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DEPARTMENT OF STATE  
WASHINGTON

April 5, 1940

My dear Mr. Secretary:

I enclose a copy of an informal note received on April 4, 1940 from the British Ambassador, in which he requests that final consideration of the question of the sterling rate of exchange for the purposes of Section 522 of the United States Tariff Act be postponed until the Ambassador is in receipt of the views of his Government, which they are telegraphing as soon as possible.

I should be glad to be informed of the reply which I may make to the Ambassador.

Sincerely yours,

Enclosure:

From the British  
Ambassador,  
April 4, 1940

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

BRITISH EMBASSY,  
WASHINGTON.

April 4, 1940.

My dear Mr. Secretary,

Under an Order in Council which took effect on March 25th last, the control of the foreign exchange proceeds of specified exports from the United Kingdom and certain Empire countries (rubber, tin, jute and jute manufactures, whisky and furs) results in payment for these goods, when exported to the U.S.A., being made at the official rate of exchange.

I understand that in consequence of this Order the question of the sterling rate of exchange for the purposes of Section 522 of the United States Tariff Act is at present under the consideration of the Treasury Department.

I have received a telegram from my government stating that a large proportion of United Kingdom exports to the U.S.A. is subject to ad valorem duties and would be affected by the decision which the Treasury Department may take in this matter and requesting an opportunity for presenting their views on this subject before the Treasury Department make their ruling.

The Honourable  
Cordell Hull,  
Secretary of State of the United States,  
Washington, D.C.

I should



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I should therefore be grateful if it could be arranged that final consideration of this matter might be postponed until I am in receipt of the views of my government, which they inform me that they are telegraphing as soon as possible.

In the meantime I suggest that the Treasury Department might be informed that I should be glad to telegraph to London for any specific information which that Department might desire to receive from my government.

Believe me,

my dear Mr. Secretary,

Yours very sincerely,

LOTHIAN.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 5, 1940.

TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The sterling rate experienced a further improvement today in a thin market. After opening at 3.57-1/4, it advanced steadily to a high of 3.58-3/4 just before the close. The final quotation was 3.58.

Sales of spot sterling by the six reporting banks totaled £362,000, from the following sources:

By commercial concerns.....	£ 173,000
By foreign banks (Europe and South America).....	£ 189,000
Total.....	£ 362,000

Purchases of spot sterling amounted to £256,000, as indicated below:

By commercial concerns.....	£ 129,000
By foreign banks (Far East and Europe).....	£ 127,000
Total.....	£ 256,000

The following reporting banks sold cotton bills totaling £32,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 16,000 by the Irving Trust Co.
8,000 by the Bank of Manhattan
7,000 by the Guaranty Trust Co.
1,000 by the National City Bank.
<u>£ 32,000</u> Total

The discount on the Canadian dollar was 16-1/8% at the close today, a considerable improvement over the discount of 18-11/16% on March 23. Since that date there has been a good demand for Canadian dollars, attributable to the covering of short positions in that currency. It was reported to us that prior to the war certain Chicago operators bought wheat in Canada and paid for their purchases with spot Canadian dollars. At the time they purchased the spot exchange they also made contracts to sell Canadian dollars forward, expecting that when they disposed of their wheat they would receive Canadian dollars in payment. Instead the wheat was disposed of for U. S. dollars. This necessitated the purchasing of Canadian dollars in order to provide cover for the maturing forward contracts. Such purchases of Canadian dollars are permissible under the exchange regulations as the funds are merely



transferred from the account of one foreigner to the account of another foreigner. We were informed that the operations mentioned above totaled somewhere between eight and ten million dollars but that the covering of the exchange is about ended. If such is the case considerable support will be withdrawn from Canadian dollars and in all probability the discount will widen.

The other important currencies closed as follows:

French francs	.0203
Guilders	.5309
Swiss francs	.2243
Belgas	.1703-1/2

The Argentine peso rate quoted in New York moved off today from .2335 to a low of .2270. It closed at .2300. The peso quotation has been fairly steady for some time.

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

\$ 3,109,000 from South Africa, shipped by the South African Reserve Bank, to be earmarked for account of the Bank of Sweden.  
2,089,000 from England, shipped by the Bank of England for account of the Bank of Portugal. The disposition of this shipment is unknown at the present time.

