pound their hands are completely tied. They realize of course that their problem is greatly simplified by the unimportant volume of foreign franc balances. They feel, however, that their own effectiveness in administering control of exchange could successfully maintain the franc's prestige (if ^{untied} ~~united~~ to sterling) for the French public, which is particularly exchange conscious, and could prevent the "waste of needed resources" which

- 2 -

free market growth involves.

END SECTIONS ONE AND TWO.

BULLITT.

RECEIVED
E1 1 M1 21 57A C93
TECHNICAL SERVICE
TO THE DIRECTOR
OF THE FBI

EA:LW

PARAPHRASE OF SECTIONS THREE TO SIX, INCLUSIVE,
NO. 470 OF APRIL 13, 1940 FROM PARIS.

With satisfaction Couve de Murville told me that his estimate of French holdings of foreign exchange had proved to be right. Reference, telegram of February 27, No. 262: Couve had valued the holdings at 150 million dollars. The completed declarations show that the holdings are slightly more than 145 million dollars. The machinery is in motion, he said, for requisitioning these balances. He believes that the greater part of them are unobligated, though a certain proportion of them is necessary for revolving funds of French concerns abroad. He said that the Government would take over sometime before summer, but could not time the move exactly. Arragon of Morgans was told by Governor Fournier that active study is being given to the question of taking over private foreign exchange holdings, and it is only a question of a short time before this will be begun.

Couve told me that as for the problem of requisitioning privately owned gold, that was more difficult, in view of the impracticability of getting at the large quantity of well-hidden socks so widely distributed among the peasants.

There had been a disappointingly small return in declarations of French owned dollar securities, being only about ten million dollars; however, he reminded me that

- 2 -

prior to November substantial quantities had been liquidated or repatriated and that it had not been necessary to include in the declarations such securities physically brought back to France or placed under the dossier of a bank in France. He said that they would have to take steps to obtain some inventory of the amount involved before they made any move to requisition such securities, but he supposed they would have to do that eventually. However, he admitted that there are probably substantial quantities of French-owned securities which it will be difficult for the Government to acquire, if not impossible, particularly those which are held through Swiss holding companies; reference: telegram of March 18, No. 357 from the Embassy.

END SECTIONS THREE TO SIX, INCLUSIVE.

BULLITT.

EA:LWW

EJS

GRAY

PARIS

Dated April 13, 1940

Rec'd 11:10 a. m.

Secretary of State,
Washington

470, April 13, 1 p. m. (Section Seven)

In a notice to importers issued by the Ministry of Commerce and Industry and published in today's Journal Official it is stipulated that import license already granted or to be granted in the future will be valid for four months if they relate to imports coming from European countries and six months for those coming from non-European countries. Heretofore the time limits for the validity of such licenses were three months for European countries and four months for those outside Europe. (END MESSAGE)

BULLITT

PEG

276

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 13, 1940

TO Secretary Morgenthau
FROM Mr. Dietrich

The sterling rate moved upward today as foreign bank orders to purchase pounds appeared in a thin market. After an opening quotation of 3.52, sterling advanced steadily to 3.53-3/8 just before the close. The final rate was 3.52-3/4.

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

By commercial concerns.....	£ 47,000
By foreign banks (Europe and South America).....	£ 89,000
	Total...£ 136,000

Purchases of spot sterling amounted to £391,000, as indicated below:

By commercial concerns.....	£ 38,000
By foreign banks (South America, Far East and Europe).....	£ 353,000
	Total...£ 391,000

The following reporting banks sold cotton bills totaling £48,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 23,000 by the Guaranty Trust Co.
19,000 by the National City Bank
4,000 by the Bankers Trust Co.
2,000 by the Irving Trust Co.
£ 48,000 Total

The Guaranty Trust Company reported that it had purchased £10,000 for forward delivery from the British Control at 4.03-1/2. The funds will be used to pay for shipments of jute.

The guilder touched .5308 just after our opening and then returned to .5308-1/2, where it closed. The Federal Reserve Bank purchased 70,000 guilders in New York for account of the Netherlands Bank. The belga weakened further to .1580-1/2 at our opening. During the morning, it experienced a slight recovery and the final quotation was .1682.

On further short covering by Chicago operators, the Canadian dollar improved to close at a discount of 14-1/8%.

The other important currencies closed as follows:

French francs	.0200
Swiss francs	.2242-1/2

CONFIDENTIAL

We sold the following amounts of gold to the banks indicated, to be added to their earmarked accounts:

\$ 1,300,000 to the Bank of Brazil
1,000,000 to the Bank of the Uruguayan Republic
\$ 2,300,000 Total

We purchased \$108,000 in gold from the earmarked account of the National Bank of Belgium.

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

\$ 5,500,000 from Italy, shipped by the Bank of Italy for its account to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.
4,484,000 from Switzerland, shipped by the Swiss National Bank for its account to the Federal Reserve Bank of New York. The disposition of this shipment is unknown at the present time.
3,220,000 from England, shipped by Samuel Montagu & Co., London, to the Bankers Trust Co., New York, for account of the Amsterdam Bank, Amsterdam, for sale to the U. S. Assay Office.
\$13,204,000 Total

In a report from the Federal Reserve Bank of New York showing deposits for the account of Asia as reported by New York agencies of Japanese banks on April 10, such deposits totaled \$54,831,000, a decrease of \$1,654,000 since the last report as of April 3. Included in this total were \$28,348,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, and deposits of \$13,926,000 made by the head office and Japanese branches. The overdraft of the head office and Japanese branches on the books of Yokohama's New York agency was \$96,334,000, a decrease of \$1,206,000 since April 3.

The Bombay spot silver quotation was slightly higher at an equivalent of 41.01¢.

CONFIDENTIAL

April 13, 1940
9:19 a.m.

H.M.Jr: Hello.

Operator: Secretary Wallace. Go ahead.

H.M.Jr: Hello.

Henry
Wallace: Hello, Henry.

H.M.Jr: Good morning.

W: I hope I didn't cause you too much grief yesterday.

H.M.Jr: Well, you did, you son-of-a-gun.

W: (Laughs) I -- I didn't intend it in that way as a matter of fact.

H.M.Jr: I thought you were a law-abiding citizen and liked to see brother Cabinet officers carry out the law.

W: That's right. No, all I was interested in was the -- was the possible effect of the 350 on the thing on the price of cotton. (Laughs) I thought that ought to be given some consideration. I hadn't anticipated the boss would take it up from the point of view of reopening the whole matter again.

H.M.Jr: But on that -- but am I not -- but I mean, I think somebody doesn't understand it. I mean, after all you and I talked about it on -- this is a question of duty and all that and at four dollars -- I mean, whether we decide the rate is four or three fifty doesn't make any difference whether they buy more or less cotton.

W: No, no.

H.M.Jr: What?

W: No, it doesn't.

H.M.Jr: Isn't that right.

W: Yes, but it -- the spread, if it is going to act as a spread, and frankly I don't know whether it

- 2 -

definitely will, but if four dollars applies to the stuff that comes into the country and three fifty the stuff that goes out, if that's the way it finally turns out, it definitely will act to nullify the trade agreement program. It will reduce the amount of imports from Great Britain into the country and will reduce the amount of exports.....

H.M.Jr: Oh, yes.

W:out of the country.

H.M.Jr: But there's no indication on that and what I tried to explain was that I've just got to carry out the law.

W: Yes. Well, I know that.

H.M.Jr: And the economic interpretation is something entirely different.

W: Well, I had no intention of bringing up the one phase of the matter but I did want to -- I did think it was appropriate, however, to consider the effect of the two rates.

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

W: One being on exports and the other on imports.

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

W: And frankly I don't know for sure that it's going to work out that way.

H.M.Jr: Well, here's the thing, Henry. I wrote a note to Mr. Hull and asked him to call a meeting and he's called one for Monday.

W: Uh-huh.

H.M.Jr: I don't know whether you got a notice.

W: No, I haven't.

H.M.Jr: Well, he set it for ten o'clock Monday.

W: Uh-huh.

- 3 -

- H.M.Jr: Well now, at that meeting I'm simply going to have our attorney present legal arguments why we have been -- make -- recognize the official rate. I'm not going to get into the economic discussion, see? Hello?
- W: Yes. Well, I don't have any intention whatever of getting into the legal discussions.
- H.M.Jr: Well.....
- W: I don't think there's any point about being in on that at all.
- H.M.Jr: Well no , I think you'd better as long as you kicked the applecart over.
- W: No, I didn't. I didn't turn the applecart over on that one.
- H.M.Jr: Well.....
- W: I had no intention whatever of that.
- H.M.Jr: Well, if we can -- as long as it was there, I hope you will come so that if we could save the President. Well, everybody agreed that legally the Treasury has to do so and so.
- W: I don't think anybody disputed that, or maybe the State Department has, I don't know.
- H.M.Jr: Well, the State Department has been saying right along that the reason they wanted us to hold off was on account of -- that they had a big deal on on agricultural commodities. Now, the President doesn't know anything about it and I gather you don't either. And, of course, what the President told me -- he was perfectly frank. He said, "Henry, just stall until we get the trade treaty through."
- W: Um-hm.
- H.M.Jr: Well, we stalled but I don't see any good excuse now.
- W: I did like this presentation of Cordell's that we get further information.

- 4 -

- H.M.Jr: Well, he evidently also -- the British Ambassador presented a memorandum on April 4th which Hull sent to me and he said he'd have additional information by telegraph. Not having heard I asked Sumner Welles please to put the pressure on, which he did in the middle of the week. Hello?
- W: Yeah.
- H.M.Jr: And we still haven't heard. See? Any.....
- W: I think we -- I think really we ought to know what their game is.
- H.M.Jr: I agree with you a hundred per cent and the fact that J. P. Morgan tells the President that ninety-five per cent of it is coming in at official rate, that in itself would make me suspicious.
- W: No.
- H.M.Jr: Oh, I'm in entire agreement with you that we ought to smoke them out, but in the meantime I like the fresh air.
- W: (Laughs heartily) Yes, I enjoyed watching your face when the President was talking on that score.
- H.M.Jr: Because I -- I don't like the inside of a jail.
- W: (Laughs)
- H.M.Jr: Well, anyway we'll see -- but you'll find me entirely sympathetic in trying to smoke them out as to what their game is.
- W: Yeah. Say, you know I was over there at lunch yesterday.
- H.M.Jr: Yeah.
- W: The boss mentioned one thing that -- I was sort of curious. Apparently he had told you about it at some other time. I remember him referring to it sort of in an aside at Cabinet meeting once. This Glaston Berry Cathedral thing. Glaston Berry Abbey.

- 5 -

H.M.Jr: No, I don't know about that.

W: Huh?

H.M.Jr: Is that a story?

W: Yes, it was a story of two Englishmen who were engaged in spirit writing.

H.M.Jr: No, I don't know that one. What's that?

W: I thought -- I thought he made at Cabinet meeting once he must have referred to that. Well, the President was telling me the story of the two Englishmen. One of them was an architect -- or an archeologist, a combination of architect and archeologist, and he was trying to find where Glaston Berry Abbey was constructed back in the old, old days.

H.M.Jr: Yeah.

W: It was an Abbey that was destroyed at the time of Henry the Eighth. He was digging around and digging around and couldn't find the foundation of the thing and finally a friend of his suggested they try spirit writing, which they proceeded to do. I suppose ouija board stuff, something of that kind.

H.M.Jr: Yeah.

W: And the ouija came through with according to the boss indicating that they should have dug at such and such a place instead of such another place, so the holes were dug and they were just carried forward into various other things that -- in 1917 there was the -- ouija board comes through to these two gentlemen that the British are going to be -- get driven back almost to the sea. This time a Roman general is supposed to be talking to them.

H.M.Jr: I see.

W: And then at the last minute they get unexpected help from overseas and finally they drive the Germans back by the time that -- on the day the first snow flies. The boss says that the records indicate November 11th is precisely the date when the first snow flies.

- 6 -

H.M.Jr: Yes.

W: And so on -- carries it up to the next world war will be 1940 and that that will -- and that the 1940 world war will come to an end during that year and there will be another twenty years when the real one breaks out and 1960 with the yellow heart breaking in and taking charge of all of Europe except England and all of this hemisphere except the United States.

H.M.Jr: I didn't.....

W: With England and the United States almost completely isolated. I thought -- wondered if you had ever heard that story.

H.M.Jr: No, this is the first time.

W: Well, I -- I thought possibly you knew more of it than I did and I.....

H.M.Jr: No.

W:-- I wouldn't have mentioned it except for the fact that I mistook it for another reference that the President made to you that he probably told you about it long ago.

H.M.Jr: No, he must have had me mixed up with somebody else. Well, I'll see you most likely at Hull's office at ten o'clock.

W: All right, Henry.

H.M.Jr: Goodbye.

April 13, 1940
9:40 a.m.

H.M.Jr: Hello.

Operator: Mr. Crane won't be in his office today. Do you want me to try his residence?

H.M.Jr: Yes, it's important.

O: Right.

9:54 a.m.

H.M.Jr: Hello.

O: Yes, sir.

H.M.Jr: I just wanted to hear if this loudspeaker is all right.

O: All right.

H.M.Jr: Yes, it's all right now.

O: All right, thank you.

9:55 a.m.

H.M.Jr: Hello.

Jay
Crane: Hello, Mr. Secretary.

H.M.Jr: How are you?

C: How are you? Fine as silk.

H.M.Jr: Are you really well?

C: Sure.

H.M.Jr: Look, the reason I'm calling you is this. I wondered if you could come down here to Washington and help us set up this exchange control for Denmark and Norway?

C: Sure. When -- when would you want me?

H.M.Jr: Before I say yes. You're not particularly involved, your company, with those two countries. Are you?

C: Well, we have -- we have companies over in both countries, Mr. Secretary, and we have a good deal of business with both countries.

H.M.Jr: You do? Well.....

C: I don't what -- how do you mean, "involved with them"?

H.M.Jr: Well, I meant this way, you, for instance, haven't -- you're not pending any question of changing of flags or -- any of your tankers under Norway or Danish flags?

C: Yes, we're pretty much involved in that question.

H.M.Jr: You are?

C: For instance, we've got two Danish tankers that have just come in to St. Thomas that they're -- I don't know, there's some question about changing the flags and we -- we charter a lot of Norwegian ships so that we're -- we're involved in the shipping end of it all right.

H.M.Jr: Well look, supposing you're here bright and early Monday morning, will you?

C: Yeah.

H.M.Jr: And bring a bag with you.

C: Right.

H.M.Jr: And supposing you stay here and see if Danny Bell has got this.

C: Yeah.

H.M.Jr: We're all sunk and we need somebody who knows the tricks.

C: Have you got -- is there a lot of -- I mean, are you getting a lot of applications?

- 3 -

H.M.Jr: Yeah.

C: Oh, you are?

H.M.Jr: Oh, a great many.

C: I read in the paper this morning something that said you didn't have many.

H.M.Jr: Oh, we're sunk.

C: Huh?

H.M.Jr: We're sunk; we're flooded. And we want somebody that we know and have confidence in and who knows this business. The main thing would be to smell out the illegal things, you see?

C: Sure.

H.M.Jr: The legal things -- I mean, your company, the legal things O.K., but it's the illegal ones that we want somebody who's got a good nose.

C: Sure, I see.

H.M.Jr: See?

C: Yeah.

H.M.Jr: And to help us to set up the machinery. Have you got any fellow in your own organization that's particularly good on this foreign exchange?

C: Sure.

H.M.Jr: Well, bring him along with you.

C: Yeah. All right. I've got two or three fellows - one man in particular who has had a great deal of experience in these transactions and whose -- of course he's more or less of the clerical type but yet he knows the stuff. Is that what you want?

H.M.Jr: Yeah. That's it definitely. Now, we've just got -- the Clearing House in New York were laying off two or three men and Randolph Burgess got us three of their best men.

- 4 -

C: Yeah.

H.M.Jr: But we want somebody who knows the technical business of foreign exchange and who can smell a phony when he -- when it comes across our desk.

C: Sure, you want a fellow who has had a lot of experience in that and who would be able to smell those things out.

H.M.Jr: Yes, and who knows the foreign exchange business and if Dr. Schacht is sitting over on the other side trying to plot how to get some of this money that we have somebody smart enough to recognize it. Now, I've got.....

C: We'll have to keep our eyes open if.....

H.M.Jr: Well, that's why.....

C:we want to catch Schacht.

H.M.Jr: Well, that's why I'm calling you.

C: All right. You want me Monday morning.

H.M.Jr: Nine o'clock.

C: At your office.

H.M.Jr: My office and then -- bring down with you any technicians that you've got there.

C: Yeah, well I've got a very good details man who is a nice fellow and who knows the business very well. I think he's a nice -- I think you'd like him and I think he'd get along well and he's very competent.

H.M.Jr: And he might stay on, maybe, a little bit longer.

C: Sure. All right, I'll bring him.

H.M.Jr: Well both of you bring an extra toothbrush.

C: Sure. O. K.

H.M.Jr: And if you'll come directly to my office.

- 5 -

C: Right. I'll be glad to.

H.M.Jr: Swell.

C: O. K.

H.M.Jr: Thank you.

C: Goodbye.

CONFERENCE AT SECRETARY HULL'S OFFICE
10 A.M., APRIL 15, 1940

Re: Rate of exchange for sterling for custom uses.

There were present: from the State Department - Secretary Hull, Assistant Secretary Grady, Pierrepont Moffat, James C. Dunn, Herbert Feis and Green Hackworth; from the Treasury - Secretary Morgenthau, Basil Harris, Edward H. Foley, Harry White and William R. Johnson; from Agriculture - Secretary Wallace and Dr. Fred Thomsen; from Justice - Attorney General Jackson; and from the Federal Reserve Board - Mr. Morse.

Secretary Morgenthau stated that he had been advised by his General Counsel that it was his duty under the law, since the Federal Reserve Bank of New York was certifying more than one rate of exchange, to issue instructions as to the specific rate to be used by Customs officers in converting British sterling into United States dollars for the purpose of assessing Customs duties. Before doing so, however, he desired to give the departments and agencies interested an opportunity to express their views. The attached memorandum from Mr. Foley setting forth the Treasury's position was distributed to those present at the meeting.

Secretary Wallace discussed the bearing of the rate situation upon the dollar prices of our exports to Great Britain indicating particular concern about the price of cotton. It was his conclusion that under existing circumstances the use of the official rate would be favorable to our export trade, although his latest consideration of the matter had led him to believe that at this time the dual rate situation in sterling exchange has no great economic significance with respect to agricultural exports.

Secretary Hull felt that the most desirable decision would be one which would promote stability in our trade. He indicated some concern that the Treasury might take a position which would remove opportunities for future trade bargaining with the British. On this he was reassured when Secretary Morgenthau and the Attorney General explained that the instructions to be issued at this time would not foreclose a reexamination of the matter in the future if changed circumstances warranted such action. The Attorney General explained, however, that action must be taken at this time and that the use of the single "official" rate is the only prudent action which can now be taken since it protects the revenue should our action be upset in the courts.

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Mr. Feis expressed the view that the decision made at this time might have important bearings on the question of the possible future imposition of countervailing and dumping duties and that it was important to be cautious about taking any position which would unnecessarily create increased barriers to British exports to the United States. Mr. Foley pointed out that the question of countervailing and dumping duties was one that would exist in any case by virtue of the existence of more than one rate and therefore it was a question which, in a sense, lay outside of the immediate decision with which the Treasury was confronted. Mr. Feis also stated that the more difficulties were placed on the part of the imports from Great Britain to the United States to be paid for at a rate other than the official rate, the greater likelihood there was that foreign balances owned by Americans and other claims on British funds arising from non-commercial transactions would be frozen.

Dr. Grady, while expressly refraining from any consideration of the legal aspects of the matter, suggested that the action should be taken with full awareness that our policy should be one of leaving as many opportunities as possible to the British to acquire dollar exchange which can be used for the purchase of American goods for export to Britain.

Secretary Morgenthau asked Secretaries Hull and Wallace and the Attorney General whether, in the light of the discussion and the situation confronting the Treasury, they would approve of the Treasury's proposal to issue instructions to collectors to use the official rate in the assessment of estimated duties, appraisal of merchandise and final liquidation of duties with the understanding that by so doing the Treasury was not tying its hands with respect to reexamination of the situation should future circumstances warrant it. He stated that he desired their clearance in order that he might advise the President of their positions. The three indicated their agreement but Secretary Wallace suggested that the Secretary might make it particularly clear to the President and in any press announcement that the present instructions would be subject to reexamination with possibly a different result if the British employed the dual rate in such a manner as to effect adversely American interests.

Secretary Hull stated that he was in agreement with the step which the Treasury was about to take with the understanding that the whole problem would be reexamined by the appropriate departments in the light of circumstances which may arise adverse to American interests.

Secretary Morgenthau suggested that the Interdepartmental Committee on Commercial Policy, of which Mr. Grady was Chairman, might well have as part of their agenda a continuing consideration of the effect of the dual rate situation.

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At the close of the meeting the representatives of the Treasury and State Departments remained. Pierrepont Moffat raised the question of the application of the Executive Order imposing foreign exchange control on property of Norway and Denmark and their nationals to Iceland. Mr. Foley said that the matter depended upon the relations between Iceland and Denmark and that these were for determination by the State Department. Secretary Morgenthau said if the State Department would advise the Treasury Department that Iceland is not a part of or possession of Denmark, he would construe the Order as not applying to Iceland or its nationals. Mr. Moffat indicated that such a determination would be communicated to the Treasury Department and Secretary Morgenthau replied that the Treasury would take any appropriate action immediately.

HDW

9.10.74.

TELEGRAM SENT

JR

GRAY

April 15, 1940

9 p.m.

EMBASSY

LONDON

GSO.

From Treasury for Butterworth.

The following text is for your information.

"General Ruling No. 1 under Executive Order No. 8389, April 10, 1940, and Regulations issued pursuant thereto, relating to transactions in foreign exchange, etc.

The Secretary of State has advised me as follows:

"Denmark and Iceland are two separate political entities. Acting under the authority of a provision of the Icelandic Constitution the Icelandic Parliament has within the past few days passed a resolution stating that since the King of Iceland is not now in a position to carry out his Constitutional duties with respect to Iceland, the Icelandic Government has assumed for the time being the exercise of the Royal prerogatives and the entire control of Icelandic foreign relations.

"In view of the foregoing it would not appear that Iceland falls within the definition of the term 'Denmark' in Section 11 of the above-mentioned Executive Order."

In view of the foregoing, the Treasury Department construes the term "Denmark" as used in the above-mentioned Executive Order and Regulations as not applying to Iceland. Dated April 15, 1940. Signed E. Morgenthau, Jr., Secretary of the Treasury."

HULL
(PL)

NOTE TO AMERICAN EMBASSY, PARIS

230 From Treasury for Matthews.

(Confidential)

PARAPHRASE

A telegram of April 15, 1940, from the American Consul at Rangoon reads substantially as follows:

On the night of April 12, fire and explosion destroyed one of two ammunition dumps located twenty-four miles north of the Burma border at Chefang, China. It is reported that the dump contained war materials to the extent of several thousand tons. Rumors are to the effect that the dump was deliberately destroyed, time bombs possibly being used. A man who was at Chefang when the explosion occurred does not credit reports that the explosion was caused by a Japanese air raid. He says that he did not hear or see airplanes. It is reported that seventy or more persons were killed. Dr. Hiram Bush of the United States Public Health Service is safe. He was not at Chefang at the time of the explosion.

FRENCH STEEL PURCHASES IN THE UNITED STATES

194

approx 4/12/40

	Sept. 1, 1939 to Feb. 29, 1940	March 1940	Total Sept. 1, 1939 to March 31, 1940.
<u>Semi-finished steel</u>			
<u>Round bars for cannon tubes</u>			
Orders		9.000 t.	
Deliveries		none	
<u>Round bars for shell bodies</u>			
Orders		13.000 t.	
Deliveries		none	
<u>Steel sheets and plates</u>			
Orders		46.000 t.	
Deliveries		none	
<u>Special steels</u>			
<u>Steel S.A.E. 4140</u>			
Orders	3.000 t.		
Deliveries	303 t.	667 t.	970 t.
<u>Cobaltchromium steel</u>			
Order	200 kgs		
Deliveries	200 kgs		

Total all steel:			
orders:	3.000.2 t.	68.000 t.	71.000,2 t.
deliveries	303.2 t.	667 t.	970.2 t.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 15, 1940.

TO Secretary Morgenthau
FROM Mr. White *WOW*

There is attached a list of memoranda and reports prepared in the Division of Monetary Research during February and March, 1940.

Memoranda Prepared in the Division of Monetary Research
during February and March, 1940

Foreign Economic Developments.
Second foreign business letter.

New Italian exchange subsidies.

Latin America and the gold problem.

Answers to Inter-American Bank questionnaire.

Agenda for Treasury Gold and Silver Conference.

Depletion of gold holdings in foreign countries.

Safeguards that can be taken by the Treasury against the purchase of ineligible silver at 71.11 cents per ounce.