---

\$ 5,198,000 Total

The State Department forwarded to us a cable stating that three shipments of gold totaling \$13,509,000 would be sent from Sweden by the Bank of Sweden for its own account. The disposition of this gold, which is consigned to the Federal Reserve Bank of New York, is unknown at the present time.

The Bombay silver quotation declined the equivalent of 5/16¢ to 39.15¢.

In London, a price of 20-1/8d was fixed for both spot and forward silver, representing a decline of 1/16d. The U. S. equivalents were 32.34¢ and 32.16¢.

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 211,000 ounces under the Silver Purchase Act. Of this amount, 50,000 ounces represented a sale from inventory and the remaining 161,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 30,000 ounces from the Bank of Canada under our regular monthly agreement.

  
STRICTLY CONFIDENTIAL



Treasury 7826

JR

PLAIN

London

Dated April 5, 1940

Rec d 2:22 p.m.

Secretary of State,  
Washington.

861, April 5, 8 p.m.

Our 843, April 3, 10 p.m.

Chancellor Exchequer announced in House Commons yesterday Government's decision set up special trading company called English Commercial Corporation, Limited, whose function will be conduct trade with certain neutral countries in order assist meeting difficulties attending development United Kingdom trade with these countries. Capital will be subscribed by Treasury but company will work as independent commercial entity subject to general consultation with Government on broad lines of policy. Chancellor states no intention company supplant existing trade channels, which will be utilized far as possible. Company will at first be primarily concerned Bulgaria, Greece, Hungary, Rumania, Turkey and Yugoslavia. Lord Swinton, former President Board Trade will be chairman and joint managing directors will be J. H. Hambro of Hambro's Bank and F. H. Nixon, who however retains title as General Manager Export Credits Guarantee Department.

(END SECTION ONE)

KENNEDY

McL

COPY

7

TREASURY DEPARTMENT (Mr. Cochran)

Paraphrase of telegram No. 861 from London, April 5, 1940.

Secretary of State,  
Washington.

SECTION TWO.

CONFIDENTIAL.

Confirmation has been obtained from Nixon of the following information contained in the press of April 5th. The information is forwarded as background.

KENNEDY

DCA:GHE:MEK

HSM

PLAIN

London

Dated April 5, 1940

Rec'd 2:40 p. m.

Secretary of State,  
Washington.

861, April 5, 8 p. m. (SECTION THREE)

Immediate objective is development British trade with Balkan countries and dealing with peculiar problems created by German trading methods. First activities will be arranging purchases Balkan commodities in return for United Kingdom manufactures and Empire raw material supplies. While corporation will normally use existing trade channels will also have own representatives in Balkans. Government backing will enable corporation take financial risks which war conditions make too great for private concerns. Corporation will work in conjunction new Export Council and Export Credits Guarantee Department utilizing latter's special experience recent years in trade and credit arrangements with countries concerned. It will not be directly concerned with preemptive strategic purchases of commodities for which Ministry Economic Warfare will continue be responsible although corporation may be consulted on particular matters. It is expected that corporation probably under popular name "ENCO" will become permanent part machinery British overseas trade assisting recovery British trade southeastern Europe which has been lost to Germany during past 20 years. Expected play part in export drive by forging connection with new export groups being set up in British industries under auspices Export Council.

(END SECTION THREE).

~~SECRET~~

CSB



Paraphrase of telegram No. 861 from London, April 5, 1940.

Secretary of State,

Washington, D. C.

SECTION FOUR.

CONFIDENTIAL

There has been no announcement yet as to capital.

It is said by Nixon that it will be half a million pounds, though no especial limitation on buying activities is involved in the relatively small figure owing to the backing of the Treasury.

KENNEDY

DCA:GK:MEK

HSM

GRAY

Berlin

Dated April 5, 1940

Rec'd 9:50 a. m.

Secretary of State,  
Washington.

832, April 5, 9 a. m.

My No. 569, March 7, 9 a. m.

FOR TREASURY FROM HEATH.