The probable effects of the Treasury's discontinuing the purchase of foreign silver or of lowering its buying price.

Industrial diamonds.

Re-exports of quartz crystals.

Memorandum to the President with respect to exports from the United States to Soviet Russia.

Prospects of continuing inflow of gold into the United States.

Significance of the gold policy of the Scandinavian countries during the last war.

Colombia's estimate of loan needed for Exchange Stabilization.

Foreign trade of the United States during the first five months of the war.

North China Puppet currency and Treasury administration of Customs matters, and action required of us concerning this matter.

Revocation of countervailing duties on Italian woven fabrics of silk.

Aviation gasoline exports.

Effect of Allied purchases of \$1 billion of airplanes on the American economy.

Memorandum for the President (transmitting reply to Mr. George W. T. Beck's letter).

Soviet gold production and gold holdings.

Shipment of molybdenum to Russia and to Italy.

On Senator Vandenberg's Bill creating a Foreign Trade Board.

The Swedish Riksbank gold embargo, 1916-1924.

Re-exports of rubber and tin.

Exports of copper to Italy.

Can the Pan-American Union finance an Inter-American Treasury quarterly?

Can Italy barter her way to an improved position in Latin America?

Cuba: Public Finance, exchange stabilization fund, banking situation, trade, and political situation.

Report on Latin American situation.

Proposed Iron and Steel Development in Brazil.

Effect of war in Europe upon our exports of agricultural products (except cotton).

Estimated Impact of Foreign Transactions on Domestic Business Activity During the Next Six Months.

Foreign Economic Developments.
Third foreign business letter.

Participation by the United States in Finland's Reconstruction Program.

The Political Situation in Finland.

The Economic Position of Finland.

Domestic Exports of Molybdenum.

Analysis of Estimates by Standard Statistics of the Foreign Exchange Resources of the Allied Powers.

Elimination of part of handkerchief concession from trade agreement with Switzerland.

Bonuses to English Woolen Exporters.

Mine production of gold and silver in the Philippine Islands and U. S. Mint Receipts of Gold and Silver from the Philippine Islands 1933-39.

Withdrawal of silver coins from circulation in Greece.

Changes in the Monetary Use of Silver in Foreign Countries since 1933.

Tables on silver for Hearings before the Senate Committee on Banking and Currency March 19.

Business Outlook.

Trend of French Finance.

Economic Position of Italy.

Representative Thomas A. Jenkins' statement re U. S. purchase of Russian gold.

Press report on Damage in Finland.

Recent developments in the Finnish situation.

Weekly Reports on Latin America.

Desirability of more publicity on the Latin American bond situation.

Silver in Latin America. Can the Inter-American Bank increase the monetary use of silver in L.A.?

Comment on "Declaration of Principles Relating to the Conduct of American Industry".

Rebellion in Bolivia.

Feasibility of a Program of Foreign Lending.

The Mexican Situation.

Net Imports of Silver into the U. S. and Treasury purchases since 1933.

Re-publication in Federal Reserve Bulletin of statistics of capital movements.

Regarding silver prepared for Hearings on silver before Senate Committee on Banking and Currency March 19.

Re information available on British liquidation of securities, inquiry by Mr. Rozill of New York Federal Reserve Bank.

The British Government requisition of British ships and U. S. exports of cotton to the U. K.

Regarding new system of "exchange adjustment" granting a 20% subsidy to Italian exporters of specified commodities.

The Proposed Draft Bill for Emergency Restriction of Imports.

More New Italian Subsidies.

Dumping Cases Completed

Photographic tripods, lenses, visual exposure meters, slide projectors, enlargers, and baryta coated paper from Germany.

Berkefeld Filters from Germany.

Crown Sheet Glass and Crown Bullions; Rolled Glass; and Sheet or Rolled Glass, Bent, Beveled, Colored or Ornamented from the U. K.

Barium nitrate from Germany.

Glass Perfume Bottles from Japan.

Offset Type Duplicating Machines from Germany.

Mangrove extract and Quebracho-Myrobalan extracts from England.

Acetate and viscose rayon cut fiber from Germany and Belgium.

Bio-shavings from Germany and Belgium.

Memoranda in process but not yet completed:

Is there a danger of "inflation"?

Effect of continued gold inflow on interest rates and bank earnings.

Cost to the United States of gold acquisitions.

Significance of the fact that no important country has ever (i.e., in modern times) completely exhausted its gold stocks.

Consequences of continued increase in excess reserves.

Effect of reduction in the flow of gold on the earning power of the banks.

Effect of reduction in the flow of gold on our net barter-terms of trade.

Protection to our international competitive position.

Economic consequences of increasing the spread between the buying and selling of gold.

Restriction in the production of newly mined gold.

Segregation of monetary gold from non-monetary gold by international agreement.

Restriction of capital inflows and promotion of capital outflows.

A program of tariff over-all reductions to increase imports.

Imposition of embargo on exports of munitions to countries engaged in warfare.

Other measures to reduce the extent of our favorable balance of payments.

Discrimination in our purchases of gold.

Restoration of privilege of unrestricted convertibility of currency into gold, and the right to hold gold in coins, certificates, or bullion.

Utilization of some of the gold in the Stabilization Fund.

Proposal for increasing the amount of "free" gold available to the Treasury for various purposes.

Cessation of our policy to buy all gold that is offered at \$35 and to buy only certain kinds of gold.

Special tax on newly mined domestic gold.

Should we begin to plan now toward a reduction of newly mined gold after the war?

What steps shall the Treasury take if it appears that a war boom is imminent in the United States?

What adjustments, if any, should the United States make to her increasing creditor position arising from reduced foreign investments in the United States?

Should we be concerned with further downward movements in the Canadian dollar? In sterling?

Shall silver certificates be issued against any of the silver seigniorage?

Should any steps be taken by the Treasury to prepare for consideration of domestic silver purchase policy?

Can the use of monetary silver in foreign countries be increased through the instrumentality of the proposed inter-American bank?

Can the Treasury initiate any program designed to increase the industrial use of silver?

Current reports:

See report of February 1, 1940.

Correspondence:

172 letters replied to.

April 15, 1940.
2:05 p.m.

H.M.Jr: Anything new on Glenn Martin?
Louis Johnson: Glenn Martin has signed up at Wright Field on what is to be done, and his man will be here at three o'clock to sign this formal agreement.

H.M.Jr: Well I can wait.

J: I'll call you then. I'm sure that it's going to be all right and I'll call you at that time. Now, let me tell you about something else.

H.M.Jr: Go ahead.

J: Your Dow Jones ticker of last week.

H.M.Jr: Oh yes.

J: Seems to have originated with Mr. Montee.

H.M.Jr: Who?

J: M-o-n-t-e-e -- State Department. We trailed it along and this morning I talked with the UP man, Montee is State UP, and a Mr. - it's either Ballantyne or Valentine, I'm not sure which, I have it both ways.

H.M.Jr: Ballantyne.

J: Who is secretary here for the Allied Purchasing Commission.

H.M.Jr: Ballantyne, with a B.

J: All right. He's the fellow that talked, and UP told me that they cut down his story considerably over what he said.

H.M.Jr: Well I'll be damned.

J: Now I don't think it's anybody in the Army. Now, I'll go further with it if you want but I'm sure it isn't here, and that Ballantyne didn't know he was going to be quoted.

H.M.Jr: I'll be damned.

J: He didn't talk to Montee, he talked to another fellow

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and the fellow that he did talk to, I have, since twelve o'clock, talked with myself, and when I opened up on the theory that I knew all about it and said that Ballantyne was quite mad with me, this fellow just assumed I knew it all and went into it and told me what he said.

- H.M.Jr: Well, you sound like a columnist yourself.
- J: No, but I wanted you to know that it wasn't here.
- H.M.Jr: Well they certainly wrote it as though it came out of your department.
- J: Sure he did, he wanted it to have that effect, so as to clear his source.
- H.M.Jr: Well I'll be darned. Well, I'm glad to know that.
- J: Well, that's the history of it. Now as soon as we release the Martin - after I've talked with you, I'm going to tell our news boys we've done it to keep any bad publicity from going out.
- H.M.Jr: That's right. Now, while I've got you, you told me the Douglas was released without any cost. Now on my sheet there are two different Douglas', there's a Douglas A-20.
- J: That's the one we're talking about.
- H.M.Jr: Well, what about the Douglas so-called D-B-7-B, Douglas attack bomber?
- J: Well, Mr. Secretary, that was already released.
- H.M.Jr: Oh! Oh!
- J: That's that 7-B isn't it?
- H.M.Jr: 7-B.
- J: That was already released.
- H.M.Jr: All right.
- J: So this covers both of them.
- H.M.Jr: Well that - the point is it covers both of them.

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J: That's right.

H.M.Jr: Now let me - I just got my list in front of me. Now - you've given me the answer on Martin. Now, what else does that leave? You've released -

J: It leaves -

H.M.Jr: Lockheed. Does that release - does that price you gave me on Lockheed, is that Lockheed interceptor and the Lockheed 37 as well?

J: Yes, that covers Lockheed.

H.M.Jr: You mean both?

J: Yes.

H.M.Jr: We both - the so-called Lockheed interceptor and the Lockheed 37.

J: That's right sir. Well what they were - what we were talking about there -

H.M.Jr: Let me read my list that I have, which they gave me, and then you check it you see.

J: Wait a minute. Let me get my note out of the drawer, here.

H.M.Jr: (aside) Suppose we could do that.

J: All right, go ahead.

H.M.Jr: Just one second, Bell came in.

J: All right.

H.M.Jr: (aside) Will you take care of it - Thanks Dan.

O.K. Hello.

J: Yes.

H.M.Jr: Now, on my list, the so-called fighters, there was a Curtiss P-40.

J: Check.

H.M.Jr: And/^{the} improved Curtiss. Whatever that is, I don't know.

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J: 40-D.

H.M.Jr: Yes. And the Bell P-39.

J: Check.

H.M.Jr: And the Lockheed interceptor. Now those were the fighters.

J: That's Lockheed P-38.

H.M.Jr: Now that's - those are all clear.

J: That's right.

H.M.Jr: And the next on my list comes Glenn Martin, which I'll hear from you later.

J: A little after three.

H.M.Jr: And the Douglas attack bomber 7-B.

J: Well, that's all right, we'll call it a 7-B, because the next one is the attack bomber really.

H.M.Jr: A-20. Those two they get without cost.

J: That's right.

H.M.Jr: A Lockheed 37, that's been released.

J: Well, I don't know about that number, it's a Lockheed-Hudson I have here, and I think that's the number, it is the number, yes, Lockheed-Hudson.

H.M.Jr: Right.

J: Yes.

H.M.Jr: So there's nothing with Lockheed - well, you know they've got Lockheed interceptor, I guess that's Lockheed -

J: P-38.

H.M.Jr: Yes, that's down for eight hundred.

J: That's right. That's the P-38.

H.M.Jr: And the Lockheed 37 is four hundred.

J: Yes. Now let me tell you -

H.M.Jr: But both of those now are released on what I told him, is that right?

J: That's correct.

H.M.Jr: So it really gets down to Glenn Martin.

J: Well Glenn Martin has signed up on the same basis I told you Saturday, except the final paper, which they'll be here at three o'clock to sign.

H.M.Jr: Well, I'll wait for that.

J: Now that leaves us Consolidated -

H.M.Jr: Yes.

J: On the four engine bomber and they come in tomorrow morning.

H.M.Jr: Really - just leaves Consolidated.

J: Consolidated and Boeing.

H.M.Jr: And Boeing, and they haven't yet made up their minds on the dive bomber.

J: Yes. Now they're conducting some negotiations that you didn't mention with Republic.

H.M.Jr: I didn't know about them.

J: And they're coming in here to see us tomorrow morning, we don't know just what it's all about.

H.M.Jr: Well, I'll ask them. Well, when you tell me that Martin is released, I'll tell them I hear you're negotiating with Republic, what is there to it.

J: That'd be fine, then we'd know how to talk to this fellow when he comes in in the morning.

H.M.Jr: I'll let you know before that.

J: I'll call you on the White House wire a few minutes after three.

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H.M.Jr: O.K.

J; All right. Goodbye.



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

April 15, 1940

MEMORANDUM FOR THE SECRETARY

General Brett informed me this afternoon that the Douglas Aircraft Company had signed the preliminary agreement and that he understood they were to deal with the French and British today. As they had made a voluntary reduction of some \$1,700,000 on a prior contract, there was no development expense allocated to them to be amortized over the Anglo-French contract.

He also informed me that he had just received a teletype from Wright Field and that the representatives of the Martin Company were there and had signed the informal agreement; that there had been allocated to them approximately \$800,000 to be amortized over the Anglo-French contract.

H. G. Fuller

THE WHITE HOUSE
WASHINGTON

April 15, 1940

MEMORANDUM FOR ASSISTANT SECRETARY JOHNSON

I have received your memorandum of April 8, 1940, concerning the proposed construction in the United States and Canada of additional facilities for the manufacture of nitrocellulose smokeless powder. It is noted in the letter of the Hercules Powder Company that the construction of a plant in Canada under the conditions mentioned would increase employment in this country of engineers, draftsmen, clerks, etc., and it therefore appears that such construction would result beneficially to the United States.

It is realized that the construction with foreign capital of additions to both the Hercules Company and the DuPont Company would aid in our national defense, but even if plants are not constructed in this country, the one proposed to be built in Canada would, as is indicated in the letter forwarded with your memorandum, increase employment in the United States although the extent thereof is not indicated.

It is assumed that should the company interested desire to undertake the construction of the Canadian plant, such action will in no way interfere with production schedules in which the military departments of our Government may be concerned.



CONFIDENTIAL

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

April 3, 1940.

MEMORANDUM FOR THE PRESIDENT:

1. I am informed that the British and French Purchasing Commissions are now negotiating with the Hercules and Dupont Companies for the construction in the United States of additional smokeless powder facilities with an annual capacity of 65,000,000 pounds of powder and the operation of such facilities. The construction cost would approximate \$25,000,000 and the operating cost would approximate \$30,000,000 per year.

2. I am also informed that for some time the Canadian War Supply Board has been planning on the creation and operation in Canada of similar capacity to the extent of 24,000,000 pounds per year. The construction cost would approximate \$10,000,000 and the yearly operating cost \$12,000,000. If the plant were created and operated in Canada in accordance with American designs, the United States would benefit appreciably from the business and technical standpoints.

3. Representatives of this Board have approached officials of both the Hercules and Dupont Companies for technical assistance in planning, constructing and operating such capacity. Representatives of these companies have in turn consulted informally with officers of the State and War Departments to ascertain whether such assistance would conform to Governmental policy.

4. In as much as smokeless powder is definitely one of the most essential materials in warfare and furthermore since present domestic capacity to produce is relatively small and the time required to increase capacity is relatively long, the representatives of our Government have stated that they would see the facilities built in the United States and felt that reasonable effort should be made to accomplish this. It is pointed out that there is no restriction of export of the proposed action. The officers of our Government have given their opinion as an informal one only and do not represent the attitude of the Government. The information obtained through a formal report.

5. Influenced in large part by such informal opinion, it is understood the Dupont Company declined to participate in the construction and operation of a plant in Canada. It is also understood that the Hercules Company will not participate unless this Government approves of such action.

6. It would seem that the sound compromise to this problem is about as follows: If and when the British and French Purchasing Commissions place firm and substantial orders requiring additional smokeless powder capacity in the United States, then inasmuch as both the Dupont and Hercules Powder Companies or any others involved that there is no objection to their participation with Canadian companies in the creation and operation of powder plants in Canada.

(signed) LOUIS JOHNSON

Louis Johnson,
The Assistant Secretary of War.

1 Incl.

Copy of Ltr from
Hercules Company

HERCULES POWDER COMPANY
Incorporated

Wilmington, Delaware

Analysis Department

April 5, 1940

Mr. James H. Burns
Office of the Secretary of War
Munitions Building
Washington, D. C.

Dear Sir:

We have been requested by the British and French purchasing commissions to make a proposal to them to construct facilities with an annual capacity of 65,000,000 pounds and manufacture Nitrocellulose Smokeless Powder for them in that amount. A project of this magnitude will require an investment more or less of \$25,000,000.00 and probably take nine months to build. Preliminary discussions have been held with the representatives of the above commissions during the past month and negotiations are in progress which we hope will lead to a satisfactory termination, bringing about the establishment of this additional capacity in the United States.

In addition to the above, we were approached on March 11, 1940 by Mr. J. B. Donald, Director of Explosives Division, Canadian War Supply Board, with the request that we undertake engineering and construction near Montreal, Canada, of facilities with which they could manufacture 20,000 tons per year of Nitrocellulose Smokeless Cannon Powder, together with the facilities for the production of the required amount of Nitrocellulose. They advised that they would provide through other sources all of the acid and power facilities required. We agreed to give consideration to this request and advise them at a later date whether or not we had an interest.

On the following day we called on Mr. Joseph C. Green, in the Office of the Secretary of State, and were advised by him that as a matter of policy our Government preferred to see these facilities built in the United States and recommended that we put forth every effort to see if this could be accomplished. From our recent conference we understand that this would also have been your attitude in the matter.

We have been definitely advised that the facilities will not be built by the Canadian War Supply Board in the United States, and that if assistance is not available from the United States it will become necessary for them to secure the help required in Europe. We so reported to Mr. Green and he suggested that we discuss the matter with you, which resulted in our conversations of April 2.

It is estimated that the equipment for this project will cost in the neighborhood of \$4,000,000.00, a large proportion of which would logically be secured in the United States provided the engineering and design of the plant followed American practice, whereas it is reasonable to assume that the major part of these same expenditures would probably be made in Europe if European designs were used. In addition to these expenditures this work will increase employment by us in this country of engineers, draftsmen, clerks, etc., and any profit secured from our engineering fee will constitute taxable income here.

The office engineering and design of this plant can be carried out concurrently with the engineering and design of the facilities required for the British and French purchasing commissions first mentioned. The skilled technical personnel required to carry out this project will not impair the efficiency of our present operations or our ability to undertake similar projects here for our own Government should the necessity arise, or for the British and French purchasing commissions should we successfully complete negotiations now underway.

No confidential designs, technique, or information within the authority of or of importance to the War Department will be involved in either of the above projects.

Will you please advise whether under the conditions set forth you would consider withdrawing your objection to our undertaking this assignment.

Very truly yours,

(Signed) W. R. Ellis

GENERAL MANAGER.

WRELLIS:mhf

April 15, 1940.
4:44 p.m.

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H.M.Jr: Hello.

Operator: Mr. Johnson. Go ahead.

H.M.Jr: Hello.

Louis Johnson: Mr. Secretary?

H.M.Jr: Yes.

J: Martin's clear on the F-4.

H.M.Jr: Martin's clear.

J: The cost is eight hundred and fifty thousand dollars.

H.M.Jr: Eight hundred and fifty.

J: That's right. It goes, all of it, into the improvement of our present order.

H.M.Jr: On the - what do you call it, B-26.

J: No, ours is the B-26.

H.M.Jr: Yes.

J: They don't want that, we're getting the F-4 which is a light bomber.

H.M.Jr: I see.

J: The B-26 is a medium, almost a heavy bomber, they don't want that.

H.M.Jr: How many of those are you getting?

J: How many are we getting?

H.M.Jr: Yes.

J: We got two hundred and one.

H.M.Jr: What are you going to make, quite a few changes?

J: Yes sir.

H.M.Jr: I see.

- 2 -

- J: And in addition to that, they figure those changes will cost four thousand dollars a plane.
- H.M.Jr: Four thousand a plane.
- J: That makes eight hundred and four thousand.
- H.M.Jr: I see.
- J: In addition to that they're giving us one of the latest type of the French planes they're building. That would be these changes on the P-4 as improved.
- H.M.Jr: I see. That's where you get the eight fifty.
- J: That's where we get the eight fifty.
- H.M.Jr: Oh you're taking one of the French planes and testing it, is that it?
- J: That's right.
- H.M.Jr: I see.
- J: In order to try out all of the improvements they've put on these planes. It'll be along toward the last of the orders so that all the stuff the French put on, except their secret stuff.
- H.M.Jr: I see.
- J: We'll have the benefit of.
- H.M.Jr: With the exception of these bombers, there doesn't leave much does it.
- J: No, it doesn't leave anything except your dive bombers and your four engine bombers.
- H.M.Jr: Well you're not going to come anywhere near your seven million are you?
- J: Well, there'll be something in the propeller situation.
- H.M.Jr: Oh!
- J: No, we're going to be under the seven million because you don't have any item in there for Douglas. We were figuring Douglas, and I think I explained that to you,

- 3 -

they don't have to pay for it because before this happened I got a million eight hundred and sixty thousand out of Douglas because

H.M.Jr: There will be something on propellers.

J: Yes.

H.M.Jr: But nothing on engines.

J: Checking engines start day after tomorrow.

H.M.Jr: Oh!

J: I don't know of anything there, there may be a little something, but it's not going to be much.

H.M.Jr: I see.

J: But that pretty much clears up your bomber list.

H.M.Jr: Yes. Well, I'll tell them that and I had my regular press conference. The boys wanted to know how all these things were divided up, see?

J: Yes.

H.M.Jr: I told them that that - to go over and see the Army, that I had no - that I wouldn't explain it. It was up to the Army to explain that if they wanted to.

J: Well, we won't say much more than they've printed.

H.M.Jr: Well I told them - they wanted to know the breakdown on all that. I said I'm sorry I couldn't tell them.

J: All right, fine. All I'm going to tell them is that we've released the - this Martin ship.

H.M.Jr: But they've got - in case they tell you that I in any way said how the money was divided up, I simply said that the Allies asked me to explain the Government policy which I did, they took it, said thank you, and they said, well, how's the breakdown. I said I'm very sorry gentlemen, I can't tell you anything else.

J: I see.

- 4 -

H.M.Jr: So don't let them tell you that I told them part and then get the rest out of you unless you want to give it to them.

J: We won't give them much more.

H.M.Jr: O.K.

J: All right. Thank you, Mr. Secretary.

H.M.Jr: And when I.....

J: Go ahead.

H.M.Jr: When I talked to him up there in New York, I'll ask him about Republic. Hello?

J: Yes. You have -- you're going to talk to him now?

H.M.Jr: Yes.

J: Will you let me know what he says?

H.M.Jr: If I get it.

J: All right, if you get it you'll call me.

H.M.Jr: Yes.

J: All right, thank you. Goodbye.

April 15, 1940.
5:05 p.m.

H.M.Jr: Hello.
Arthur
Purvis: Hello.

H.M.Jr: Mr. Purvis.

P: Oh, good afternoon.

H.M.Jr: How are you? Mr. Purvis, Mr. Johnson just called me.

P: Yes.

H.M.Jr: On Glenn Martin.

P: Yes.

H.M.Jr: They've signed the contract with him.

P: Oh yes.

H.M.Jr: And releasing the Martin bombers that you want.
Hello.

P: Yes, that's the bomber.

H.M.Jr: The bomber.

P: Yes.

H.M.Jr: And the cost to you will be eight hundred and fifty thousand dollars.

P: I see, thank you.

H.M.Jr: Now, the only other thing is left, is the Boeing and the Consolidated.

P: Yes.

H.M.Jr: And the dive bomber.

P: Yes.

H.M.Jr: Now for the first time he told me that there might be something, but he doesn't know, he said it wouldn't be very big, on either engines or propellers, but they don't know.

P: I see.

- 2 -

- H.M.Jr: But I haven't totaled it up what it comes to but - I haven't got my figures before me, but so far, do you know what totals include in the eight fifty?
- P: As far as I can see it must be of the order of one - about three million or less.
- H.M.Jr: That's - is it that much?
- P: Well, wait a minute. I have the figures here, just one second. It was seven hundred and thirty one to two million three hundred. Yes. It's about three million two hundred thousand at the present time, according to this.
- H.M.Jr: Well now, he doesn't know if there'll be anything on engines or propellers, but he never mentioned propellers to me before, but I'm mentioning it to you.
- P: Yes.
- H.M.Jr: But the outside figure still holds good.
- P: It does, yes.
- H.M.Jr: Oh yes, there's no change on that.
- P: No. And the Boeing and Consolidated dive bomber is still to come through.
- H.M.Jr: Yes.
- P: And they don't know what kind of a dive bomber you want.
- H.M.Jr: No.
- P: How would it be best, would it be best for Jacquin and Baker to sort of talk with somebody in the War Department who would be able to talk with them on the subject and gradually elucidate that.
- H.M.Jr: They ought to see General Arnold.
- P: General Arnold.
- H.M.Jr: Yes.
- P: But it will be all right for me to tell them that, would it?

- 3 -

H.M.Jr: Definitely. Now, one moment please. Mr. Johnson asked me to ask you this question. He's heard that you have been doing some negotiations with Republic.

P: With Republic.

H.M.Jr: Yes.

P: I don't know that that is so, but I can check.

H.M.Jr: Would you check, because he'd like to know the first thing tomorrow morning if you are doing anything. I told him I knew nothing about it.

P: That's new to me but on the other hand Self and Plevin are doing the actual detail negotiations, I'd have to check to be sure.

H.M.Jr: Well, if you could let me know in the morning if there is anything to it.

P: I will.

H.M.Jr: Thank you.

P: Mr. Secretary, would there be any chance of my seeing you, say on Thursday?

H.M.Jr: Oh yes, and I -

P:

H.M.Jr: And I had an opportunity today to tell the press.

P: Oh good.

H.M.Jr: That you people asked what the Government policy was and I told it to you and you said thank you.

P: That's exactly right, yes.

H.M.Jr: And that's all that happened.

P: I mean they certainly gave a very poor impression of the kind of talk that we've had so far. In that original press thing they gave a very poor impression of the kind of interview that we've had so far.

H.M.Jr: They certainly did.

P: (laughs)

- 4 -

H.M.Jr: Now, I'll tell you what you do. You want to see me Thursday.

P: Well I tell you, tomorrow, we're going to have a talk - Gwatin and Rist are here, and that's why I'm suggesting postponing it, otherwise I'd like to have seen you earlier, but we will go to and see the Climax people tomorrow in order to talk over in more detail with them the possibility of doing what they wanted.

H.M.Jr: Yes.

P: In detail we've already given them an assurance in principle and I thought of having a talk with the Canadian people, get more of an informative nature than anything else, unless you see any objection.

H.M.Jr: No.

P: And also with one or two of the copper people, more for the - more with the idea, not of doing anything special, but of getting Ashton-Gwatin and Rist sort of familiar with the point of view in those two industries.

H.M.Jr: Yes. Would eleven o'clock Thursday be convenient?

P: Excellent.

H.M.Jr: I'll be delighted to see you.

P: Thank you so much sir.

H.M.Jr: All right.

P: All right, goodbye.

MEMORANDUM

April 15, 1940.

TO: Secretary Morgenthau
 FROM: Mr. Sullivan
 SUBJECT: Criticism of present provisions of Vinson-Trammell Act.

1. Four-year carry-over for deficiency in profit.

For manufacturers of aircraft the present Act provides for a 4-year carry-over not only of net losses but also of deficiency in profit. For a concern receiving repeat orders this practically guarantees a profit of 13.6% of cost because a manufacturer receiving less than the maximum allowed profit on one contract is allowed to make up the difference between his actual profit and the most allowed under the Act on any succeeding contract within the next 4 years. The lack of competition on most aircraft orders further tends under this provision to guarantee the maximum profit.

2. One-year carry-over of net losses on naval vessels.

In this instance the Navy has a justifiable complaint. We feel that no company in this highly specialized work should have to do business at a loss, but a carry-over of one year does not give them ample opportunity to make up net losses out of succeeding contracts. We believe 4 years would be a reasonable provision in this instance.

3. Inadequacy of present profit limitation provision.

At present this is a flat percentage of contract price. Where there is only one bidder he has an opportunity to increase his contract price and hence the percentage of profit he is allowed to retain.

4. Allowable profits on aircraft contracts too high.

The present Act provides for a profit of 12% of contract price (which equals 13.67% of cost). Since the rate was raised from 10% to 12% the aircraft companies have expanded their facilities with funds obtained from foreign purchasers. We believe a maximum profit of 10% of contract price (11.11% of cost) is a fair allowance. This would eliminate the difference in allowable profit on naval vessels and aircraft.

JLS

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany
via Brussels

DATE: April 15, 1940. RECEIVED: April 17.

NO.: 979

Reference is made to telegram of March 14, No. 641, from the Embassy. CONFIDENTIAL FROM HEATH. FOR THE TREASURY.

The active head of the Reichsbank, Puhl, has told me that Funk, Minister of Economics, has recovered from his long illness. Goering had delegated to Funk the settlement of the prolonged controversy between the proponents of extreme and moderate increases in taxation - reference, telegram of November 28, No. 2150, from the Embassy. Goering and the Ministry of Finance have accepted the recommendations made by Funk, and announcement will be made shortly. There will be a raise in taxes, but not the extreme increases which were demanded by Schwerin-Krosigk, the Minister of Finance, and Reinhardt, the State Secretary. Funk had characterized such extreme increases as "Bolshevistic" in that the formation of private capital would have been prevented.

Income tax rates will be substantially raised, and there will be a fundamental change in the assessment system. Under the present system there is a progressive levy which is based on the total net income. Under this system it frequently occurs that a slight increase in gross income

sufficient

- 2 -

sufficient to bring it into a higher rate bracket actually results in a smaller net income available to the individual after the higher taxes are paid. Progressive rates will be applied under the new system not to the whole of income but to slices of income lying between specified limits. There will also be a raise in the corporation tax, which will contain a special provision applying surtaxes to corporations which increase their dividends over the normal rates; Puhl said this is designed to prevent a boom on the stock exchange, and as a profiteering limit. The turnover tax will also be raised.

Puhl would not tell me how much the increase in rate in these taxes will be, nor would he estimate how much additional revenue the Government expected to receive. He would not venture a prophecy as to when a long term loan might be floated, but it was indicated that such a development (omission) shortly occur. It is not yet certain that there will be public advertisement of such an issue, considering the objections of the radical element of the Party to what is termed by them "interest slavery", and the unfortunate connotation experienced by war loans in view of the World War record. During the past six weeks Puhl said that Funk, without publicity, had been able to float a substantial amount of the new Government bonds, five years at 4 percent - see Embassy telegram referred to above.

- 3 -

above. This indicated that now was the time to issue the new loan, and eventually to convert all Government bonds to a 4 percent basis.

He said, with reference to the recent reduction to 3 1/2 percent of the discount rate of the Reichsbank, that one of the main reasons for doing so - aside from the fact that the rate of 4 percent was not in line with present reduced money market rates - was the fact that the cost of Government wartime financing would be reduced thereby. He remarked that this was a very useful argument for the Reichsbank to be in a position to use in its efforts to prevent the enactment of what it felt was the excessive taxation which the Ministry of Finance had proposed.

However, lowering the Reichsbank rate would not only affect interest rates on Government borrowing, but there would follow reduced rates of interest on commercial and savings bank deposits and loans; they had already begun discussions on this point. The Government would like to hold the present rate of interest on normal savings deposits of the public, for internal political reasons, and studies were still going on to see whether this could be accomplished. Puhl was of the opinion that it could not be avoided that the rates be reduced. He meant by normal savings deposits those individual accounts which are subject in theory to withdrawal only after giving notice of one month, but

which

- 4 -

which in practice are available to the depositor immediately. The savings banks he remarked had expanded the field of their operations to the point of competition with the commercial banks. The Reichsbank did not look on this as a satisfactory development. It thought that it might prove advisable, at some future time, to restrict their operations to the acceptance and the investment of bona fide individual savings.

Foreign press stories to the effect that compulsory savings in the form of savings certificates for a certain portion of wages would be instituted by the Government were denied by Puhl. Reference, telegram of January 17, No. 134, from the Embassy. Puhl asserted that compulsory savings legislation was not necessary and had not been given serious consideration, because of the rationing and price controls.

An indirect effect of the reduction of the discount rate of the Reichsbank would be the adjustment downwards of the interest paid on the standstill credits. Interest rates on frozen credits were not directly tied to the Reichsbank rate under the standstill agreement, he said, but standstill creditors were now getting something like one-eighth percent more than the normal internal rate, in view of the general decline in private money rates. He anticipated that he expected there would be a brisk argument on that point at the meeting in Rome on April 23 of the American

standstill

- 5 -

standstill creditors committee. He will attend that meeting.

I asked about the effect of a steady increase in currency circulation; he replied that "as yet" there was no danger of this. The problem of maintaining the mark's internal stability would be difficult but not insoluble, even if the war should come to an end within the next few months.

Puhl said in conclusion that studies were being carried on by the Reichsbank of the international financial and monetary problems that would come up after the war is over. However, it would be premature, he said, for him to mention any of the tentative conclusions and plans being worked up. The Reichsbank under Funk as Minister of Economics had however not changed its general policy of working toward eventual abolition of control of exchange. He and a great many others in the Reichsbank felt that in 1931 the institution of exchange control had been a mistake. The Government would not have taken such a decision had it been known that the pound was going off gold two months later, or if there had been any prospect of alleviation of the payments on reparations, which imposed on the Reichsbank the onerous task of going into the money market each month and buying foreign exchange to the equivalent of 130 million marks. When

exchange

- 6 -

exchange restrictions might have been relaxed at a later date, the government's policy had changed, and there was subordination of general economic considerations to a program of concentrating all available resources for rearmament and other special ends, and rigorous control of exchange was the only way to accomplish maximum achievement.

END OF MESSAGE.

KIRK.

EA:LWW

4/15/40

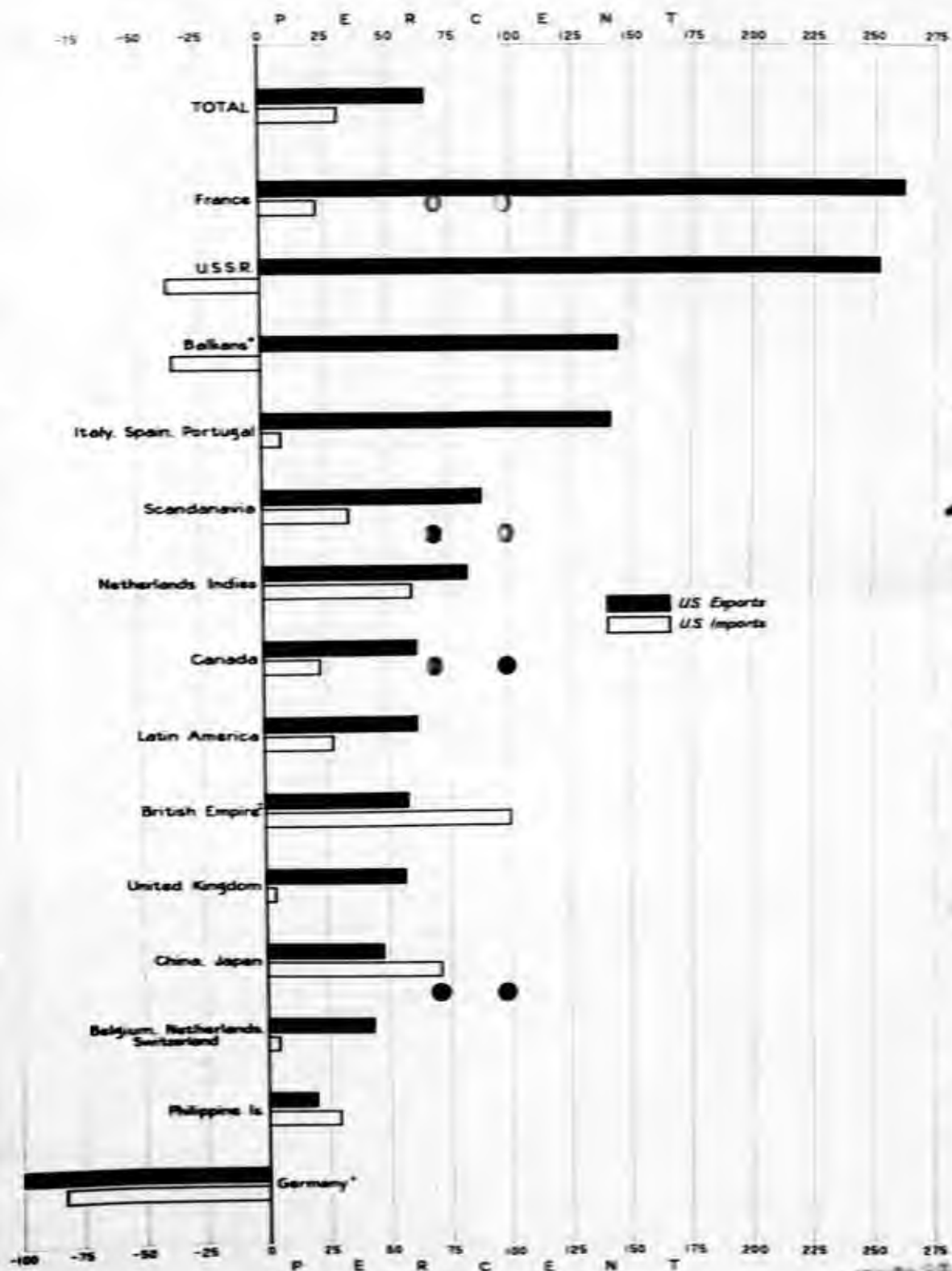
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Dr. White's office states that
no memo accompanied these charts.

PERCENTAGE CHANGE IN U.S. TRADE WITH VARIOUS AREAS OF THE WORLD

APR 15 1941

1st Two Months 1940 Compared with Same Period 1939

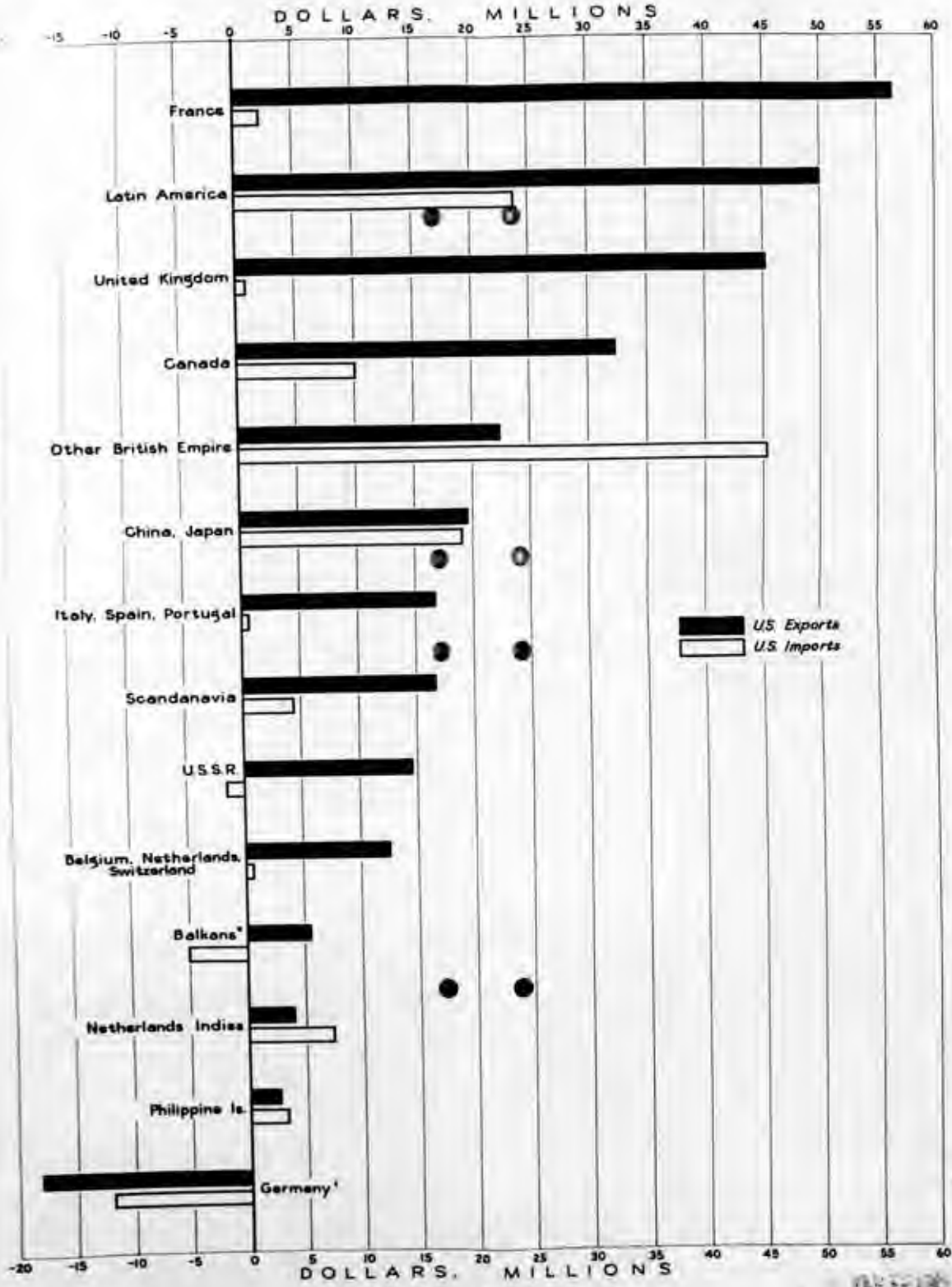


*Turkey, Bulgaria, Estonia, Greece, Yugoslavia, Turkey, Finland, Austria, Czechoslovakia, Poland and Norway for both years. *Other than U.S. and Canada.

APR 1940

CHANGES IN VALUE OF U.S. TRADE WITH VARIOUS AREAS OF THE WORLD

1st Two Months 1940 Compared with Same Period 1939



U.S. Exports
 U.S. Imports

*Hungary, Bulgaria, Rumania, Greece, Yugoslavia, Turkey
 †Includes Austria, Czechoslovakia, Poland, Danzig for both years

FROM: MR. GASTON'S OFFICE

TO: The Secretary

The Duane radiod at 11:18 (through Camper-down): "Craig (br. ship which sent SOS) no longer in distress. Shall we resume station."

The Duane was ~~directed~~ directed to resume weather station. *Seems plain the sub was not German.*



1:55 p.m.

April 15, 1940.

Commander Rose phoned at 1:43 that the following message has been received from the DUANE:

"Camperdown radio advises CRAIG no longer in distress. Details not obtainable. Shall DUANE continue full speed to position indicated or resume weather station. 151800 (11:18 A.M.)"

Admiral Covell sent the following message in reply:

"Your 151800 resume weather station."

A handwritten signature in dark ink, appearing to be 'M.A.', with a long horizontal stroke extending to the right.

4-15-40

FROM: MR. GASTON'S OFFICE

TO: The Secretary

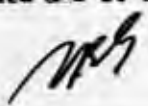
234

Re: Br. S.S. Craig

The Coast Guard has nothing direct from the Craig but picked up the two messages from Mackay Camperdown (N.S.) on which the ticker story is based.

The Duane, on weather patrol, is 120 miles from the reported position. After consultation with the Navy (OPNAV) C G headquarters has directed the Duane to investigate.

The Navy knows that there are British and French subs in the vicinity. It is quite possible one of them approached the Craig and the latter sent the SOS before being able to identify the sub, since it would be very dangerous to send such a message if the sub were close enough to be identified and it turned out to be German.



HSM

TELEGRAM SENT

GRAY

April 15, 1940

8 p. m.

AMERICAN LEGATION

STOCKHOLM

87.

Your 211, April 11, 8 p. m.

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

New Executive Order amends Executive Order No. 8560 of January 15, 1934, so as to prohibit, except as specifically authorized under regulations or licenses, transfers of credit between banking institutions, payments by banking institutions, transactions in foreign exchange, and export or withdrawal from United States or earmarking of gold or silver coin or bullion or currency, if any of foregoing involve property in which Norway or Denmark, or any national thereof, has at any time on or since April 8, 1940, had any interest of any nature whatsoever.

New Executive Order and regulations provide for filing of detailed reports concerning property interests in United States in which Norway or Denmark or any national thereof has at any time on or since April 8, 1940, had

any

hsm -2- No. 87, April 15, 8 p. m., to Stockholm

any interest of any nature whatsoever. Transactions subject to new Executive Order and Regulations may be permitted under licenses issued by Secretary of Treasury.

2. No neutrality proclamation or other formal action concerning the political status of Norway has yet been issued.

See also Department's 62, April 14, 3 p. m.

HULL
(S)

EA:FL:EB Eu

FC

PLAIN

London

Dated April 15, 1940

Rec'd 12:50 p.m.

Secretary of State,
Washington.

950, April 15.

FOR TREASURY FROM BUTTERWORTH.

The City has taken the vesting of the additional 117 American securities in its stride and the action has not even evoked any editorial comment in this morning's press. Such vesting orders have now been generally accepted by all concerned as inevitable events which will recur periodically. In advising the press correspondents last night about the action taken, the Bank of England was careful to emphasize the following points which are reflected in the stories in the TIMES and other newspapers:

"The second list of United States dollar securities which the treasury is proposing to acquire under the further vesting order published in another column is longer than that issued two months ago.....two other points of difference may be noted. Unlike the earlier list the second is by no means mainly confined to equity securities. Of the

117

FS 2-No. 950, April 15 from London

117 stocks cited, 28 are preferred or preference stocks and 25 are bonds, for the most part gold bonds. Nor is it made up mainly of the lesser known dollar issues..... There is no particular significance in these points of difference. Of necessity selection of the securities to be requisitioned no less than the date of acquisition is conditioned by a number of factors of which the augmenting of the supply of dollar funds in New York need not be the most important at any particular moment. Certainly it does not follow simply because a second order has been made now that all the stocks acquired by the treasury under the first order have already been sold. Less still, is it to be inferred merely because a longer list of stocks is now being called up that the whole of the dollar proceeds realized by any such sales have already been used up in purchases of United States war materials."

NPL

KENNEDY

TELEGRAM SENT

JR

GRV

April 15, 1940

10 p.m.

MEMBERSY

LONDON.

661.

FROM TREASURY FOR BUTTERWORTH.

The following press release will be issued April 16:

"The Treasury Department is today instructing Collectors of Customs and others concerned that the "official" rate for the British pound sterling as certified to the Treasury Department by the Federal Reserve Bank at New York is to be used in the collection of estimated duties, appraisement of merchandise and the final liquidation of duties wherever the conversion of British pounds sterling into United States dollars is necessary for such purposes. Similar instructions were issued with respect to the Canadian dollar, Newfoundland dollar and the Australian pound, for all of which currencies the Federal Reserve Bank at New York has been reporting two rates of exchange to the Treasury Department.

The Treasury Department will carefully observe future developments with respect to those foreign currencies for which more than one rate of exchange is reported by the Federal Reserve Bank with a view to examining the situation
with

-2- #691, April 15, 10 p.m., to London.

with respect to any of such currencies if changed conditions warrant it."

HULL
(FL)

SIME TO:

AMERICAN EMBASSY, PARIS 281 From Treasury for Matthews.

EA

BSM

PLAIN

STOCKHOLM

Dated April 15, 1940

Rec'd 11 p. m.

Secretary of State,
Washington.

261, Fifteenth.

Rail communication with Narvik reported broken and port of Lulea probably icebound until mid-June. Retail buying continues active. Industries manufacturing for domestic consumption are active except where affected by coal shortage. Export industries have heavy inventories and many pulp and sawmills in north Sweden closing down. Stock market establishing new lows. All coal and coke stocks now under government control. Banks report no alarming withdrawals of funds except in south and west Sweden on April 10th and 11th. Unemployment increasing, prices rising. State price control board with wide powers established with object preventing speculative price increases. All bus schedules reduced 40%.

Inform Commerce.

STEELING

BSM

TREASURY DEPARTMENT

242

INTER-OFFICE COMMUNICATION

DATE April 15, 1940

TO Mr. White

FROM Miss Kistler

Subject: Highlights in our export trade in March.

1. Exports of United States merchandise in March continued at the February level. We exported \$344 million in February and \$339 in March.
2. Raw cotton exports continued the precipitous decline which set in in February, due chiefly to sharply curtailed purchases of the United Kingdom and France. Further declines may be anticipated as outstanding shipping contracts, made before the government order requisitioning all British ships went into effect on February 1, are consummated and shipments to the United Kingdom are limited to the maximum of 100,000 bales per month. Exports of raw cotton in March aggregated only \$25 million as compared to the high of \$58 million in January.
3. Increased shipments abroad of machinery and vehicles, principally to France and Canada, offset the \$17 million decline in raw cotton exports and accounted for the rise in our exports to these two countries. Metal-working machinery exports continue at record proportions, totalling \$19 million in March or double the value of our exports of these products in September 1939.
4. The United Kingdom reduced her purchases in this country for the second consecutive month. The decline of \$8 million was concentrated in agricultural products -- raw cotton, meat products and canned and dried fruits -- and reflects the effectiveness of the recent tightening of her import and shipping controls.
5. Our exports to Asia are not being maintained at the level to which they had risen in December and January. Exports to Japan, although higher than in February, were \$10 million, or roughly one-third, lower than in the closing months of 1939.
6. Exports to Latin America and neutral countries of western and southern Europe continued at the level of the last few months with no significant changes in commodity composition.

JT

GRAY

PARIS

Dated April 15, 1940

Rec'd 3:25 p.m.

Secretary of State,
Washington.

481, April 15, 6 p.m.

FOR THE TREASURY FROM MATTHEWS

Yesterday's Journal Officiel carries a notice to importers and exporters to the effect that import permits issued to cover merchandise imports from Norway and Denmark are automatically canceled. Permits are valid, however, for merchandise actually shipped from those countries before April 9. Similarly the export and reexport of merchandise to those countries are prohibited and export permits already issued are invalidated. The notice stipulates that the foregoing provisions do not apply to trade with Iceland, the Faroe Islands and Greenland.