Reichsbank credit operations and note circulation reached record heights at the end of March. Total investments of the Reichsbank (commercial and Treasury bill discounts, collateral loans and security holdings) aggregated 12,809 million marks on March 30 an increase of 408 million marks over the situation at the end of February. The bill portfolio rose 417 million marks during the month to a new record total of 12,242 million marks. Holdings of miscellaneous securities also rose 27 million marks during the month to a total of 394 million marks.

On the other hand collateral loans declined by 7 million marks and the holdings of eligible securities on March 30 amounting to 144 million marks were 29 million marks less than on February 29. (In regard to  
eligible

ham -2- No. 832, April 5, 9 a. m., from Berlin

eligible securities it is to be noted that there was an uninterrupted decline from the record holdings of 1441 million marks on October 31 to a low of 106 million marks on March 7. Since that last date the Reichsbank for the first time since October has engaged in open market purchases of such securities). "Miscellaneous assets" increased from 1,779 million marks at the end of February to 1,822 million marks on March 30 a figure however which is 281 million marks under the record total of 2,103 million marks attained on February 15. The item "miscellaneous assets" it may be remarked, is one of the most mysterious of the Reichsbank statement since the institution has never disclosed all the transactions which are included under this heading. The most important transactions are doubtless the operating credits of the government, the post office and the railways, which are chiefly responsible for fluctuations of this item. (END SECTION ONE).

KIRK

CSB



HSM

GRAY

Berlin

Dated April 5, 1940

Rec'd 11:31 a. m.

Secretary of State,  
Washington.

832, April 5, 9 a. m. (SECTION TWO)

Note circulation stood at 12,176,000,000 marks on March 30, 1940, as compared with 11,877,000,000 marks on February 29, and 8,311,000,000 marks on March 30, 1939. Sight deposits were above the month end average reaching a figure of 1759 million marks on March 30.

The steady expansion of Reichsbank credit and monetary circulation has been accompanied by a steady increase in the money market as evidenced by the reduction of the private discount rate to 2-3/8% on April 1. This was the third decrease in the private discount rate since the outbreak of the war, previous decreases of 1/8 having also occurred on November 8 and January 2. The decrease in private discount rate has this time also as in January been accompanied by decreases in the discount rate on Government short term paper. The present rate of discount on six months Treasury certificates is

3%

hsm -2- No. 832, April 5, 9 a. m. (Section 2), Berlin  
3% and on 12 months Treasury certificates  $3\frac{1}{2}\%$  as compared with  $3\frac{1}{4}\%$  and  $3\frac{3}{4}\%$  at the beginning of the war. Call money rates also reflect the increasing liquidity of the money market the monthly average having decreased from 2.53% in September to 2.03% in January and 2.08% in February and the end of the month rates from  $2\frac{1}{2}\%$ - $2\frac{3}{4}\%$  in August and September to  $2\frac{1}{4}\%$ - $2\frac{1}{2}\%$  in February and March (although November and its month end rates were one-eighth lower). Rates below 2% were reached on some days in February.

The cause of the intensified liquidity is not entirely clear but presumably largely ascribable to the steady diminution in the production and supply of consumption goods plus the heavy incidence of dividend payments at the present time. The liquidity of the money market cannot be ascribed to restrictions on private borrowing since during the first three months of the year approximately 400 million marks in industrial bonds were issued as compared to 107 million marks in the entire year 1938 and approximately one billion marks in 1939 (including the 500 million mark Reichsbahn loan). Neither can present liquidity be ascribed to diminished Government borrowing and spending. On the contrary there is much evidence that military and quasi-military outlays are steadily increasing. (END SECTION TWO).

KIRK

CSB

PARAPHRASE, SECTION THREE, TELEGRAM NO. 832 OF  
APRIL 5, 1940 FROM BERLIN.

CONFIDENTIAL.

It is said that there has occurred undisclosed government borrowing in the form of increasing delays in payments for supplies for the Government. Reference, telegram of November 23, 1938, No. 651 from the Embassy; attention was called over a year ago to the delays in payments by the Government, as a form of borrowing by the Government. It is probable that arrears were not more than one billion marks at that time; however, according to my information when the war began arrears had gone up to nearly six billion marks, and they stand at around ten billion marks at present. It seems to me that these figures are large, but rather well-informed sources communicated them to me.