(END SECTION ONE)

BULLITT

CSB

JT

GRAY

PARIS

Dated April 15, 1940

Rec'd 4:37 p.m.

Secretary of State,
Washington.

481, April 15, 6 p.m. (SECTION TWO)

An arrete of the Ministry of Supplies in this morning's Journal Officiel stipulated that declarations covering stocks of butter of over five quintals must hereafter be submitted periodically to the military authorities of the district wherein located. Other dairy products already subject to such declarations include canned, powdered or condensed milk and certain types of cheese.

A further arrete of the same Ministry providing for import and district associations must hereafter obtain special permits to obtain the release from warehouses of stocks of various animal, vegetable, and mineral oils and fats, soap and candles.

BULLITT

LMS:EMB

JT

GRAY

PARIS

Dated April 15, 1940

Rec'd 4:30 p.m.

Secretary of State,
Washington.

481, April 15, 6 p.m. (SECTION THREE)

Deposits in national (postal) savings banks during the period March 16-31 total 287,000,000 francs and withdrawals 228,000,000. The excess of deposits in such savings banks over withdrawals since January 1 totals 888,000,000 francs.

Most French industrial stocks and international issues were hesitant today in a cautious market largely dominated by international developments. Suez dropped 410 francs and Royal Dutch 140. Rente issues were well supported registering minor gains and losses.

(END OF MESSAGE)

BULLITT

LMS:EMB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 15, 1940.

TO Secretary Morgenthau
FROM Mr. Haas *HA*

The Work Projects Administration reports that 2,204,000 persons were employed during the week ended April 3, representing a decrease of 84,000 from the 2,288,000 reported for the week ended March 27.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

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

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

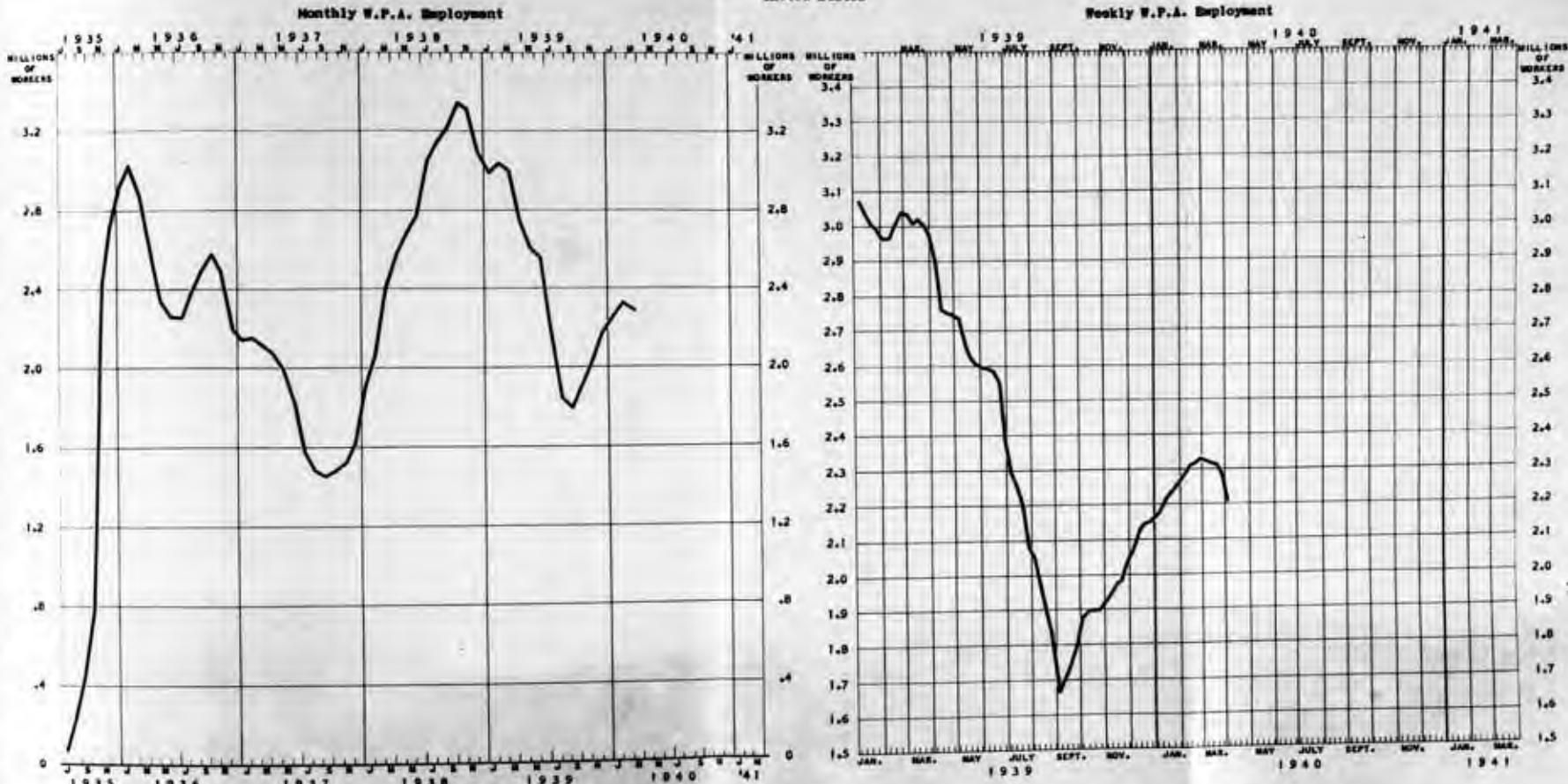
	Number of Workers (In thousands)
1937	
July	1,569
August	1,480
September	1,448
October	1,476
November	1,520
December	1,671
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January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

Source: Work Projects Administration.

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

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

250

INTER OFFICE COMMUNICATION

DATE April 15, 1940

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

A downward movement in sterling occurred in the New York foreign exchange market today. The decline more than offset an earlier advance of the rate abroad. In Amsterdam, sterling reached a high of 3.55-11/16 prior to our opening, as compared with the New York closing rate of 3.52-3/4 on Saturday. The first quotation in this market was 3.54-1/2, from which point sterling moved off steadily to a low of 3.50 in the mid-afternoon. After a temporary recovery to 3.51-1/2, the rate again returned to 3.50 at the close.

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

Sales of spot sterling by the six reporting banks totaled £375,000, from the following sources:

By commercial concerns.....	£ 140,000
By foreign banks (Far East, Europe and South America)....	£ 235,000
Total.....	£ 375,000

Purchases of spot sterling amounted to £497,000, as indicated below:

By commercial concerns.....	£ 150,000
By foreign banks (Europe, Far East and South America)....	£ 347,000
Total.....	£ 497,000

The following reporting banks sold cotton bills totaling £25,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 10,000 by the National City Bank
10,000 by the Bankers Trust Company
3,000 by the Guaranty Trust Company
2,000 by the Irving Trust Company
<u>£ 25,000 Total</u>

The Bank of Manhattan reported that it had purchased £6,000 for forward delivery from the British Control at 4.03-1/2. The funds will be used to pay for a shipment of rubber.

Although the belga advanced to .1685 during the morning session, the higher rate was not maintained. The final quotation for that currency was .1681-1/2.

The discount for the Canadian dollar narrowed to 13-1/2% today, which is the best quotation that has been recorded for that currency since March 2. The closing discount was 14%.

The other important currencies closed as follows:

French francs	.0198-1/2
Swiss francs	.2242-1/2
Guilders	.5308-1/2

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

\$ 17,661,000	from the Bank of England
5,500,000	from the Netherlands Bank
420,000	from the National Bank of Belgium
<hr/>	
\$ 23,581,000	Total

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

\$ 25,000,000	from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank, to be earmarked for account of the Bank of England.
2,500,000	from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank for account of the Netherlands Bank. The disposition of this shipment is unknown at the present time.
211,000	from England, shipped by Samuel Montagu & Company, London, for account of the Amsterdam Bank, Amsterdam, to the Guaranty Trust Company, New York, for sale to the U. S. Assay Office.
<hr/>	
\$ 27,711,000	Total

The quotation for silver in Bombay declined the equivalent of 1/8¢ to 40.87¢.

In London, the price fixed for spot silver was 20-3/4d, off 1/8d. The forward quotation was 20-11/16d, off 1/16d. The U. S. equivalents were 33.21¢ and 32.92¢.

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

We made seven purchases of silver totaling 429,000 ounces under the Silver Purchase Act. Of this amount, 150,000 ounces represented sales from inventory, and the other 279,000 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

A 194 35, 1940.

To: Secretary Morgenthau

From: E. H. Foley, Jr.

Since March 25, 1940, the Federal Reserve Bank of New York, purporting to act under the provisions of Section 522, Tariff Act of 1930, has certified to the Secretary of the Treasury two rates for the British pound sterling. One rate is designated "free" and the other, "official". The "official" rate is governed by the rate paid by or on behalf of the British Treasury for United States dollars, and, as certified by the Federal Reserve Bank, is approximately \$4.08 1/2. The "free" rate varies greatly from day to day, but closed on Friday, April 12, 1940, at \$3.49 1/4. Under orders and regulations of the United Kingdom, commencing on March 25, 1940, certain exports (whisky, tin, jute, rubber, and furs) from the United Kingdom to the United States must, in effect, be paid for either in dollars, which must be offered for sale to authorized British banks at the "official" rate, or in pounds sterling purchased at the "official" rate. Other articles can be paid for with pounds purchased at the "free" rate, but if paid for in dollars, the British exporter must offer the dollars for sale to the representatives of the United Kingdom Exchange Control at the "official" rate.

For the purpose of the assessment and collection of duties upon merchandise imported into the United States from the United Kingdom, it is often necessary to convert United States currency into United Kingdom currency. The question is: What rate or rates should be used in making that conversion?

It is my opinion that the best legal arguments are in favor of using one rate, to wit, the "official" rate. It is also my opinion that the use of the "official" rate alone is the safest course and the one which will best protect the revenue.

At the outset, I have rejected the so-called "proclaimed" rate of \$8.23 (computed on the basis of the pure metal of United Kingdom coin of standard value) because it obviously varies by more than five per cent from either the "free" rate or the "official" rate. Under the terms of Section 522 of the Tariff Act the "proclaimed" rate may not, therefore, be used.

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A somewhat similar situation arose in 1935 in connection with the Brazilian milreis. At that time, the Federal Reserve Bank of New York certified two rates for the milreis, one "official" and the other "free". The "official" rate was about 8.50 cents; the "free" rate was 5.60 cents. Brazilian exporters of a few kinds of goods were permitted to sell dollars received in payment for their goods entirely at the "free" rate. However, Brazilian exporters of other goods were required to turn over to the Brazilian Government a percentage of the American dollars received at the higher "official" rate, the rest to be sold on the private market at the "free" rate. At that time, it was understood that the milreis purchased at the "official" rate could be used without legal restriction for all commercial purposes. This office took the position that Section 522 of the Tariff Act contemplated the certification by the Federal Reserve Bank of but one rate, and that, if two rates were certified, the Department should select in every case the rate certified for that classification of foreign currency which could be used in the foreign country without legal restriction for all commercial purposes. I see no reason for departing from that view.

From the text of Section 522, its statutory history, and from the foreign exchange situation existing at the time of its passage, it would seem reasonable to deduce that Section 522 contemplated the certification of but one rate and the use by the Treasury Department for conversion purposes of but one rate. Furthermore, the use of two rates results in an anomalous situation when the various other sections of the Tariff Act are considered. For example, under Section 402 of the Tariff Act, as amended, it is necessary in the assessment of ad valorem duties to ascertain foreign market value which, in brief, is the internal home value. It is obvious that many commodities on the "official" rate list and many commodities on the "free" rate list will have an identical internal home value. But if one rate is used for "free" rate articles and a other for "official" rate articles a different internal home value will be secured when expressed in American dollars. I do not think that Section 522 should be construed so as to bring about such an anomaly.

To apply the "free" rate uniformly would result in a lower rate of duty on "official" rate articles than the price for such articles to American importers would justify. Furthermore, the British Government does not recognize the "free" rate as reflecting the true value of the pound, but, on the contrary, says that the only true rate is the "official" rate.

-3-

This leaves the "official" rate, which seems the most justifiable. It is the rate at which pounds sterling can be secured which can be used without legal restriction for all commercial transactions. It is the rate which, according to the British Government, reflects the true value of the pound sterling. It is the rate which is in keeping with the price which the American importer must pay for goods on the "official" list and which is in keeping with the price that he must pay for goods on the "free" list if he pays for them in dollars.

Finally, and of great importance, if the conclusion that the "official" rate is the proper rate is upset by the courts, the Government has been protected, for the money will have been collected. On the other hand, if the "free" rate is used and that practice is upset by the courts, the Government will have to attempt to collect from importers the difference in duty, which often may be impossible. Thus, the revenue would not be protected.

Under the circumstances it appears that you should notify Collectors of Customs to use the "official" rate in assessing and collecting duties on British merchandise imported into the United States.

E. H. FOLEY, Jr.

April 15, 1940.

Dear Mr. Fellows

Thank you very much for your letter of April 9th. I appreciate your sending me a statement covering the estimated revenue from freight car loading during 1940. I understand that this is a confidential document and shall handle it accordingly.

With all good wishes,

Sincerely,

Mr. J. S. Fellows,
President, Association of American
Railroads,
Transportation Building,
Washington, D. C.

GKF/abs

ASSOCIATION OF AMERICAN RAILROADS
TRANSPORTATION BUILDING
WASHINGTON, D. C.

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J. PELLEY
PRESIDENT

*ask for
me*

April 9, 1940.

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

My dear Mr. Secretary:

In accordance with my promise of some weeks ago, I am enclosing herewith a statement covering our estimate of the revenue freight car loading for the year 1940. You will note this estimate shows an estimated increase of 3.22% over the actual loading of 1939. In compiling these figures we have not attempted to take into account, due to the uncertainties, any possible changes in the European situation which might tend to increase export traffic.

As a matter of information, this estimate is made up for our own use, is not publicized, and it would be appreciated if you would have it treated in confidence.

Yours very truly,

J. Pelley

4/9/40 Han

Estimated Revenue Freight Car Loading

UNITED STATES

1940

Month	1939 Actual (Revised)	1940 Estimated	1940 Actual	Percent comparison estimated 1940 with actual 1939		Percent comparison actual 1940 with estimated 1940	
				Inc.	Dec.	Inc.	Dec.
Jan. (4 weeks)	2,288,730	2,485,953	2,555,415	8.6		2.8	
Feb. (4 weeks)	2,282,866	2,495,054	2,486,863	9.3			.3
Mar. (5 weeks)	2,976,655	3,183,827	3,122,556	7.0			1.9
Apr. (4 weeks)	2,225,322	2,592,000		16.5			
May (4 weeks)	2,363,431	2,690,695		13.8			
June (5 weeks)	3,128,190	3,352,871		7.2			
July (4 weeks)	2,532,467	2,723,945		7.6			
Aug. (5 weeks)	3,387,395	3,580,012		5.7			
Sept. (4 weeks)	3,102,022	2,996,583			3.4		
Oct. (4 weeks)	3,354,527	3,114,879			7.1		
Nov. (5 weeks)	3,706,238	3,415,169			7.9		
Dec. (4 weeks)	2,559,741	2,367,657			7.5		
Total 52 weeks	33,907,584	34,998,645		3.22			

April 5, 1940



TREASURY DEPARTMENT
WASHINGTON

April 15, 1940.

MEMORANDUM FOR THE SECRETARY:

The following information was telephoned by
Collector Durning from New York this afternoon:

A Mr. A. S. Gaudine, General Aircraft Company,
527 Fifth Avenue, New York, claims to be able to supply up
to 20,000 tons of molybdenum, and that Messrs. Iwai and
Company, of Japan, are interested as buyers.

The matter is being followed closely and any
further details will be reported.

Basil Harris.

4:50pm 4/15

Mr Harris requested
to call Mr Green (St Dept)
and deliver information
to him.
D.E.M.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE April 15, 1940

to Secretary Mergenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending April 13, 1940.

Conclusions

(1) The sudden expansion of war activity coincident with the invasion of Denmark and Norway, which is believed in many quarters to mark the beginning of an indefinite period of more violent warfare, may have some influence in speeding up the business revival in this country despite its unfavorable effects in disrupting our export trade with the Scandinavian countries.

(a) It has improved the commodity price picture. The prospect of an increased demand for war materials of all kinds, together with the possibility of curtailed imports of some commodities, has brought an active buying movement in the commodity markets, resembling in a minor way that of last September.

(b) The same influences that have affected commodity buying are likely to affect the buying of finished goods, as was demonstrated last September. Purchasing agents report a tendency to buy for a longer period ahead, owing to war uncertainties.

(c) Through speeding up Allied purchasing in this country, the intensified war activity will tend to strengthen our business outlook. Reports from the Pittsburgh steel district say that export orders for steel during the past week were at the highest level since the beginning of the war.

(2) Business news last week, on the whole, confirms a more favorable turn in the business outlook:

(a) Our new orders index has remained for the second week in succession sharply above its earlier levels, supported by miscellaneous orders, although steel orders were somewhat lower.

Secretary Morgenthau - 2

(b) Automobile production has increased somewhat in response to recent heavy retail sales.

(c) A reduction in steel prices comes at a favorable time for stimulating steel buying.

(d) Residential building continues a rapid expansion.

(3) On the other hand, while recent war developments should eventually prove stimulating to business, they are likely initially to create such confusion and uncertainty. Perhaps for this reason, our "index of confidence" does not yet show the strong improvement that has usually accompanied important upturns in business, though it rose slightly last week. Current indices of business activity continue downward.

- - - - -

War activity speeds up buying

The invasion of Denmark and Norway last week has influenced new buying, in a minor way, somewhat as the invasion of Poland did last September. The sharp uprush of commodity prices has been lacking, since the experience of last fall has greatly moderated the enthusiasm of buyers; but the volume of buying in various commodity markets last week was sufficient to bring a substantial improvement in prices of basic commodities, and thereby to strengthen the prospect for a near-term rise in business activity.

Our weekly new orders index does not cover last week's active buying, yet it has remained for the second week in succession at the highest level, with one exception, since early December. (See Chart 1) This indicates that the basis for a business upturn had been laid before last week's war developments.

It will be noted that the most important contributor to the recent rise in the index has not been steel or textiles, but miscellaneous orders, which have been expanding since the middle of February. Increasing orders for building materials and automobiles have been the chief contributors.

Secretary Morgenthau - 3

Steel orders reported last week by the U. S. Steel Corporation declined to 50 per cent of capacity from 59 per cent the previous week, but remain at a substantially higher level than the average of recent weeks. Following the Scandinavian invasion, the steel trade reports a further improvement in domestic demand and a noticeable increase in export buying. Incoming orders at the end of the week were estimated at between 55 and 60 per cent of capacity. Reports from the Pittsburgh district say that export orders last week were at the highest level of any week since the war, and it is estimated in the trade that such orders now account for about 20 per cent of total steel production.

Reduction in prices favors steel buying

In an unexpected move last week, the United States Steel Corporation (followed by other leading companies) announced a reduction of \$4.00 a ton, or about 10 per cent, on domestic orders for hot and cold rolled sheets and certain other light steels, largely used by the automobile industry.

Coming at a time when new orders are improving, and when increased uncertainty in the foreign situation is tending to encourage forward buying, this price reduction appears as a definitely favorable business development. The automobile companies so far this spring have held back in buying steel except for fill-in requirements, following strategy used on several previous occasions to force a price reduction. Success in these previous attempts has in each case been followed by heavy buying of steel at the reduced prices. Since the automobile industry is the largest single consumer of steel, these increased orders on each occasion have contributed substantially to a rise in steel production. At this time, the volume of steel needed to finish the 1940 model season may not be large, but the automobile companies frequently contract for long periods ahead.

Broad buying movement improves commodity prices

Heavy buying in the commodity markets last week, which was most pronounced in nonferrous metals, textiles, and paper, has sharply raised the price indices for both industrial materials and foodstuffs. (See Chart 2) Heretofore, a weakening trend in commodity prices had tended to restrict buying and to cloud the immediate business outlook.

Secretary Morgenthau - 4

The consistent upturns in futures prices of various basic industrial materials traded on futures markets (see Chart 3) indicate the broad nature of last week's buying movement.

Buying has again been very active in the gray goods market. On one day 15,000,000 yards of print cloth and related items were sold, and the estimate for the week was 50,000,000 yards, or two and one-half times the current weekly output of mills in this part of the industry. The trade reports that mill stocks have been substantially reduced and that backlogs are larger than at any time since the middle of last December. Reflecting the recent improvement in the textile situation, the New York Times adjusted index of cotton mill production rose 3.6 points during the week ended April 6.

Buying of nonferrous metals increased markedly. Copper sales for the first 11 days of April were 19,978 tons, slightly exceeding the sales for the entire month of March. Both spot and futures prices have advanced. Lead buying was so heavy that prices have been raised by leading companies. Zinc sales on Wednesday alone exceeded the total of all sales in the preceding five weeks, and futures prices moved strongly upward.

The rise in prices of foodstuffs as a group resulted from increases in wheat, barley, corn, tallow, hogs, steers, lard, sugar, cocoa beans, and cottonseed oil. Wheat prices were influenced, among other things, by very heavy booking of domestic orders for flour. Lard and cottonseed oil prices have responded to reports that stoppage of Danish exports of dairy and pork products may improve United States export sales of these commodities.

Residential building continues expansion

Adding some weight to evidences of a turn in the business outlook, the seasonal increase in residential building during March and early April has been very rapid. The number of new homes started under F.H.A. inspection has risen beyond the peak levels of 1939 (see Chart 4), closely followed by the rising trend of residential projects as reported monthly by F. W. Dodge.

A reduction in average costs per house constructed — perhaps reflecting a tendency toward the building of low-cost housing units — is indicated by the fact that the total value of F.H.A. mortgages selected for appraisal has not shown the

Secretary Morgenthau - 5

same degree of expansion in comparison with 1939 figures. (See Chart 5) Nevertheless, the dollar value of F.H.A. mortgages selected for appraisal over the past 5 weeks (lower section of chart) have averaged higher than the previous year's level.

Index of confidence continues low

No general wave of increased public confidence in the business outlook like that of last September has yet appeared, according to our "index of confidence", perhaps because of the initial uncertainty and confusion caused by the shock of recent European developments. (See Chart 6) While the index improved slightly last week, the relative prices of speculative bonds and of high grade bonds show no definite tendency on the part of investors as yet to shift into speculative bonds (to profit from improving business) rather than buying high grade bonds (for safety).

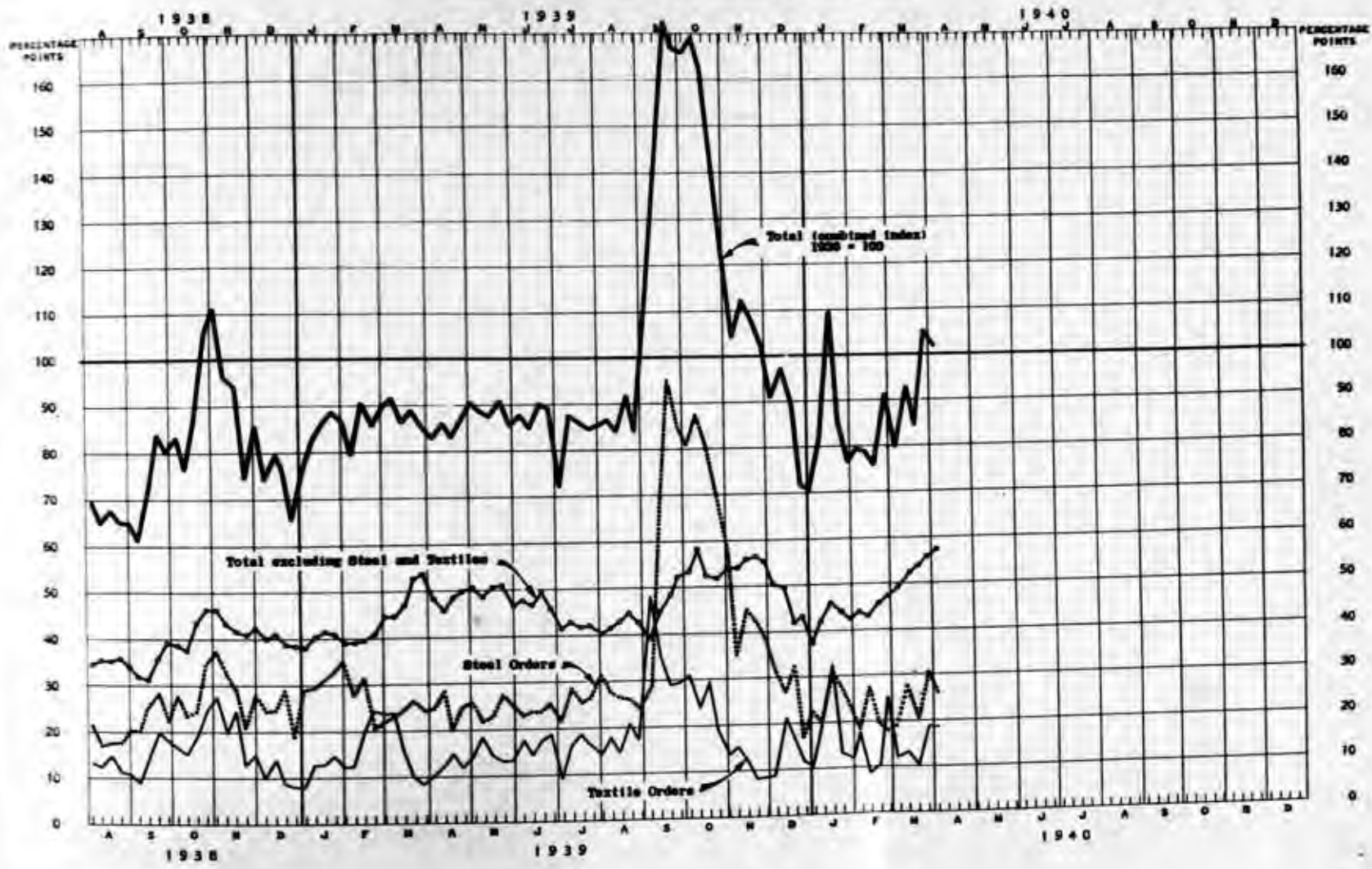
Business indices decline

Weekly business indices declined further during the week ended April 6. Barron's index dropped 2.5 points to 100.5. The New York Times index at 93.0 was off .8 point from the revised figure of the previous week, largely because of downturns in the adjusted indices of automobile production, electric power production, and "all other" carloadings. The index of cotton mill production, however, was noticeably higher.