Reference, telegram of March 14, No. 641 from the Embassy; as stated therein, there is increasing public pessimism as to the future value of the mark. The term "frustrated flight from the mark" could be used, since the controls on rationing and prices are still in effect. The prices of unrationed goods, art works, second-hand apparel and antiques are steadily increasing, the supply not keeping up with the demand.

END OF MESSAGE.

KIRK.

EA:LWW



TREASURY DEPARTMENT

15

INTER-OFFICE COMMUNICATION

DATE April 5, 1940.

TO Mr. Thompson

FROM Miss Michener *AMM*

In response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of March 1940.

## DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under  
Way, and the Names of Persons Working on Each,  
for the month of March 1940

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

## I. Projects or studies completed

1. Reviews of current developments in the high-grade securities markets were prepared, and memoranda were transmitted to the Secretary on the following dates: March 12 and 19. - Mr. Haas, Mr. Murphy, Mr. Tickton, Mr. Turner, Miss Eyre

These reviews contained, in addition to analysis of the current situation, special studies, as follows:

- (1) Federal Reserve policy with respect to the composition of its Open Market Account (Review of March 12, page 3). - Mr. Tickton
  - (2) The relative price stability of Treasury notes and bonds (Review of March 19, page 3). - Mr. Turner
2. Memorandum on the selection of issues for the March financing was prepared, and was transmitted to the Secretary on March 1. - Mr. Haas, Mr. Murphy, Mr. Lindow, Miss Eyre
  3. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the preceding day, and the price range since date of issue and also for the years 1939 and 1940 to date. A chart for each issue was kept up to date showing recent daily price and yield figures together

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with comparative monthly data since 1933 or since date of issue. - Mr. Brown, Mr. Moody, Mr. Kroll

4. Two proposals of the RFC that the Secretary of the Treasury request that corporation to purchase the preferred stock of banks, were examined. - Mr. Murphy, Mr. Turner
5. Memorandum regarding distribution of and interest rate on United States Savings Bonds was prepared, and was transmitted to the Secretary on March 6. - Mr. Murphy, Miss Eyre
6. Proposed letter to the Director of the Budget commenting on the bill S. 3030 (a bill to alter the matching basis on Federal grants to States for old-age assistance) was reviewed and revisions were suggested for the use of Under Secretary Bell, March 14. - Mr. Murphy, Mr. Reagh
7. Proposed letter to the Director of the Budget commenting on the bill H. R. 6228 (a bill proposing to issue \$5 billions of securities to finance a nationwide highway program) was reviewed and revisions were suggested for the use of Under Secretary Bell, March 21. - Mr. Murphy, Mrs. Stanley
8. Analysis of the bill S. 3509 (Farm Credit Act of 1940) was prepared at the request of Under Secretary Bell, and was transmitted to him on March 16. - Mr. Lindow, Mr. Conrad
9. A field study of certain low-rent housing projects in Indiana and West Virginia was made at the request of the Secretary, and a report was transmitted to him on March 30. - Mr. Lindow
10. Estimate of the distribution, by classes of holders, of direct and guaranteed Federal securities outstanding June 30, 1939, was made, and was published in the March Bulletin. - Mr. Lindow, Mr. Conrad
11. A meeting for discussion of a proposal that the interest rate of the District of Columbia on a PWA loan be tied to the rate paid by the Federal Government was attended at the request of Mr. Keddy of the Bureau of the Budget on March 14. - Mr. Murphy



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## II. Projects or studies under way

1. Summary data and a number of charts on United States securities and on the relation of the market for United States securities to that for other high-grade securities have been prepared to preface the charts on prices and yields of individual issues of United States securities. Completion of the final chart, comparing yields on long-term Treasury bonds and over-the-counter volume, depends upon arrangements to secure the necessary data. - Miss Eyre
2. Statistical (graphic correlation) analysis of factors affecting high-grade interest rates. - Mr. Turner
3. Study of the relationship between the yields and maturities of high-grade securities immediately preceding prior major bear markets in such securities. - Mr. Turner, Mr. Conrad
4. Comparison of relative amplitude of price fluctuations of long-term and short-term securities. - Mr. Lindow, Mr. Conrad
5. Study of the effect of the size of the issue on the prices and yields of U. S. securities. - Mr. Lindow, Mr. Conrad
6. Chart and annotations with respect to the factors influencing the movement of interest rates during the last World War. - Mr. Turner
7. Discussion of various problems encountered and solutions devised in connection with war borrowing. - Mrs. Wadleigh
8. Memorandum comparing and contrasting war and depression deficit-financing. - Mrs. Wadleigh
9. Preparation of a statement and other material re H. R. 8748 (Farm Credit Act of 1940) for the use of Under Secretary Bell in connection with a Hearing before the Committee on Agriculture of the House of Representatives. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Tickton, Mr. Conrad
10. Analysis of the bill S. 3509 (Farm Credit Act of 1940) for the use of the Legal Division. - Mr. Tickton
11. Preparation of data for the Secretary of Commerce re amount of interest-bearing securities of Federal corporations and agencies outstanding December 1929-1939. - Mr. Lindow

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12. Review of progress in the development of a \$2,500 house. - Mr. Lindow

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared for the Office of the Commissioner of Accounts and Deposits showing the latest revised estimates of receipts, by months and by principal sources of revenues, for the period March 1940 through June 1941, and was transmitted on March 1. - Mrs. Stanley
2. The regular monthly summary comparison of estimated receipts and actual receipts in February and in the first eight months of fiscal year 1940, on the daily Treasury statement basis, was prepared, March 11. - Mrs. Stanley
3. The regular monthly detailed comparison of estimated and actual receipts in February 1940 and in the first eight months of the fiscal year 1940, based on the collections classification, was prepared, March 26. - Mrs. Stanley
4. Fiscal year 1940 Budget estimates of employment taxes, Railroad Unemployment Insurance Act, and Unemployment Trust Fund were revised. - Mr. Wilson
5. Preliminary and tentative estimates of Budget receipts for the fiscal year 1942 were completed and transmitted to Under Secretary Bell on March 14 for forwarding to the Director of the Budget, March 12. - Mr. Haas, Mr. O'Donnell, Mr. Daggit, Mr. Driver, Mr. Leahey, Mrs. Stanley, Mr. Wilson, Miss Rastall, Mr. Smith
6. Tabulation of various revenue estimates for the fiscal year 1940 was prepared and transmitted to the Secretary on March 11. - Mr. O'Donnell
7. Letter to the Director of the Budget analyzing from the Treasury's point of view the bill S. 3207 (a bill "To provide for a more equitable sugar quota for the mainland cane area") was prepared and was transmitted to the Legal Division March 29. - Mr. Wilson
8. Proposed tables relating to data from estate tax returns filed during the calendar year 1939 were reviewed and comments thereon were transmitted to the Division of Tax Research on March 1. - Mrs. Stanley



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9. Proposed tabulations of corporation income tax data for calendar years 1938 and 1939 were reviewed critically and comments were transmitted to the Division of Tax Research on March 11. - Mr. Leahey
10. Estimates were made of the revenue effect on individual income tax receipts of proposals to define short-term capital gains and losses as those resulting from assets held twelve months or less. Work requested by and completed for the Division of Tax Research, and transmitted on March 11. - Mr. Driver
11. Supplementing estimates of revenue effects requested by Division of Tax Research in two memoranda of December 13, 1938, estimate was prepared on a comparable basis of what the yield would be if the surtax rate of surtax net income class 4 - 5, Exhibit B, were 4 percent instead of 3 percent, and was transmitted on March 25. - Mr. Driver
12. An estimate was prepared of the revenue effects of repealing retroactively the tax-exemption of interest from all governmental securities, and a write-up comparing this estimate with the long-range estimates submitted to Congress last year of the removal of the tax-exemption privilege from future issues of governmental securities was prepared and transmitted to the Division of Tax Research on March 25. - Mr. O'Donnell, Mr. Murphy, Mr. Driver, Mr. Lindow, Mr. Leahey
13. Estimates were made of the rate of a super tax it would be necessary to impose on corporations and individuals in order to increase income tax liabilities by \$300 millions. Work requested by and completed for the Division of Tax Research, and transmitted on March 25. - Mr. Leahey, Mr. Driver