During the past week, automobile production has been stepped up to 102,940 units in response to recent heavy retail sales. This will bring a slight increase in the adjusted index of automobile production. It is expected in the trade that automobile output will hold at this level for some time, which would bring a further rise in the adjusted index, since production normally tapers off after the middle of April.

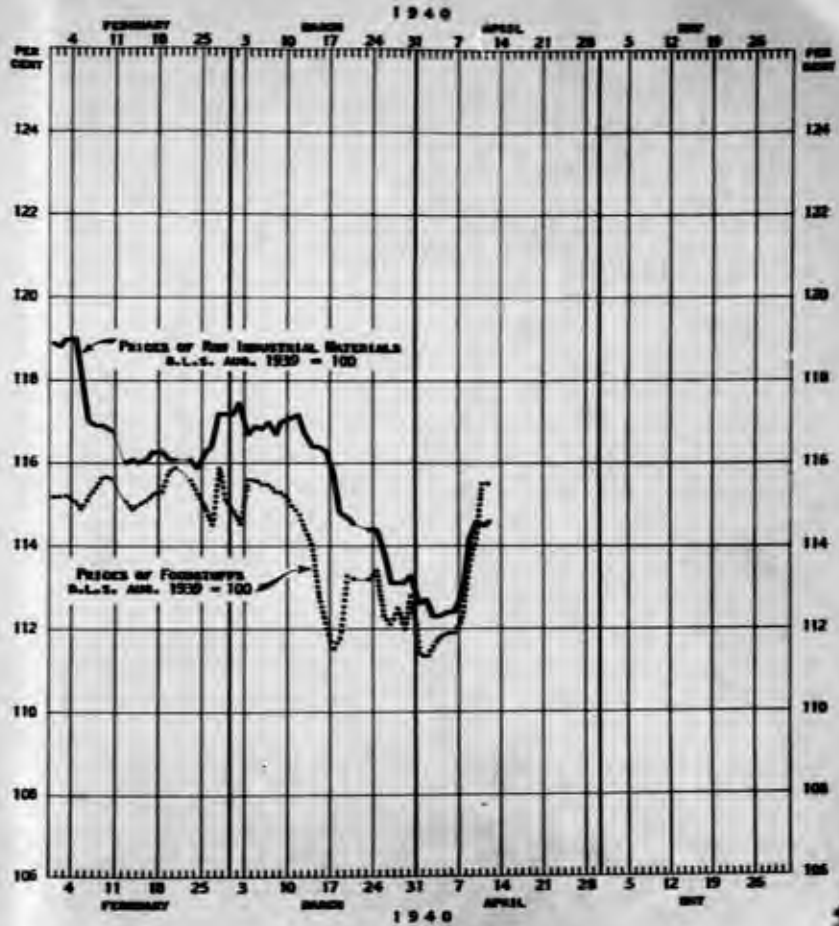
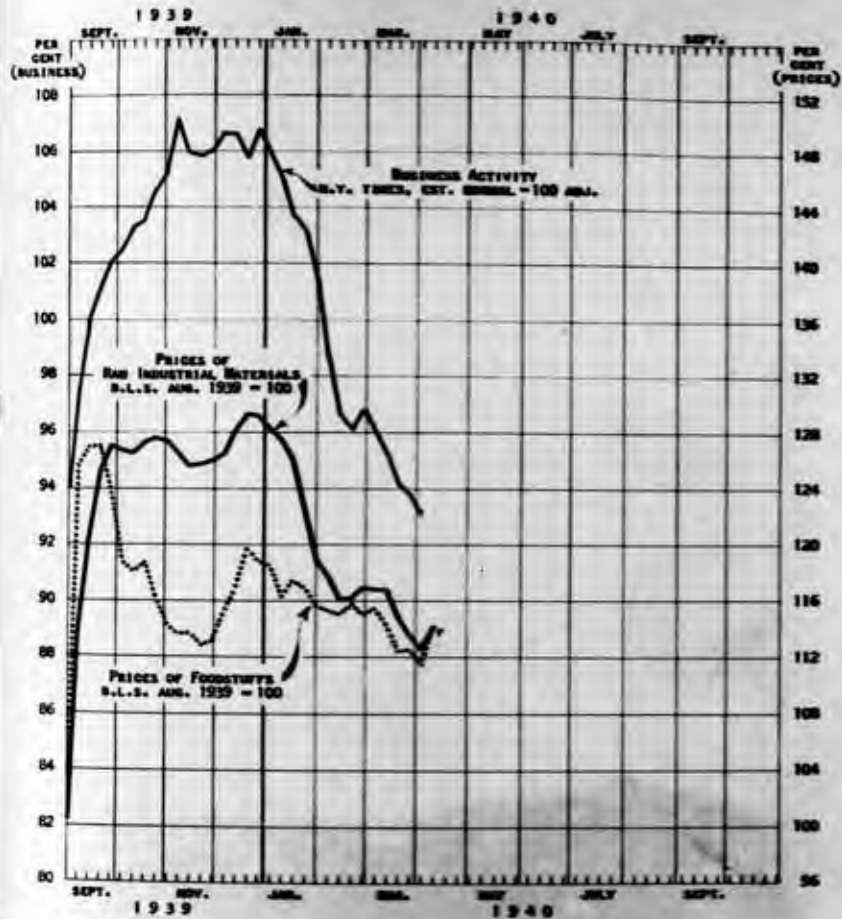
INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components

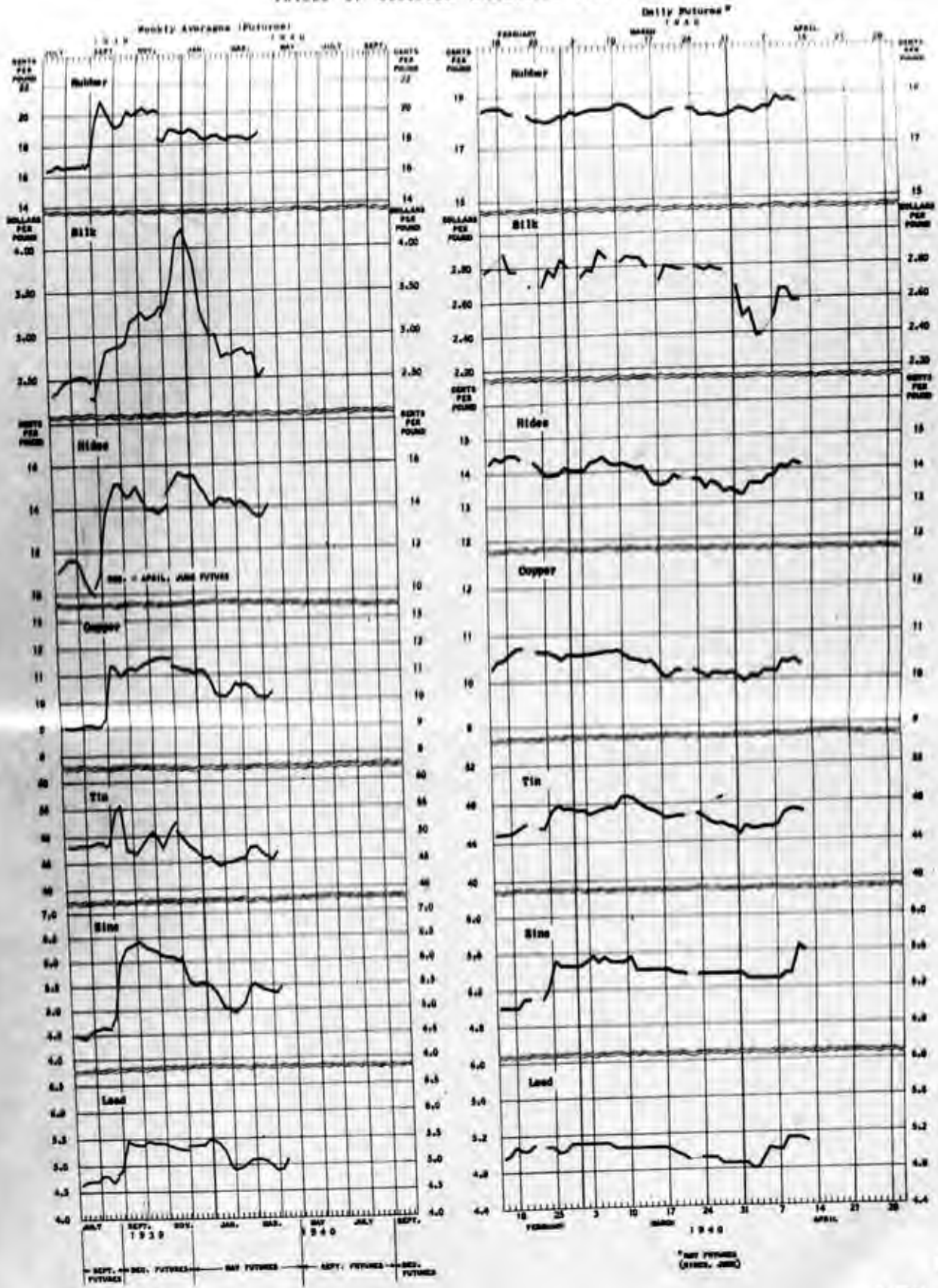


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Division of Research and Statistics

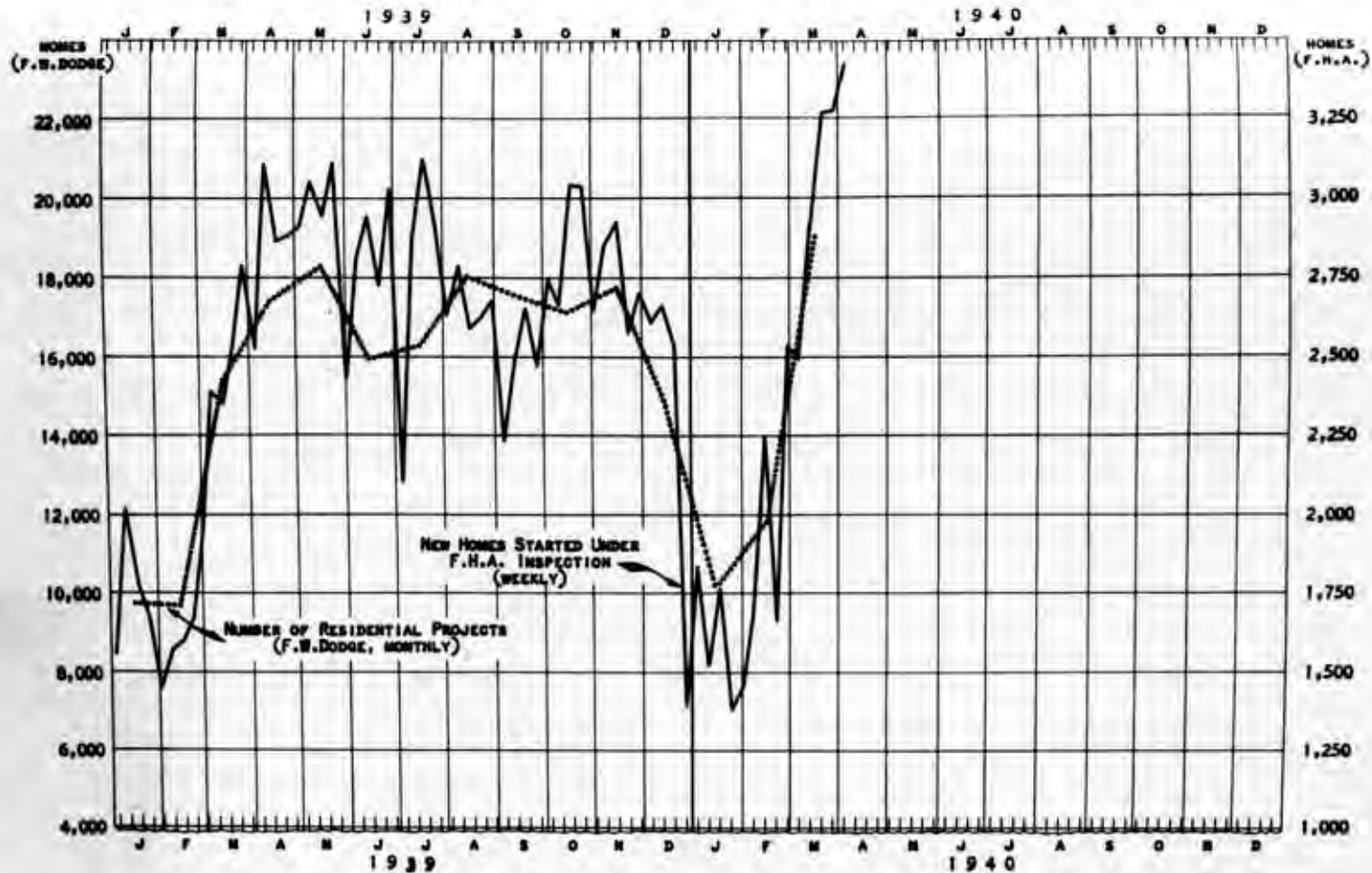
BUSINESS ACTIVITY AND PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS



PRICES OF SELECTED INDUSTRIAL MATERIALS



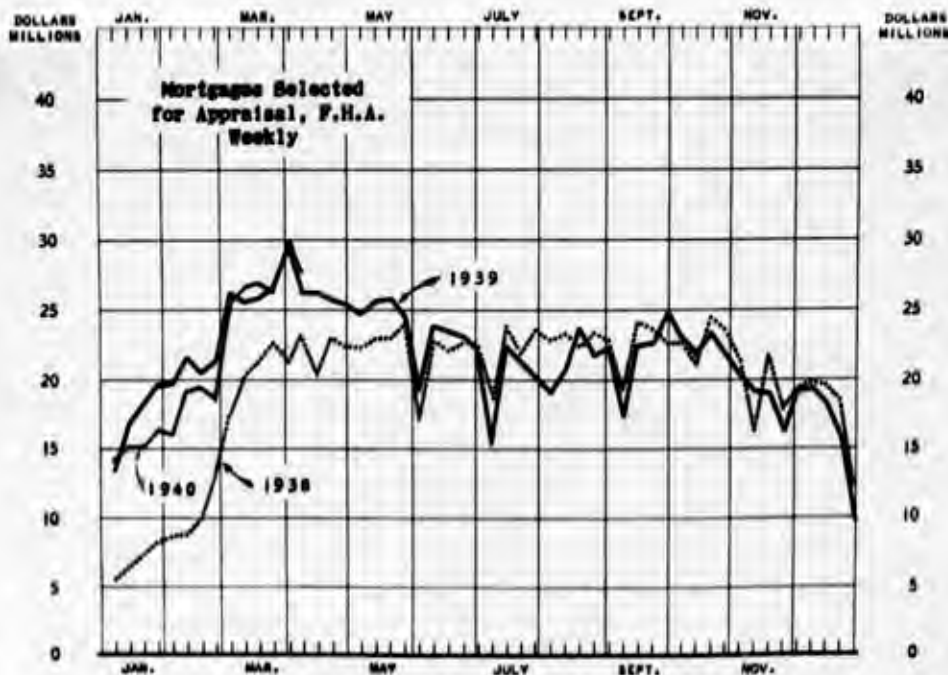
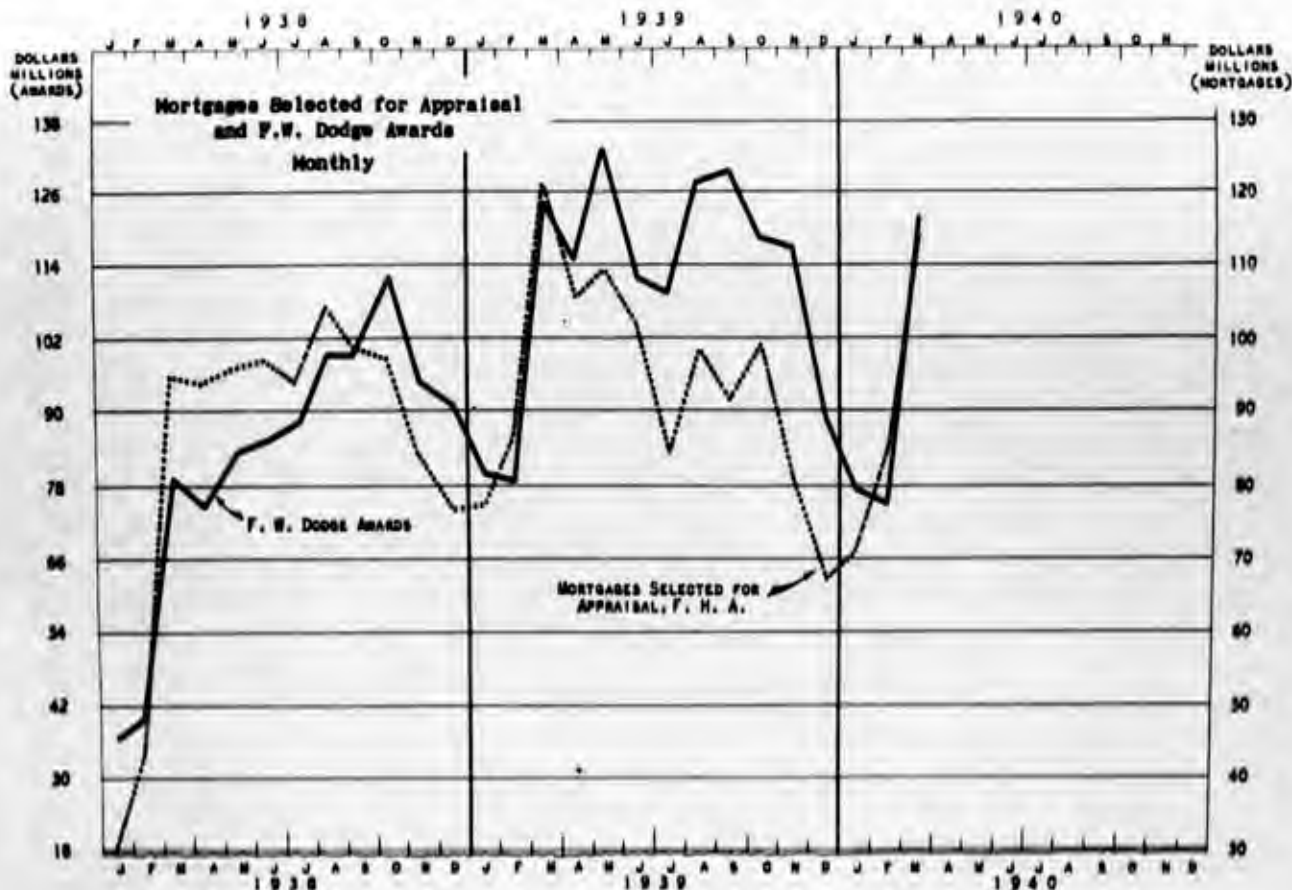
RESIDENTIAL AWARDS AND F.H.A. HOMES STARTED



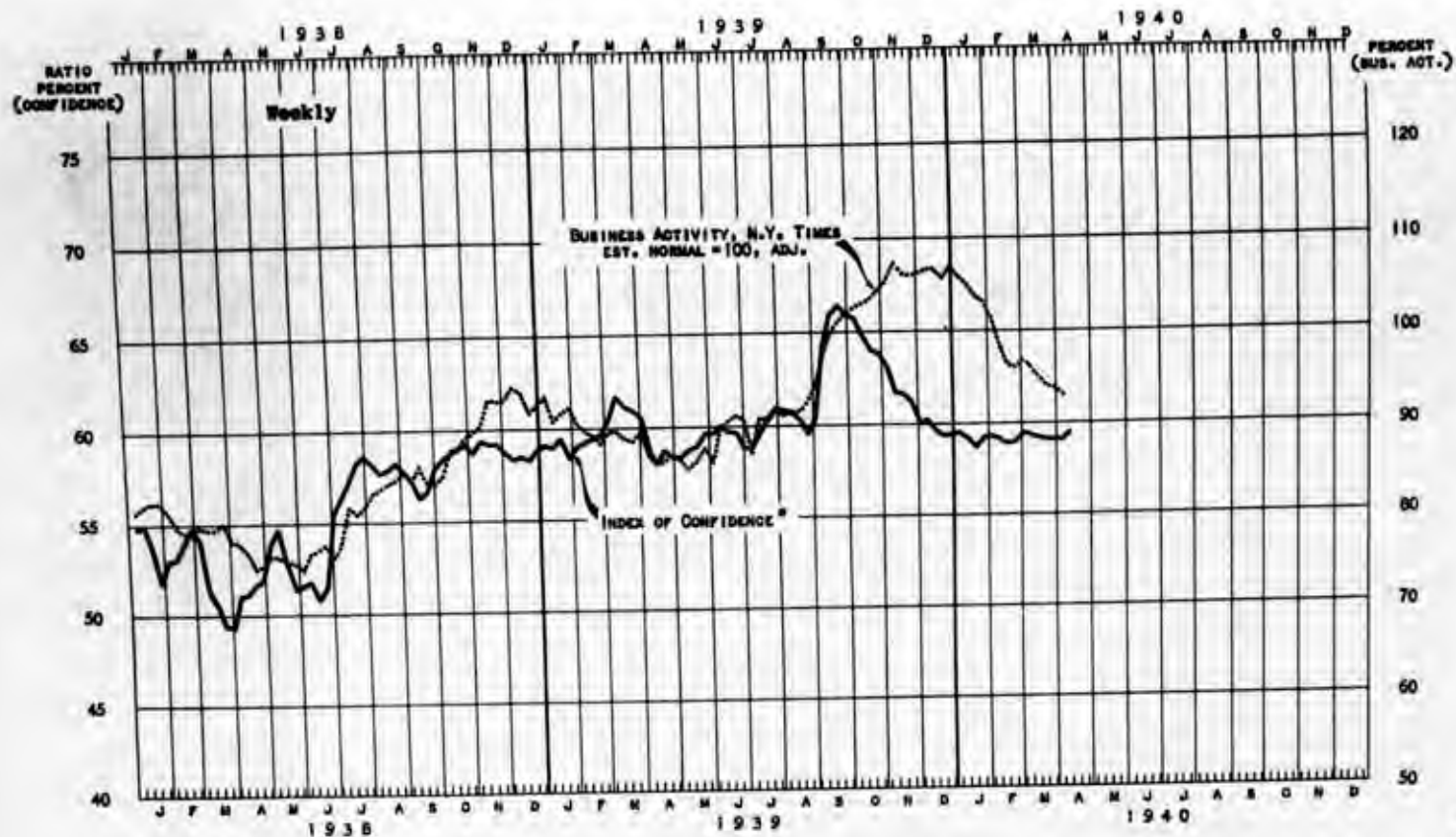
Office of the Secretary of the Treasury
Division of Research and Statistics

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Chart 4
Regraded Unclassified

RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY



* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

GROUP MEETING

April 15, 1940.
9:20 a.m.

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

H.M.Jr: I think we are very fortunate in getting down here Jay Crane, who used to be Vice President of Federal Reserve and is now - in charge of foreign exchange - and is now Treasurer of Standard Oil of New Jersey, and he is going to stay here. He just dropped everything to come down and bring his chief clerk with him. He is going to stay here until he gets this thing set up the way Bell wants it set up. I think it is a relief for you, isn't it?