## II. Projects or studies under way

1. Budget estimates of revenue yields in fiscal years 1940 and 1941 are being prepared taking into account the recent experience with collections. - Mr. O'Donnell, Mr. Daggit, Mr. Driver, Mr. Leahey, Mrs. May, Mrs. Stanley, Mr. Wilson, Miss Rastall
2. An estimate is being prepared for the Division of Tax Research as to what rate of tax on toilet preparations would produce the same amount of revenue as the 10 percent rate on the base taxable prior to the 1939



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Amendments when applied to the following taxable base: "The fair sales price at wholesale of the article finally packaged and labeled ready for shipment or delivery to final consumers, the tax being imposed on the last business concern engaged in any process of preparing the article or identifying it by name, brand or trademark. Fair sale price would be set by the Commissioner where sales are other than arm's length sales at wholesale. The burden of proof that their intercompany transactions are at fair sale prices would be on affiliated corporations." - Mrs. Stanley

3. An estimate of the revenue effects of the bill H. R. 1, 76th Congress, First Session (a bill providing for an excise tax on retail stores) is in process of preparation for the Division of Tax Research. - Mr. Leahey
4. Improvement of method of forecasting farm income, for revenue estimating purposes. - Miss Rastall, Mr. Smith
5. Investigation of average hourly earnings as a factor in forecasting payrolls for revenue estimating purposes. - Miss Rastall, Mr. Smith
6. Projects for revising and improving the methods of estimating revenues from the following taxes: - Miss Rastall, Mr. Smith
  - (1) Lubricating oil.
  - (2) Wines, domestic and imported.
  - (3) Transportation of oil by pipeline.
  - (4) Electrical energy.
  - (5) Tires and inner tubes.
  - (6) The seasonal distribution of the revenues from the cigarette tax.

Economic Conditions Related to Fiscal  
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business and price situation were prepared and transmitted to the Secretary on the following dates: March 4, 11, 18, and 25. - Mr. Haas, Mr. Daggit, Mrs. May, Miss Rastall

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A study of divergent trends of prices of foodstuffs and industrial materials was included in the memorandum of March 25. - Mr. Daggit, Mrs. May

2. Memorandum on "The favorable side of the business picture" was prepared and was transmitted to the Secretary on March 11. - Mr. Haas, Mr. Daggit, Mrs. May

This memorandum contained special studies as follows:

- (1) Comparison of industrial materials price trend with two business indices. - Mr. Daggit, Mrs. May
- (2) Relationship of copper sales to the business trend. - Mr. Daggit, Mrs. May

3. Memoranda on employment under the Works Projects Administration were prepared and transmitted to the Secretary on the following dates: March 4, 12, 18, and 25. - Miss Rastall

4. Memoranda summarizing reports from Federal Surplus Commodities Corporation on wheat export sales and other market data were prepared and were transmitted to the Secretary on the following dates: March 1, 11, and 18. - Mrs. May

5. Memorandum on carloads of lighterage freight received for unloading at New York, giving weekly data secured from the Association of American Railways, was prepared at the request of the Secretary and was transmitted to him on March 6. Arrangements were made with the Association to secure for a certain back period and currently the weekly data on export freight received at New York and nine other Atlantic ports, lighterage freight in storage and on hand for unloading at New York, and carloads of freight exported from New York. On the basis of this information, weekly memoranda on the movement of export freight were prepared and transmitted to the Secretary on March 18 and 25. - Mr. Daggit, Mr. Lindow, Miss Rastall

6. Comparison was made of actual freight carloadings with forecasts made by the Regional Shippers' Advisory Board, by quarters, March 1934 to March 1940. - Mr. Daggit, Miss Rastall

7. The income of labor, 1939 vs. 1929. A brief comparison was made of the economic position of labor in 1939 with



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with that in 1929, based on share of national income, employment, average hours per week, and certain non-measurable magnitudes. - Mrs. May