Bell: Very much.

H.M.Jr: But it is interesting the way these Federal Reserve fellows always drop everything and come on down and help.

I have a few things here. We are all ready to go over and see Mr. Hull?

Foley: Yes.

H.M.Jr: At 10:00?

Foley: Yes.

H.M.Jr: Did you see Basil and White? Did you (White) have a chance to do a little preparation with Wheeler?

White: I spoke with Wheeler at some length over the phone. He agrees with me wholly. However, he didn't know that Secretary Wallace had expressed views in either direction. I suspect

- 2 -

that he may see him, but I am not sure, but in any case if Secretary Wallace feels that way, he hasn't got the support of his own technical staff.

Harris: Would you like Johnson along on that?

H.M.Jr: I don't think so, do you?

White: I think so.

Harris: He knows a great deal about the subject.

H.M.Jr: Will he be ready to go?

Harris: If you get into a heavy discussion, I think we ought to have him.

H.M.Jr: Is he ready?

Harris: I will get him.

H.M.Jr: We leave at ten of 10:00. Harry, would you get - unless you already have - the full statement of Professor Sprague made on gold? Did you see it?

White: I saw a paper report, but I --

H.M.Jr: Will you get the full report? It is rather interesting. He evidently is for it.

I am not bothering you (Bell) with this sterling business. We have got enough experts.

Bell: I am not an expert, anyway.

H.M.Jr: Norman?

Thompson: I have nothing particular, but the Hathcock case is ready.

H.M.Jr: I think I will send him over to Sweden. That is a good spot right now. Can't you fellows - I suppose I have got to get in on it.

Thompson: You promised Mr. Doughton you would. Otherwise, we could dispose of it.

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H.M.Jr: Well, bring it up again at 9:30 tomorrow, will you? You wouldn't want to let Doughton read it in advance?

Thompson: I wouldn't see any objection to that, would you?

Sullivan: Not the slightest. There is quite a lot for him to read, though.

H.M.Jr: Why don't you - you are always looking for new worlds to conquer - why don't you call him and say you would like to come up and go over it with him and get his suggestions and criticisms? Would you do that?

Sullivan: Yes, sir.

H.M.Jr: That would be helpful to me.

Sullivan: I would be very glad to.

H.M.Jr: Dan?

Bell: I have nothing.

H.M.Jr: I don't know whether these men that came down want railroad fare or anything else paid, but whatever it is, will you find out?

Bell: We are paying the railroad fare of the two that came down Saturday.

H.M.Jr: Yes, but whether these boys want to be paid, I don't know.

Harold?

Graves: Nothing.

H.M.Jr: Harry?

White: Nothing.

H.M.Jr: Basil?

Harris: You remember that question of countervailing duties on Italian goods that came up about three months ago?

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H.M.Jr: No, I don't.

Harris: Well, there was such a question and there has been drawn up a recommendation to the Secretary of State that we assess countervailing duties. In view of the conversation we had the other day, I wondered whether you wanted to look at this a little carefully before it went any further.

H.M.Jr: I would bring it up again a week from today.

White: It was that that the State Department requested us not to take action on while Welles was in Europe, among other things.

H.M.Jr: I would say a week from today.

Harris: I think a week would help it.

H.M.Jr: Anything else?

Harris: No.

H.M.Jr: George?

Haas: I have got a few routine things (handing report to Secretary).

H.M.Jr: Have you fellows got to have two chairs, one to sit on and one to put your feet on?

Klotz: That is the ash tray.

H.M.Jr: Says you! They are getting to be frequent, aren't they?

Haas: They have changed a little bit. They are up one point in April and May. They raised their estimate.

H.M.Jr: Wonderful! Get me another copy of this for the President, will you?

Haas: Yes sir, I will.

H.M.Jr: It ups it a point?

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Haas: April and May, one point.

H.M.Jr: Wonderful! Do they charge us for these?

Haas: Yes, a hundred dollars a year. Not on the extras, but they tried to make me buy another service because I asked them each time for an extra copy. Maybe we will have to do that.

H.M.Jr: Listen, this fellow ought to pay me. The President of the United States never knew Standard Statistics existed until I sent the thing over. When they charge me, let me know, will you? How much do they want?

Haas: Of course, this is a salesman, you see, who takes every opportunity to sell and gets a commission. It is a hundred dollars a year for the service.

H.M.Jr: I want a half a dozen copies and I am not going to pay for them.

Haas: Half a dozen of that?

H.M.Jr: Yes, I think some of the people in the office would like to see them.

Haas: All right, I will go directly to New York to get those.

H.M.Jr: Tell them to send me down a half dozen and let the boys in the office see them.

Haas: That is all I have.

H.M.Jr: On the other hand, I went in the theater last night and I forgot to buy a ticket and they tried their best to let me go through free.

Sullivan: How about the admission tax?

H.M.Jr: I paid \$1.10 apiece, but I will be darned if I will pay Standard Statistics.

Haas: I don't think you will.

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- Schwarz: I have two items. I have a galley proof of your piece for Encyclopedia Britannica on the national finances of the United States. I would like for the several research units to go over it, but they are begging us to expedite it. They have sent it down airmail special delivery.
- Bell: I would like to see it.
- Schwarz: And the other matters, I have two invitations for you from the Cooperative Committee. One is for their meeting this week on Wednesday evening, to attend --
- H.M.Jr: What are they cooperating on?
- Schwarz: The Cooperative Committee is a small group of people primarily from the executive departments who meet once a week off the record. They are sponsored by the Democratic National Committee to exchange information and views, similar to the small groups that meet upon the Hill of Congressmen. The second invitation is asking you to talk to them any Wednesday evening at your convenience.
- H.M.Jr: On what?
- Schwarz: Any subject you --
- H.M.Jr: Who does it come from?
- Schwarz: It comes from the Chairman of the Committee, whose name is Charles D. Estes. Jay Franklin and Ernest Lindley are among the leading spirits.
- Gaston: Isn't Leon Henderson active in that?
- Bell: You get an invitation every week.
- H.M.Jr: Talk to me about it again, will you? What else?
- Schwarz: That is all.
- H.M.Jr: Now, I want to see this editor.

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Schwarz: Paul Maurer?

H.M.Jr: And tell Mac when I come back from seeing Mr. Hull to ask me about it, will you, because if Hanes doesn't come at 3:00, I could see Maurer at 3:00. Tell that to Mac.

Schwarz: All right.

H.M.Jr: All right? Did you notice that the last announcement, where they released the Douglas plane, was just a factual one?

Schwarz: Yes.

H.M.Jr: Are you (Cotton) in on this exchange control at all?

Cotton: No. I was going to - except in so far as the bank was involved - I was going to send something to Dan when he had a moment.

Bell: I was going to call you and Phil Young this morning to see if we couldn't work you in there.

H.M.Jr: I suggested to Dan that you and Young might be helpful. Would that interest you?

Cotton: Yes, that would.

H.M.Jr: I thought you and Phil Young might get in on that. There is plenty to do there and there is going to be more.

Bell: I wouldn't be surprised. It will get bigger.

Sullivan: Did the Dutch Minister see you Saturday night?

H.M.Jr: No.

Sullivan: I saw him and he was quite curious as to whether or not the same operation was to apply to Dutch currency and I told him that was a matter I couldn't discuss.

Bell: Potentially, he is a customer.

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- H.M.Jr: How long will it take to make one out for Holland?
- Foley: That has got to be invaded first.
- H.M.Jr: I know, but how long will it take?
- Foley: Two minutes.
- Bell: All you have to do is add "Holland" to it.
- H.M.Jr: Are you all right on this Navy bill on profits? Now, there isn't going to be any bill?
- Sullivan: No, sir.
- H.M.Jr: Why not?
- Sullivan: Because we started out to fix the new one they put in. We licked it by criticizing what was done last summer in the amendments and Vinson instructed me to draw up a bill which would correct the wrong that was done last summer and the Navy has agreed to that, provided the Army will. In other words, they are willing to drop the profit on planes from twelve to ten and cut out the carryover of deficiency from profit and the Navy has agreed to that and Secretary Woodring seemed quite receptive to it. His technicians did not.
- H.M.Jr: But the President said no bill now. I didn't know about this thing.
- Sullivan: I thought what he said to you was no extension of the provisions.
- H.M.Jr: He doesn't want any bill or any changes. Compton said to him, how would the President feel about a bill permitting the manufacturers of armor plate to spread their losses over four years and the President said absolutely no, so then I spoke up and said, "Well, that is fine, but wouldn't you tell the Navy Bureau Chiefs to lay off?"

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The President said, "Tell them to lay off. I don't want any bill."

Then Compton spoke up and said this went through the Bureau of the Budget and was approved and the President said he never knew anything about it, but I got the impression, not knowing the details, that he doesn't want anything. Now, when you reexamine it, what would happen if you didn't touch it at all?

Sullivan: The Navy had already quit on the things we had objected to. If we have no bill, then they continue to make 13½ percent on planes.

H.M.Jr: Is that the worst that happens?

Sullivan: Well, they have a carryover, deficiency to profit for four years.

H.M.Jr: I tell you what I would like you to do. I want two pieces of paper. One, what are the criticisms you have of the present bill, and two, what suggestions you have for corrections. Then let's evaluate them and see whether it is worth while going to the President, since he has said no bill.

Sullivan: Am I free to tell Mr. Vinson in the meantime it will take us three or four days longer?

H.M.Jr: Yes.

Sullivan: Because he expects the bill today.

H.M.Jr: I would tell him the truth, that Compton brought this question up, just what I told you, and when the President heard that he said he doesn't want it and said no bill, but that I, not having had a chance to talk to you, wasn't posted and therefore, being opposed to spreading these losses over four years, that's fine and let's lay off. But, I don't know about this, so therefore you have got to educate me first and let's see whether we want any bill in view of the fact that the President said not to have any, and not knowing about this and Compton and Woodring

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not saying anything, so you needn't put it all on me, so the President said the best thing, let's leave it alone, so I think I would tell that to Vinson. Don't you think it is best to?

Sullivan: I will tell him just what happened and tell him it will take us a few days.

H.M.Jr: Or would it be best to tell him just another three or four days? That all leaks out. I would just tell him another three or four days, because Woodring and Compton should have spoken up. Just tell him that and sometime tomorrow you and I will get together. I will tell you now, 3:00 o'clock tomorrow afternoon. All right?

Sullivan: Yes, sir.

H.M.Jr: Nothing has been lost.

Sullivan: Oh no, we have gotten all we started out to get, but we found ourselves with so much more than we had hoped for.

H.M.Jr: Well, 3:00 o'clock tomorrow. I would just stall Vinson on that.

Sullivan: I will.

H.M.Jr: Anything else?

Sullivan: No, sir.

Foley: In connection with the bill in Congress to reduce the interest rate on the amount that has to be paid back to the Treasury from Boulder Dam, the legislation that is in Congress now, there was a meeting over in the Budget Saturday, attended by the Federal Power Commission and Interior and people from here on a request from the President that he wants that legislation in Congress amended to include refinancing of the self-liquidating features of the project and immediate return of 100 million dollars to the Treasury out of the proceeds from the sale of those bonds. The boys were working on it - I spoke to Dan on

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Saturday and the boys were working on the legislation. What they are doing is setting up an Authority, a Colorado River Authority, with power to issue, with your approval, revenue bonds, guaranteed by the United States, the money to be deposited here, the income from the self-liquidating features of the project to be deposited here.

- H.M.Jr: Have you heard from Harold Smith on the 700 million?
- Bell: No, I haven't. I know, however, that they have had extensive hearings in the various agencies and I understood that they expected a decision this week.
- H.M.Jr: Will it be all right if I call him up?
- Bell: I think that is about the picture you will get.
- H.M.Jr: Would you make a note and call him up and say I am getting very restless about it?
- Bell: They are having quite a time.
- H.M.Jr: Will you call him up and tell him I am getting restless? If this goes through, we get a hundred million dollars, but not in a revolving fund, or is it?
- Foley: No.
- Bell: It repays the Treasury for the advances we have already made.
- Gaston: That is part of the 700 million, isn't it, Dan?
- Bell: No, it is not, it is a separate provision, although it may become part.
- H.M.Jr: But that is not the original idea we had on self-liquidating projects.
- Foley: Well, it is a phase of it.

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Bell: Something that can be used as a precedent if you get this through.

H.M.Jr: Good.

Foley: He wants it tied on this legislation in Congress now, so there is a time element involved.

H.M.Jr: Fine.

Gaston: I haven't anything.

H.M.Jr: I wish you would ask your Coast Guard fellows whether this flash that there is a submarine 800 miles off shore is true, attacking an English boat. It was on the ticker this morning, an SOS.

Schwarz: The British steamship Craig.

H.M.Jr: If it is true, it will be the first one.

Gaston: Yes, the others have all been false alarms.

H.M.Jr: All right. We meet downstairs sharp at five minutes of 10:00, those who are going to Mr. Hull's office.

April 15, 1940
2:15 p.m.

H.W.Jr: Hello. Hello.

Samuel
Rayburn: Hello.

H.W.Jr: Hello.

R: Henry.

H.W.Jr: Yes, Sam.

R: There's a fellow up here from Dallas.....

H.W.Jr: Yes.

R:going to talk to your personnel man if it's any good.

H.W.Jr: Yes.

R: And I told him I was just -- wasn't going to embarrass anything and I was going to speak to you first.

H.W.Jr: Yes, Sam.

R: There's a fellow down there at Dallas that -- the Collector would like to appoint to a job to go to these shoe shine places and Greek restaurants and this, that and the other.

H.W.Jr: Yeah.

R: And check up on their social security.

H.W.Jr: Yeah.

R: But now he's two years over fifty-five. Now, do you have an invariable rule about that? If you do why that's all there is to it.

H.W.Jr: Well, let me find out. I love to break rules for you. You never ask me anything.....

R: Well this fellow is a -- is a -- was a schoolmate of mine.

H.W.Jr: Yeah. What's his name?

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R: His name is E. B. Thomas.

H.M.Jr: E. B. Thomas?

R: Yeah.

H.M.Jr: Now, what's he got -- an application in?

R: No, he hasn't put in any appli -- the Collector hasn't sent his name in. He wanted to check and he said there wasn't any use.

H.M.Jr: How can I get ahold of him, E. B. Thomas?

R: Well, he's there at Dallas. The only thing I want to know, Henry, is whether or not that fifty-five years rule is invariable. This fellow is about fifty-seven. I just wanted to know if there'd be any use for him to put in his application, that's all. I just -- didn't want.....

H.M.Jr: He's fifty-seven?

R: Yeah.

H.M.Jr: Well, let me find out and I'll let you know before I go home.

R: All right, Henry. Thank you.

H.M.Jr: How's that?

R: Thank you.

(Mr. Thompson's notation on copy given to him and now destroyed: "Rayburn advised by phone no exception 4/16/40 W.N.T.")

April 15, 1940
2:26 p.m.

H.M.Jr: Hello.

Operator: Governor Ransom. Go ahead.

H.M.Jr: Hello.

Ronald
Ransom: I wanted to ask you a question.

H.M.Jr: Please.

R: The -- our man Baltz attended that meeting this morning.

H.M.Jr: Yes.

R: And I wondered if I was at liberty in considering his report in trying to get myself oriented to some of the questions raised to discuss it with anybody in the New York bank. Sometimes those things can be and sometimes they shouldn't be, and I just wanted to know.

H.M.Jr: Surely.

R: O.K.

H.M.Jr: I'm for cooperation.

R: Well, I always like to -- we expect them to keep us informed. It isn't so much that in this instance as to try to get myself informed because I know very little about exchange and I always get over my head in it.

H.M.Jr: O.K.

R: Thank you very much.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 16, 1940

TO Mr. White
FROM Mr. Hanson

Subject: Secretary Hull's Note to the Mexican Ambassador On the Oil Question

1. Mr. Hull's note of April 3 suggests arbitration of the oil question.
2. The effect of the Note in Mexico has been as follows:
 - a. It has strengthened President Cardenas politically. Political and labor leaders have rushed to get on record as opposed to arbitration. The administration candidate for the July elections (Avila Camacho) had been inclining somewhat to the right, but it has now become a matter of patriotism to stand firmly against even the thought of foreign intervention and he will now have to stay in line with Cardenas. The opposition candidate is weakened because it has become unpatriotic to preach better treatment of foreign capital, etc.
 - b. But the note may make possible a more favorable settlement with the oil companies directly, because now as long as Cardenas does not give in on the arbitration question, any settlement he makes will be considered a victory for Mexico.
 - c. Cardenas has gained on the labor front too as a result of the note. The Oil Workers' Union had disliked Cardenas' scheme to reorganize the oil industry, but it may seem unpatriotic now not to demonstrate solidarity with Cardenas on the oil issue.
 - d. Some labor leaders who had been losing influence have seized on the arbitration issue to gain ground by leading a crusade against foreign intervention.
3. Mexico's answer is expected this week. Mexico will probably say that there was no denial of justice in any phase of the expropriations, that Mexico has not refused to make adequate and effective compensation, and that therefore she must refuse to arbitrate and insist on direct negotiation with the companies.

Mexico may suggest as a substitute for arbitration the appointment of a joint commission to appraise expropriated properties. But there is this deep difference of opinion to hinder the work of such a commission: the companies claim a loss of \$400 million INCLUDING oil underground; the Mexican government estimates maximum loss at \$25 million, EXCLUDING oil underground.

4. If the United States should insist more strongly on arbitration Mexico might charge that it is an abuse of the Monroe Doctrine involving interference in internal affairs and might invoke the non-intervention treaty of 1936. Mexico feels that the oil question is a domestic matter not requiring international arbitration.

GROUP MEETING

April 16, 1940.
9:30 a.m.

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

H.M.Jr: Norman, I forgot. I knew I wanted to see you after I got home, but I was so tired. What about that 57-year old fellow?

Thompson: There is a policy prohibiting the appointment of Deputy Collectors over 55 years of age. Up to two years ago, there were some exceptions to the 55-year policy, but the Commissioner found it didn't work out well because the men were on their feet most of the time in that particular line of work. At that age they were unable to keep up with the younger men and their work records became poor.

H.M.Jr: Fifty-five is the limit?

Thompson: That is the limit. Mr. Helvering feels it would be a mistake to make an exception.

H.M.Jr: Would you call up Mr. Rayburn's office and tell him that is a hard and fixed rule?

What else?

Thompson: I have a recommendation for the appointment of Charles Shaeffer, formerly an AP man. Mr. Schwarz feels that he could use him advantageously down in the Coast Guard.

H.M.Jr: Shaeffer? Well, he is a pretty good fellow, isn't he?

Schwarz: Yes.

H.M.Jr: Why don't you bring him up here and send one of those other boys down to the Coast Guard?

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Schwarz: I may do that after a few weeks.

H.M.Jr: Is he a 'boozer'? Isn't he a light-haired fellow?

Gaston: He is not.

Schwarz: We have checked very carefully.

H.M.Jr: Who has he been with?

Schwarz: FHA.

H.M.Jr: I think he is a good fellow. Wouldn't you rather have him up here?

Schwarz: Ultimately, but not right now. We have more work down at the Coast Guard, this being the 150th anniversary. They have asked us for help. I would like to take care of that first.

H.M.Jr: How much?

Thompson: He was getting eighty dollars a week with the AP. I suggest we put him on at \$2900.

H.M.Jr: That is not much. O. K. What else?

Thompson: That is all.

H.M.Jr: Dan?

Bell: I have nothing.

H.M.Jr: Dan, if somebody hasn't started, I think I am going to ask Joe Cotton to begin a study, starting with Austria, what happened to Austrian Government obligations, what has happened to Czechoslovakia and Poland, see, and get some kind of an estimate as to what proportion of these securities were owned in the United States and then as to American-owned property in these countries, what happened. For instance, General Motors, General Electric, these companies that actually have plants, what has happened to these plants? Also what has happened to American-owned plants in Germany recently, see? Now, is anybody making that study?

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- Bill: I don't know of anybody.
- H.M.Jr: Well, Joe, I want you to take this on and ask for whatever assistance you need through Norman Thompson.
- Cotton: I know there were some long negotiations about the Austrian bonds, which the Germans did something about eventually. I imagine the State Department knows.
- H.M.Jr: Ask them. For instance, if General Motors, which I know has got a plant in Germany - what has happened to it? General Electric has a plant in Germany, and what has happened to that?
- Harvie: Harvester Company.
- Cotton: They are trying to get their dough out by selling other cars, but they are not having much success.
- H.M.Jr: The whole question of Czechoslovakia, Austria, Poland and Germany. Now, in order to be strictly neutral, what has happened up in Latvia and those countries where Russia went in?
- Cotton: Do you want Russian business, as well as German?
- H.M.Jr: Yes. And while we are going around the world, what has happened in China where Japan has gone, see?
- Schwarz: Albania?
- H.M.Jr: Well, you get the idea.
- Cotton: How detailed a thing do you want?
- H.M.Jr: I think you will have to get it very detailed and then summarize it and ask Thompson for whatever help you need.
- Cotton: I imagine Harry White --
- H.M.Jr: Well, don't hesitate to ask, but I would like to go forward very rapidly and you get whatever help you need. Maybe there is a complete study.

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Cotton: There may be.

H.M.Jr: And I think while you are at it, you might familiarize yourself with the standstill agreements and all the rest of that stuff. You may find you will have to go back to the so-called Young Plan and go right up through the whole business, what happened and everything else.

There are people in the United States who think we have been very stupid, that we haven't taken German property in this country and held it, so to speak; as ransom against the property which American citizens have lost recently in Germany. After you have been at it a day or two, come and see me.

I would go to the State Department first and find out what they have, but I would like to have this done, seriously, and as I say, you might as well include the occupied area of China.

Harris: If you can get that in detail, that would be a very interesting study.

H.M.Jr: I think so.

Cotton: German property here is negligible compared to our interests, I imagine, in Germany.

H.M.Jr: Well, Joe, it is very interesting, see. Now, you find out what is going on and then, whatever help you need, let me know and I would tell the State Department we are doing it and tell Commerce not to duplicate it.

You (Bell) haven't got it started, have you, Dan?

Bell: No, I haven't.

H.M.Jr: Well, I think it would be very interesting. You have nothing, Harry, have you?

White: We haven't made any study like that.

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H.M.Jr: Now, I would keep the other person that - have you (Bell) given Young anything to do?

Bell: No, it was too late last night.

H.M.Jr: If you want Phil Young to help you on this, he is available.

Cotton: All right.

H.M.Jr: It is a big job, Joe, and I think we have just sat here and let these people get away with murder.

Dan?

Bell: Nothing.

H.M.Jr: I didn't bother you about all this release stuff because it was nothing of great importance.

Harry?

White: Here are a couple of charts that may interest you. Nothing else.

H.M.Jr: Charts? Oh, yes. I am amazed at your increased imports from the British Empire.

White: Rubber and tin.

H.M.Jr: One is dollars and the other --

White: One is in value and the other is in percentages.

H.M.Jr: Which is the better one to use?

White: I imagine the dollars.

H.M.Jr: Because when you give the two, it is kind of confusing, isn't it?

White: Dollars is probably the more helpful.

H.M.Jr: Changes in values. Now, how much of this - the

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first two months - just come behind me so I will understand this. Take the British Empire. We have done 45 million dollars more business with them in the first two months?

White: That is the purchases, imports from the British Empire. That doesn't include United Kingdom and Canada.

H.M.Jr: Where is that --

White: That is, we sell much more.

H.M.Jr: But here we have sold 45 million dollars more.

White: That is right and here we have bought 45 million dollars, so if you will exclude Canada and the British Empire, we have bought much more than we have sold to them.

H.M.Jr: Do you think that is clear?

White: If you are going to take the whole British Empire by itself --

H.M.Jr: I guess it is clear. Supposing I sent that to the President alone. Do you think he would understand?

White: It is very simple. He probably has that information.

H.M.Jr: No, he hasn't. I think the percentages are misleading, don't you?

White: The percentages are only of interest if you want to know how important this country's trade is. In dollar values, it is 15 million. This is a more singly significant chart than that. We have a similar chart for Latin American countries.

H.M.Jr: It is a good idea. Will you bring it up? I would like both and I will send them both over together. What else have you got?

White: That is all.

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H.W.Jr: Basil?

Harris: I passed that message on to Mr. Green and he said he would meet with the investigator. I pointed that out to you because that is the third case lately of where we have had stuff imported going to Japan intended for Vladivostok, presumably going to Germany. There is a boat on the way up from Santos to San Francisco. She is going to trans-ship at San Francisco 25,000 bags of coffee to Yokahama, destined to Vladivostok. That is the silliest way in the world of shipping, unless it is going to Germany. Presumably it is going to Germany. It is the first time Japan has ever bought anything near that amount of coffee and it is presumably going to Germany.

H.W.Jr: It comes from where?

Harris: Santos, San Francisco, Yokahama, Vladivostok, and presumably on into Germany. We have had one or two little companies, one in Florida and one somewhere else, who have made parcel post shipments actually to Germany, via Japan. I guess just to see how they would work out and the Coca Cola company, for instance, has made a shipment of - I have forgotten - 20 bottles, or something like that.

White: To Germany?

Harris: Yes, and actually consigned it to Germany via Yokahama and Vladivostok. It may not be the company itself, it may be some individual.

H.W.Jr: And it may not be Coca Cola either. The chances are it isn't. It may be some precious drug or something like that. Give me a memo on that coffee thing. I would like to have that on one page.

Harris: The inquiry came from Mr. Hull and he sent it over here and I wired the Coast to check just as soon as the ship arrived from Santos, so we are following it very closely.

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H.M.Jr: When you have it, I would like to let the President know about it. I think he would be very much interested.

Anything else?

Harris: No.

White: It occurred to me you might want these - this is what Denmark, Sweden and Norway have.

H.M.Jr: Have of what?

White: In the way of dollars and investments in this country.

H.M.Jr: Yes, I would like to have that. Now, this is investments?

White: Those are both the cash balances, the Government and also their direct investments and ownership of securities.

Bell: That doesn't mean plants or anything like that?

White: Yes, that is total assets. It is everything they have here.

H.M.Jr: Is this a good enough estimate for me to --

White: Well, we never made our own estimates on direct investments. We always take the Department of Commerce figures. That is what those are. Our figures on our cash balances are our own. But there are no better estimates in existence.

H.M.Jr: O. K.

George?

Haas: I have nothing except Standard Statistics and six copies of their publication. They were in such a great haste sending it down, they sent the wrong ones. They sent it special delivery, too. It is not the most recent one, so tomorrow morning I hope they have the - they were very pleased.

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Harris: It would be a joke if it came C.O.D., wouldn't it?

H.M.Jr: What else?

Haas: That is all.

H.M.Jr: John?

Sullivan: I saw Doughton yesterday morning about Hathcock. I presented him with this material and asked him three times in three different ways if he wouldn't read it. The nearest I could get was that he would let Stamm read it and report to him. He was very anxious, as a favor to him, to have me see or talk with both Hathcock and the other man and the way he put it up, I more or less had to agree to do it, but I didn't want to see either of them until I talked to you.

H.M.Jr: That is all right. Carry the thing to the end, will you?

Sullivan: Yes, sir.

H.M.Jr: Ed?

Foley: We have the legislation ready on Boulder Dam. Shall I clear it with Dan and then send it over?

H.M.Jr: It goes to the Bureau of the Budget, doesn't it?

Foley: Yes.

H.M.Jr: O. K.

Herbert?

Gaston: That case of the ship yesterday was probably not a case of a German submarine, but a French or British submarine sighted. They sent out their cable before they were close enough to recognize it, but of course they wouldn't be able to use their radio if the submarine were close enough to recognize. We will probably have that all along. We did start a cutter over that way before we found out.

H.M.Jr: All right, gentlemen.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE April 16, 1940

TO Secretary Magenthau
FROM Mr. Hass
Subject: Developments in the High-Grade Securities Markets

SUMMARY

- (1) Yields of domestic high-grade securities were not greatly affected by the news on Tuesday, April 9, of the German invasion of Norway and Denmark (Charts I and II). Treasury issues declined on the news, but by yesterday most issues had made small gains from their Tuesday close (Chart III).
- (2) Foreign government securities have experienced only relatively minor price changes since their initial declines on April 9. British 2-1/2 percent consols closed yesterday at 71-7/8 to yield 3.49 percent (Chart IV). At this price they were 3/8 of a point higher than last Tuesday's close.
- (3) The remarkably good behavior of high-grade bond prices in Great Britain and France during the past six months may be due in part to the monetary controls that they have brought to bear on their bond markets. In view of the course of high-grade bond prices in most major wars since 1790 (Chart V), it will be interesting to see whether such controls will prove to be permanently effective.

I. Domestic High-Grade Securities Markets

The most significant market development during the week ended Monday, April 15, appears to have been the ability of the high-grade securities markets to take in their stride the news of the German invasion of Norway and Denmark. Yields of United States Government securities were not greatly affected, and yields of corporate and municipal issues were troubled even less (Charts I and II). The flotation of new issues was carried on as if no crisis had occurred, with the important offerings going to immediate premiums over their offering prices.

Prepared by: Mr. Murphy
Mr. Tickton
Mr. Hass

The markdown of the prices of Treasury issues at the opening of trading on Tuesday, April 9, appears to have been largely a precautionary measure. Offerings of Treasury bonds are reported to have been numerous that day, but the aggregate amount offered was not large. After the initial decline, substantial scale buying was carried on by a few insurance companies and large commercial banks with the result that there was moderately active two-way trading. By yesterday all maturity classes, except the shortest notes, showed small net gains from their Tuesday closes. The continued price decline in the very short notes is probably explained by the amortization of high premiums and perhaps by changes in rights values. Price changes, by maturity classes, last week are shown in Chart III and in the following table:

	Average price change	
	April 9	April 10- April 15
	(In thirty-seconds)	
<u>Notes</u>		
1-3 years	- 3	- 2
3-5 years	- 7	+ 2
<u>Bonds</u>		
5-15 years to call	- 21	+ 6
Over 15 years to call . . .	- 30	+ 6

The bank purchases of Governments on Tuesday referred to above appear to have related to banks in New York City. In the week ended April 10, the weekly reporting member banks in that City increased their holdings of Government bonds by \$26 millions. While day-to-day transaction figures are not available, it is understood that most of this buying was accomplished on Tuesday, the first day of the crisis.

II. Foreign Securities Markets

Since the initial declines on Tuesday, April 9, which re-adjusted prices to take account of the German invasion of Norway and Denmark, foreign government securities have experienced only relatively minor changes. At the close on Monday, April 15, for example, British 2-1/2 percent consols stood at 71-7/8 (to yield 3.49 percent -- Chart IV), up 3/8 of a point over last Tuesday's close. Norwegian and Danish Government issues were also up

slightly over their Tuesday prices, while Belgian, Italian and French Government issues were somewhat lower. Prices of representative issues on Monday and Tuesday of last week and on Monday of this week are shown in the following table. For perspective, the 1940 highs are also shown.

	: 1940 : high	: Monday, : April 8	: Tuesday, : April 9	: Monday, : April 15
Great Britain 2½% consols	74-1/2	72-3/8	71-1/2	71-7/8
France 3% rentes	77.10	75.50	74.50	74.45
Norway 4½'s of 1965	80-1/2	71	41	42
Denmark 4½'s of 1962	55-7/8	39-7/8	23	25
Belgium 6's of 1955	100-1/2	100-1/8	90-1/2	83
Italy 7's of 1951	72	62	57-1/2	54-1/4

III. Behavior of High-Grade Bond Prices During Past Wars

The firmness of the prices of domestic high-grade securities, in the case of the sudden increase in the intensity of the war during the past week, makes a study of the characteristic behavior of high-grade bond prices during past wars of some current interest.

Chart V shows the course of high-grade bond prices (as indicated by inverted yields) annually in the United States since 1857, in the United Kingdom since 1790, and in France since 1825. The curves for the United Kingdom and for France represent the yields on consols and rentes, respectively, during the entire period covered. The use of three different curves to represent the course of high-grade bond yields in the United States at different periods is explained in the appended note. All important wars and all serious internal upheavals affecting any of the three countries during the period covered by the chart have been indicated by red lines or shaded areas.

The following points stand out from a study of the chart:

- (1) The price of British consols was not much affected by any war or foreign revolution during the period between the Napoleonic Wars and the World War. This includes the Crimean War, in which Great Britain was a participant, as well as the American Civil and Franco-Prussian Wars, in which she was a neutral.

- (2) The price of consols was very notably affected by both the Napoleonic Wars and the World War. In both cases, the price declined drastically. The low point, however, was reached relatively early in the course of the Napoleonic Wars, while in the case of the World War, it was not reached until the second year after the Armistice.
- (3) The price of French rentes was much affected by the French Revolutions of 1830 and 1848, and by the Franco-Prussian War, but was affected very little by the Crimean War (in which France was a participant) and by the American Civil War.
- (4) The price of rentes was very much affected by the World War, and did not reach its low point until 1926, eight years after the termination of the War. This was, of course, due principally to the French inflation which reached its climax at that time.
- (5) The price of high-grade American bonds was very much affected by our own Civil War. (The difference in the behavior during this period of the curves on the chart for United States Government bonds and for "high-grade American railroad bonds" is explained in the appended note.) American bond prices were not affected, however, by the Franco-Prussian War.
- (6) The prices of high-grade bonds in the United States declined very little until after our actual entrance into the World War. They did not reach their low point, however, until 1920 -- the same year as British Government securities.

The present war to date has had no depressing effect on high-grade security prices in Great Britain and France. British 2-1/2 percent consols, after suffering a sharp decline at the time of the outbreak of the war, have since risen rapidly and are now above the level of last August. Meanwhile, French 3 percent rentes have recovered the full amount of the loss sustained at the outbreak of war. (Reported German interest rates are practically meaningless due to the totalitarian character of the economy, but -- such as they are -- appear to have eased somewhat since the outbreak of the war.)

The remarkably good behavior of high-grade bond prices in the belligerent countries during the past six months is doubtless explained, in part, by the fact that the present war was preceded by a period of preparation, which was in many respects the economic equivalent of war itself, and had, consequently, already wrought its effect on high-grade security prices. (The price of 2-1/2 percent British consols, for example, had declined by about 14 points in the eighteen months prior to the outbreak of war.) It may also be true, in large part, however, to the monetary controls which the belligerents have brought to bear on their bond markets. To the extent that this is the case, it will be interesting to see whether such controls prove to be permanently effective.

Attachments

Notes on American Bond Yields

During most of the Civil War the ordinary hand-to-hand circulating medium in the Northern States consisted of irredeemable United States notes, or "greenbacks". These notes were legal tender, and the prices of goods and services were quoted in terms of them. There was also, however, a free gold market, and the greenbacks sank in value in terms of gold to less than forty cents on the dollar in 1864.

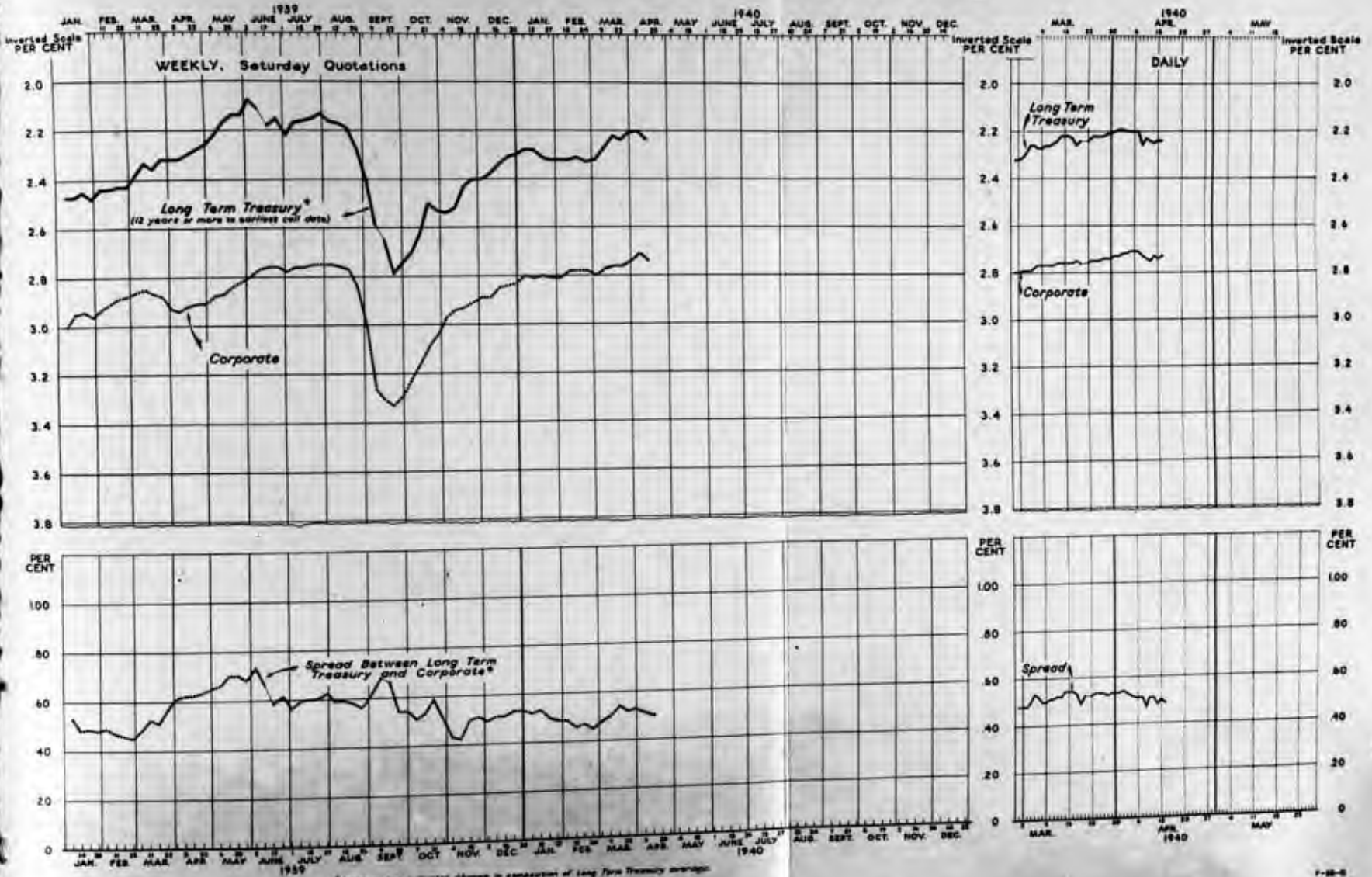
Most of the securities issued by the Federal Government to finance the war were sold for greenbacks. The interest on all of the long-term securities so sold was payable, however, in coin. The coin interest on the securities would at times purchase more than twice its nominal equivalent in greenbacks. The market prices of the bonds were quoted in greenbacks, but have been adjusted for the computation of the curve shown in the chart to a gold basis -- that is, to the same basis upon which the interest was being currently paid. The resulting yields are naturally very high during the period of maximum depreciation of the greenback. With the resumption of specie payments in 1879, the distinction between greenback and gold prices vanished, and the adjustment was no longer necessary.

All of the bonds included in the Macaulay index of high-grade American railroad bonds prior to 1879 were payable, principal and interest, in currency only -- i.e., greenbacks. Since their prices were also quoted in terms of greenbacks, the question of a disparity between the medium of quotation and medium of payment does not arise in their case. The average prices of the railroad bonds, it will be noted, actually rose -- i.e., their yield fell -- during the first two years of the Civil War. In many respects the movement of the high-grade railroad bonds gives a better picture of the money market during the Civil War than does the movement of the United States Government bonds. Both series are necessary, however, to give a complete picture.

No yields are shown on the chart for United States Government bonds between 1890 and 1919. This is because the debt of the United States was so small from about 1890 until the World War, and so large a proportion of it was held by national banks to secure their circulation, that the quotations of United States securities were not representative of the movement of the high-grade American bond market. From 1919 to date, United States securities have constituted an important segment of the high-grade bond market, and reliance upon the Macaulay high-grade railroad bond index is no longer necessary.

Chart I

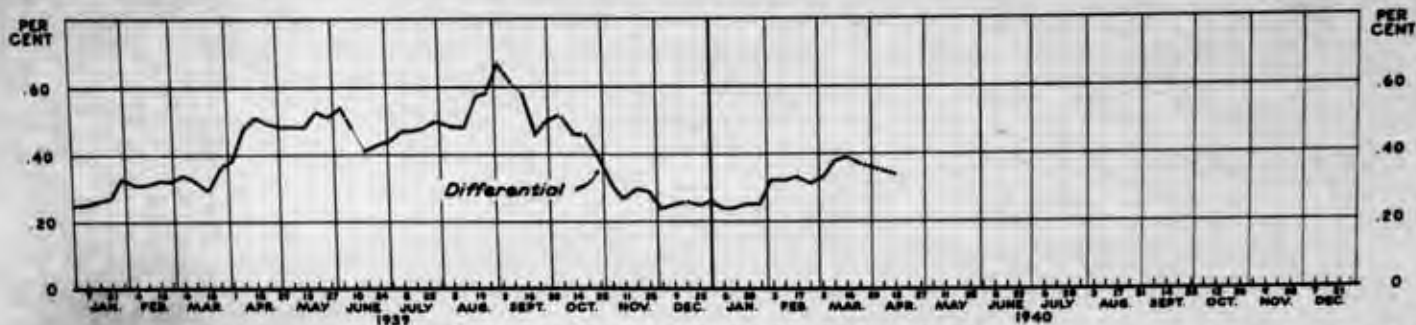
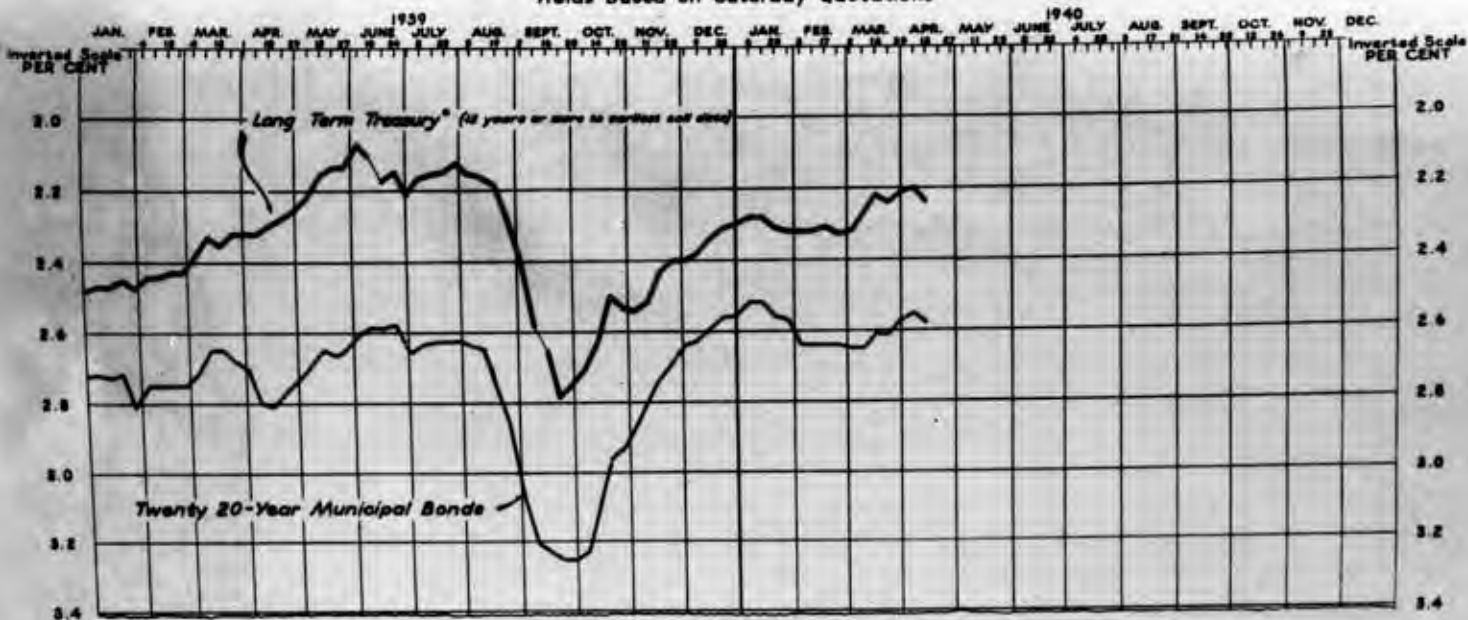
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



*Break in line indicated change in composition of Long Term Treasury average.

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

Yields Based on Saturday Quotations



*Break in line indicates change in composition of Long Term Treasury average.

Chart III

CHANGES IN THE PRICES OF U.S. SECURITIES

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

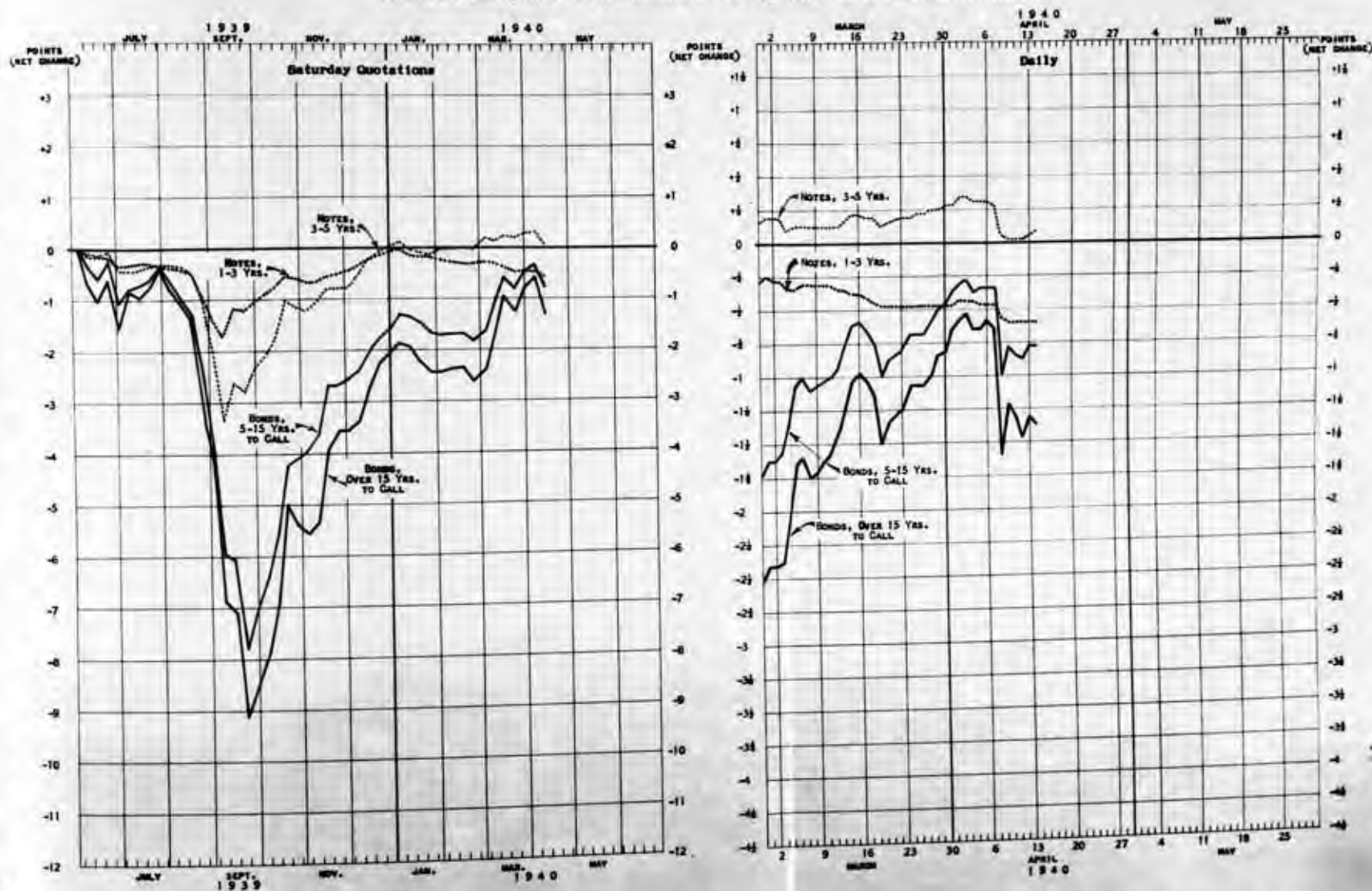
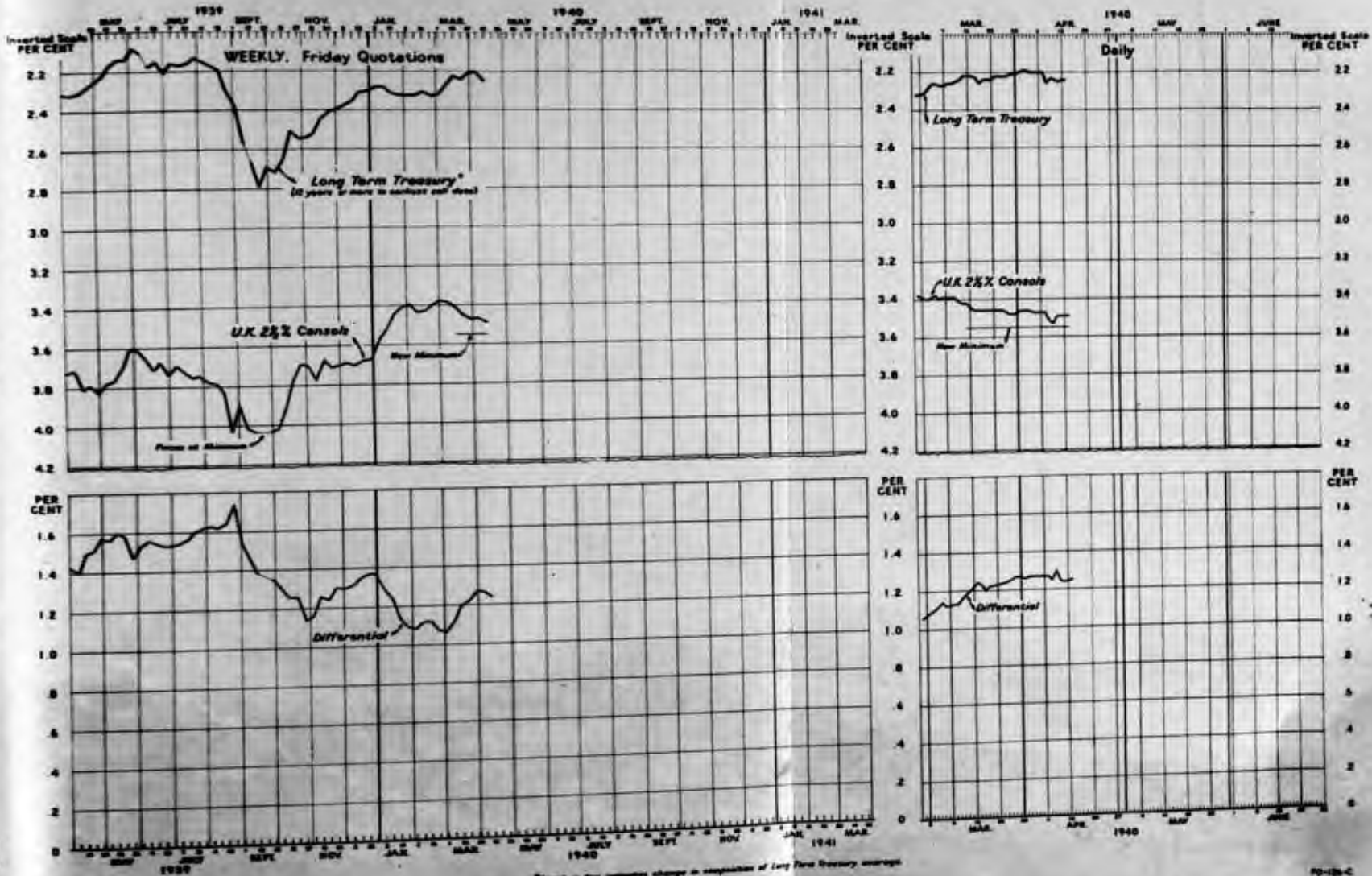


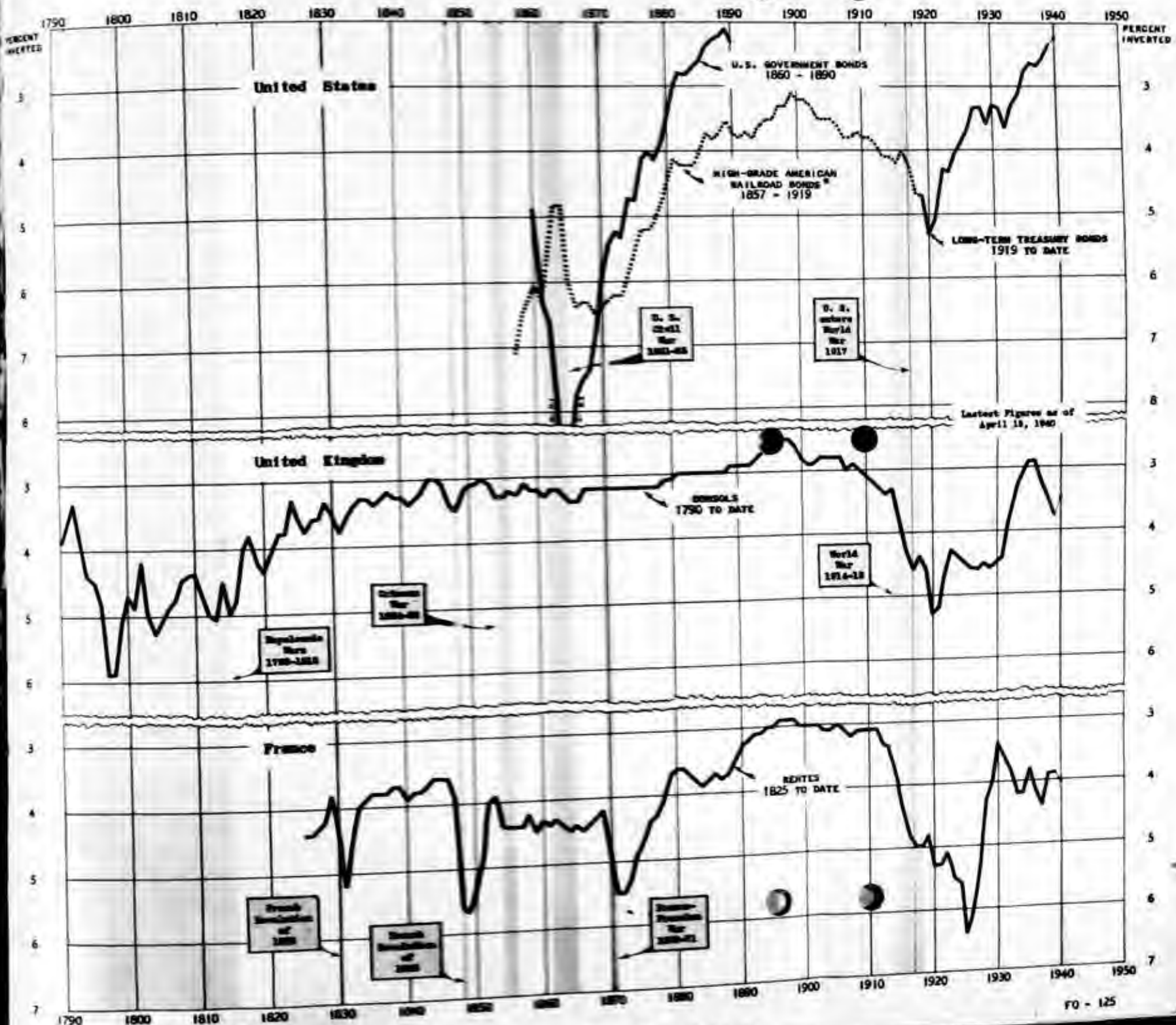
Chart IV

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY BONDS AND U.K. 2% CONSOLS



*Based on the indicated change in composition of Long Term Treasury coverage.

HIGH - GRADE BOND YIELDS, ANNUALLY, IN THE UNITED STATES, UNITED KINGDOM AND FRANCE



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 161

DATE: April 15, 1940, 3 p.m.

Following is a summary of part of a communication which I have received from Mr. Sehested, the Danish Minister:

The Danish Minister says he has been informed that all bank balances in the United States due to Denmark and citizens of Denmark have been blocked and he understands that the purpose of this action was to protect the interests of Danish citizens during the invasion of their country by Germany. Mr. Sehested says he is personally interested in two accounts, one of which is the personal account of Mrs. de Sehested and the other the account opened by the Danish Finance Ministry in favor of the Royal Danish Legation in Rio de Janeiro.

Mrs. de Sehested's account is as follows:

NR. 4126 Gertrude de Sehested, at the National City Bank of New York, Farmers' Branch, 22 William Street, New York City.

The official account is in favor of the Royal

Danish

-2-

Danish Legation at Rio de Janeiro and is at the National City Bank of New York, 55 Wall Street, New York, New York.

Mr. de Sehested requests me to help him get these accounts reopened in his favor.

GAFFERY

TO THE SECRETARY
LEGATION OF DENMARK
RIO DE JANEIRO

24 SEP 19 10 15 AM '42

RECEIVED
EA:EB

April 16, 1940.
10:19 a.m.

H.M.Jr: Hello.

Operator: The Argentine Ambassador. Go ahead.

H.M.Jr: Hello.

Don Felipe
A. Espil: Hello; good morning.

H.M.Jr: How are you?

E: How are you? I'm sorry to disturb you.

H.M.Jr: Yes.

E: But I got a telegram this morning in which they asked me to give some detail information about this Danish and Norwegian impounding the fund you know.

H.M.Jr: Yes.

E: And they intend to do something similar I know. They want, particularly want me to explain to them how it is done and the legal foundation for that, so that they want to do the same thing. It's awfully difficult to find the legal basis for that you know. I was wondering if you find that it is possible for me to get a memoranda or something I can explain to them how it is done.

H.M.Jr: Well, I don't know that we have a memorandum but if you want to get -- do you want -- if you'd.....

E: Or if I could come there to.....

H.M.Jr: Well, if I could have it explained. Who would you like to come down?

E: I can't go down right away.

H.M.Jr: But whenever you're ready, if your office will call, and if it's you or somebody else I think.....

E: I can send the Counsellor here, he's.....

H.M.Jr: Well I think if he would see Mr. Foley, our General Counsel he could explain.

E: Your General Counsel, what is his name?

H.M.Jr: Foley. F-o-l-e-y-.

E: F-o-l-e-y.

H.M.Jr: Yes.

E: All right, then I'm going to tell him to get in touch with Mr. Foley.

H.M.Jr: I will tell Mr. Foley to expect a call.

E: Thank you very much.

H.M.Jr: And he can explain to him.

E: Exactly, that's very nice of you.

H.M.Jr: I think that's the easiest way.

E: Yes, that's the best way, yes.

H.M.Jr: All right.

E: Thank you very much.

H.M.Jr: Goodbye.

E: Goodbye.

April 16, 1940.
10:20 a.m.

Ed
Foley: Yes, Mr. Secretary.

H.M.Jr: The Argentine Ambassador called me up and he wants to know how we impound the fund.

F: Yes.

H.M.Jr: Because his **country** may want to do the same thing.

F: Yes.

H.M.Jr: And he said the legal way, and I thought in order to save Dan, who's under water, -

F: Yes.

H.M.Jr: I told him to send his counsellor down to see you.

F: All right.

H.M.Jr: So you'll get a call. They want to know the papers and how to go about it.

F: O.K. And it's all right to tell them the whole story.

H.M.Jr: Sure.

F: All right, show them the documents and everything.

H.M.Jr: Sure.

F: O.K. Glad to do it.

H.M.Jr: You might - well you have to - if you see Dan you might mention it to him.

F: All right I will.

H.M.Jr: But I'm doing it to save him.

F: I understand. All right.

April 16, 1940.
10:28 a.m.

313

H.M.Jr: Hello.

Operator: Mr. Purvis. Go ahead.

H.M.Jr: Hello.

Purvis: Good morning, Mr. Secretary.

H.M.Jr: How are you?

P: Very well thank you. You asked me to let you know about Republic.

H.M.Jr: Yes.

P: The situation is, we have had no commercial talks with them at all, but that Colonel Jaquin does intend to have a talk with their representative within the next few days, the point being that they have made certain claims for their plane and we have understood that it's a little faster than the Curtiss P-36, but on the other hand our present impression before any such discussion is that it is not fast enough.

H.M.Jr: I see.

P: Now that is the actual position. They have, I understand, apparently, a good many friends who have been pressing that we have a talk with them.

H.M.Jr: I see.

P: But so far we have not really believed that they had anything but nevertheless are anxious to explore every channel and Jaquin proposed to have a technical talk within the next day or so.

H.M.Jr: Now, all right. Well I'll tell that to Mr. Johnson.

P: Yes.

H.M.Jr: Then the other thing. Something that I wanted - oh, if Jaquin or those people have any trouble in seeing General Arnold about the dive bombers.

P: Yes.

H.M.Jr: Captain Collins could arrange -

P: Much obliged, I'll get in touch with Collins on the detail of that then and follow it through.

H.M.Jr: Right.

P: Thank you very much Mr. Secretary.

H.M.Jr: Oh, just a moment.

P: Yes.

H.M.Jr: One other thing, that you might put in the back of your head.

P: Yes.

H.M.Jr: Mr. Johnson tells me that the story which was credited, I said take it or leave it.

P: Yes.

H.M.Jr: Was given to the newspaper men by the manager of your Washington office, Ballantyne.

P: Oh! Now I know my Washington fellow pretty well, and I would - I would be willing to write my own name on the back of that as being wrong, Mr. Secretary.

H.M.Jr: Well, I'm passing it to you for what it's worth.

P: Yes. Thank you very much. But really you can be quite sure that there's no chance of that.

H.M.Jr: Well, you saw what I said this - did you see in the papers what I said.

P: Yes, I saw it this morning.

H.M.Jr: So that ends it as far as I'm concerned.

P: Yes, quite.

H.M.Jr: And I hope as far as you're concerned.

P: Well, so far as I'm concerned you know exactly where I stand.

H.M.Jr: Yes, but Johnson did tell me that and I'm telling you that in confidence.

- 3 -

P: Yes.

H.M.Jr: I mean I - I wouldn't want you to repeat it to anybody else.

P: No I won't, but I do feel that really, I've chosen that man with rather special care you see, and I've known him for a long long time.

H.M.Jr: Well I'll look forward to seeing you Thursday.

P: Thank you very much.

H.M.Jr: Goodbye.

P: Goodbye.

April 16, 1940.
10:34 a.m.

H.M.Jr: Hello.

Operator: Mr. Johnson.

H.M.Jr: Hello.

Louis Johnson: Good morning Mr. Secretary.

H.M.Jr: How are you?

J: Oh fine thank you.

H.M.Jr: Purvis called me in regard to Republic.

J: Yes.

H.M.Jr: They had not looked at it, but he said a number of friends of Republic had brought pressure on them to take a look at it, which they proposed to do, but they doubted very much whether they'd be interested in it. So that's the story on Republic.

J: They were in here a little while ago. What they wanted me to do Mr. Secretary was to put pressure from here to make them buy this plane which is four hundred and eleven miles an hour.

H.M.Jr: Yes.

J: I told them we hadn't done that, we couldn't do it, they wanted to know about seeing you. I said, "Oh, don't waste Secretary Morgenthau's time".

H.M.Jr: Well I don't see any manufacturers.

J: You're not going to do that.

H.M.Jr: Well, I don't see any manufacturers.

J: You're right. Well, that was what he wanted, so we guessed it right. It is a good ship but nothing we're going to do about it.

H.M.Jr: Well, he said Colonel Jacquin, in the next couple of days is going to take a look at it.

J: I see.

H.M.Jr: Because there's been so much pressure on them to do it.

- 2 -

J: Where's the pressure coming from?

H:M.Jr: I didn't ask him.

J: I see. Well, thank you very much. Let us know, we'll play ball.

H.M.Jr: Well, that's the whole story .

J: Thank you very much, Mr. Secretary. Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 16, 1940

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

The foreign exchange market was quiet today. Shortly after the opening rate of 3.50-1/2, sterling eased to a low of 3.48-3/4. By noontime, it had returned to 3.50. During the afternoon, the rate moved within a narrow range, and the final quotation was 3.49-5/8.

Sales of spot sterling by the six reporting banks totaled £414,000, from the following sources:

By commercial concerns.....	£ 115,000
By foreign banks (Europe and Far East).....	£ 299,000
Total.....	£ 414,000

Purchases of spot sterling amounted to £488,000, as indicated below:

By commercial concerns.....	£ 201,000
By foreign banks (Europe and Far East).....	£ 287,000
Total.....	£ 488,000

The following reporting banks sold cotton bills totaling £27,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 9,000 by the Guaranty Trust Company
7,000 by the Irving Trust Company
6,000 by the Bankers Trust Company
5,000 by the National City Bank
<u>£27,000 Total</u>

The Guaranty Trust Company reported that it had purchased £10,000 for forward delivery from the British Control at 4.03-1/2. The funds will be used to pay for shipments of rubber.

The belga eased to a new current low of .1678-1/2 in Amsterdam prior to our opening. The first quotation in New York was .1679. The rate which ruled throughout most of the day's trading was .1680, and it closed at that level.

CONFIDENTIAL

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- 2 -

The other important currencies closed as follows:

French francs	.0198-3/8
Guilders	.5308-1/2
Swiss francs	.2242-1/2
Canadian dollars	14 % discount

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

\$10,000,000	from the Swiss National Bank
3,500,000	from the Bank of the Argentine Republic
1,800,000	from National Bank of Belgium
<u>\$15,300,000</u>	Total

The Federal Reserve Bank of New York received a cable from the B.I.S. requesting it to obtain a license to transfer from its Account No. 2 to the account of the Bank of Latvia gold valued at approximately \$846,000. The gold in B.I.S. Account No. 2 is owned by that institution. The Federal also received a cable from the Bank of Latvia instructing it to receive this gold. The Treasury authorized the Federal Reserve Bank to make this transfer.

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

- \$5,168,000 from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank, to be earmarked for account of the Netherlands Bank.
- 3,510,000 from England, representing two shipments by Samuel Montagu & Company, London, to the Irving Trust Company of New York, for sale to the U. S. Assay Office.
- 49,000 from Canada, shipped by the Canadian Bank of Commerce, Toronto, to its New York agency, for sale to the U. S. Assay Office.

\$8,727,000 Total

On the report of April 10 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$17,213,000, an increase of \$2,597,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION APRIL 3	SHORT POSITION APRIL 10	INCREASE IN SHORT POSITION	
England	\$ 4,087,000	\$ 4,883,000	\$ 796,000	
Europe	6,665,000	8,543,000	1,878,000	
Canada	618,000 (Long)	580,000 (Long)	38,000	(Decrease in Long Position)
Latin America	595,000	495,000	100,000	(Decrease)
Japan	3,136,000	3,070,000	66,000	(Decrease)
Other Asia	697,000	755,000	58,000	
All Others	54,000	47,000	7,000	(Decrease)
Total	\$14,616,000	\$17,213,000	\$2,597,000	

CONFIDENTIAL

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- 3 -

The advance of \$1,575,000 in the short position for European currencies resulted mainly from increases in the New York banks' commitments in Dutch guilders (up \$966,000) and Swiss francs (up \$571,000).

Since today was a holiday in India, the Bombay silver market was closed.

In London, the fixing price for spot silver was 20-7/8d, up 1/8d. The forward silver quotation was 20-3/4d, up 1/16d. The U. S. equivalents were 33.09¢ and 32.70¢.

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

We made four purchases of silver totaling 459,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory, 200,000 ounces were trading silver, and the remaining 59,000 ounces consisted of new production from foreign countries, for forward delivery.



TREASURY DEPARTMENT
WashingtonFOR IMMEDIATE RELEASE
Tuesday, April 16, 1940Press Service
No. 20-75

The Treasury Department today instructed Collectors of Customs and others concerned that the "official" rate for the British pound sterling as certified to the Treasury Department by the Federal Reserve Bank at New York is to be used in the collection of estimated duties, appraisement of merchandise and the final liquidation of duties wherever the conversion of British pounds sterling into United States dollars is necessary for such purposes. Similar instructions were issued with respect to the Canadian dollar, Newfoundland dollar and the Australian pound, for all of which currencies the Federal Reserve Bank at New York has been reporting two rates of exchange to the Treasury Department.

The Treasury Department will carefully observe future developments with respect to those foreign currencies for which more than one rate of exchange is reported by the Federal Reserve Bank with a view to examining the situation with respect to any of such currencies if changed conditions warrant it.

-000-

MEMORANDUM

April 16, 1940.

122

TO: Secretary Morgenthau

FROM: Mr. Sullivan

SUBJECT: Proposed Amendments to Meet Criticism of Profit Limiting Provisions of Vinson-Trammell Act.

1. Elimination of deficiency in profit carry-over now allowed for aircraft.

The four-year deficiency in profit carry-over now allowed on aircraft, which is in effect an attempt to guarantee a certain profit rather than to allow a recoupment of losses by those dealing with the Government, is to be eliminated entirely. Such elimination would place contracts for the construction of aircraft and contracts for the construction of naval vessels on a parity in this respect.

2. Uniform four-year carry-over of net losses.

In order to bring treatment of contracts for the construction of naval vessels on a parity with the construction of airplanes, it is proposed to allow both types of contract a four-year carry-over of net losses. It is felt that such a carry-over, although longer than the losses now provided for in the Internal Revenue Code for income tax purposes, is administratively feasible and should protect contractors, over the course of their dealings with the Government, from occurring losses by reason of Government contracts.

3. Further limitation on allowable profit to be based on cost.

In order to remove the objection that by reason of high bids contractors are enabled to secure greater profits because the allowable percentage is based on contract price, we propose an amendment under which the allowable profit in the case of all contracts which are governed by the Vinson-Trammell Act would be 10% on contract price or 11.11% on cost, whichever produced a smaller allowable profit.

4. Reduction of allowable profit on contracts for the construction of airplanes.

At the present time, a higher rate of profit is permitted on airplanes than on naval vessels. It is proposed that such a difference be eliminated, by reducing the maximum profit on airplanes to 10%.

TKS

ADDRESS OFFICIAL CORRESPONDENCE TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



RECEIVED
APR 16 1940
DEPARTMENT OF STATE
WASHINGTON

April 16, 1940.

In reply refer to
EA

*See
for copying letter
re sent to State Dept
4/15/40*

TO THE SECRETARY
DEPARTMENT OF STATE
WASHINGTON, D. C.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for appropriate consideration a note (1000/40), dated April 15, 1940, from the Minister of Czechoslovakia to the United States, regarding Czechoslovak deposits in banks in the United States, together with the enclosure thereto.

Enclosures:

From Minister of Czechoslovakia,
April 15, 1940, and enclosure.

*Speak to Bell 323
Miss Bell*

RECEIVED
TREASURY DEPARTMENT

940 APR 16 PM 12 45

OFFICE OF THE
TECHNICAL ASSISTANT
SECRETARY

The Czechoslovak Minister presents his

compliments to His Excellency, the Honorable Secretary of State, and has the honor to draw his attention to the following matter.

Since the occupation of Czechoslovakia by the armed forces of Germany which was condemned by the United States Government as an "act of wanton lawlessness", Germany has assumed complete control of all Czechoslovak governmental as well as private deposits in foreign lands including the United States.

Under date of March 27, 1939, the Czechoslovak Minister addressed an official warning to the principal banks that they would be held responsible for executing orders which might be made under duress. A copy of one of these letters is attached herewith. The uniform reply of the banks read as follows: ".....in reply thereto, we wish to state that our actions in respect of withdrawals from accounts with us are controlled by what we regard as the legal situation obtaining in the

light of facts known to us".

In view of the Executive Order and Regulations issued on April 10, 1940, pertaining to the "property interests in the United States in which Norway or Denmark or any national thereof has at any time on or since April 8, 1940, had any interest of any nature whatsoever", the Czechoslovak Minister respectfully requests that His Excellency take into consideration the possibility of extending the provisions of the Executive Order mentioned above to include the property interests of Czechoslovakia and any national thereof. Czechoslovakia was and continues to be the victim of the identical forces of lawlessness which have overwhelmed Norway and Denmark.

Czechoslovak Legation,
Washington, D. C.,
April 15, 1940.

1000/40.
Enclosure.

Department of State

BUREAU
DIVISION

EA

ENCLOSURE

TO

Letter drafted 4/16

ADDRESSED TO

Treasury.

COPY

326

RECEIVED
THREATS DIVISION
MAR 27 1939
MARCH 27, 1939.

The Chase National Bank,
18 Pine Street,
New York, New York.

Dear Sirs:

As Minister of Czechoslovakia to the United States, I wish to notify you that my country is occupied by foreign armed forces and that officials of its Government and its citizens are or may be acting under duress thereof. Specifically, withdrawals, or attempted withdrawals, of funds on deposit in your bank made or purported to be made in the name of the Government, the National Bank of Czechoslovakia (Národní banka Československá), or any other instrumentality of the Government may be made under duress. This is to inform you that in the event any such withdrawals ordered under duress are permitted to be made by you, you will be held liable for any and all loss or damage caused thereby.

Very truly yours,

VLADIMÍR S. HURBAN,

Envoy Extraordinary and Minister
Plenipotentiary of Czechoslovakia.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 16, 1940.

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MEMORANDUM FOR THE SECRETARY

General Brett informed me this afternoon that he had been advised by Mr. Wright of the Curtiss Airplane Company that the Anglo-French Mission had decided to purchase 600 P-40's and 360 P-46's, a total of 960 planes in lieu of the original estimate of 1440 planes (composed of 480 P-40's and 960 P-46's) on which they were dealing.

Mr. Wright did not tell him why this change in the number of planes to be purchased had been made. He asked General Brett, however, what the attitude of the Army would be toward licensing the British to manufacture the P-46 in Canada. General Brett advised him that no approval would be given by the Army to this suggestion.

Mr. Wright further informed General Brett that it appeared the original development charge of \$739,000 would be amortized over the 960 planes on which they are presently dealing.

A. E. Fallon