8. Suggestions for the revision of the Federal Reserve Chart Book were made at the request of Mr. Thomas of the Federal Reserve staff, and were transmitted by telephone on March 22. - Mr. Daggit, Miss Eyre
9. Clipping "Private construction lifts engineering awards in week by 7 percent" was reviewed and discussed with the Secretary on March 8. - Mr. Murphy, Mr. Daggit

## II. Projects or studies under way

### 1. Index of unfilled orders.

An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index based on data from individual industries. Work on the U. S. Steel Corporation, a large and representative segment of the steel industry, has been completed. - Mr. Daggit, Miss Rastall

### 2. Indications of business maladjustment.

Various indications of business maladjustments, shown in graphic form, are being brought together for convenient reference. The series of charts is almost completed. - Mr. Daggit

### 3. Export trends.

Since the trend of exports is likely to be an important business factor during the coming year, a project has been started which is designed to interpret export movements in terms of their business significance. A number of charts are in preparation. One which was completed was included with the business memorandum of March 4, and this and another have been added to the Secretary's chart book. - Mr. Daggit, Mrs. May, Mr. Chevraux

### 4. Forces determining trends of basic commodity prices.

This project involves individual price studies for various basic commodities, a number of which have been completed, which are intended eventually to be combined



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into a general index representing the basic price trend, after allowance for the effect of supplies, industrial demand, and other separable factors. Work during March related particularly to prices of cotton and hides. - Mr. Daggit, Mrs. May, Miss Rastall

5. Trends of individual commodity prices and price factors during the World War period.

This project is patterned after the general study of prices and price factors, 1913 to 1922, made in October, but deals with six individual basic commodities - wheat, cotton, hogs, steel, copper, and zinc. The project is designed to determine the principal price factors associated with the wartime rise and subsequent collapse of prices of these commodities. - Mr. Daggit, Mrs. May

6. Index of commodity stocks.

This project is designed to develop a composite index of basic commodity stocks as a measure of one important factor in the general price level. Stocks of 16 important industrial materials, expressed in terms of their net effect on prices, are being compiled for this index. - Mrs. May

7. Index of goods inventories.

A better index of inventories of finished goods is needed as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. An attempt to develop such an index is under way. - Mr. Daggit, Miss Rastall

8. Index of buying on deferred payments.

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

9. Weekly approximations of the FRB index of industrial production.

Project was started during March and will be completed after the release of the new FRB monthly index (now in

process of revision by the Federal Reserve Board and expected out in one to three months). This project is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Miss Rastall, Mr. Smith

10. Composite chart on unemployment.

This chart is designed for inclusion in the Secretary's chart book. Data have been compiled and the chart is in preparation. - Mr. Lindow

Actuarial Problems

I. Projects or studies completed

1. Retirement Committee of the President's Committee on Civil Service Improvement.

This Committee made a comprehensive study of the Civil Service retirement law. Its report, recommending several changes designed to improve the present service, has been completed and submitted to the President's Committee. - Mr. Reagh, Mr. Brown

2. Civil Service Assembly of the United States and Canada.

Upon request, tables on annuities, to be included in a pamphlet "Retirement Systems for Public Employees," were reviewed, March 16. - Mr. Reagh

3. Preparation of interest tables for use by the State Department under the Foreign Service Retirement Law.

The Foreign Service Retirement Law requires that records of contributions with interest be maintained in respect to each individual coming under the retirement law. Interest tables were prepared to facilitate the maintenance of these records and to record the data in a form suitable for use in actuarial valuations of the fund. (Under the recent amendment to the Foreign Service Retirement Act actuarial valuations are made by the Treasury Department). Project was abandoned because of difficulty in adapting these tables to stipulated accounting procedure. - Mr. Reagh, Mr. Brown



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4. Interest and amortization schedules for Rural Electrification Administration loans.

These schedules were prepared at the request of Mr. Joseph F. Marion, U. S. Department of Agriculture, and were transmitted on March 18. - Mr. Brown

5. Comment on the bill S. 3054, to provide an annuity for May V. Taylor.

Comment prepared at the request of Mr. C. S. Bell, and transmitted to him on March 30. - Mr. Reagh

6. Comment on the bill S. 3640.

Summary of changes proposed by this bill as compared with provisions of the present Civil Service retirement system was prepared and transmitted to Under Secretary Bell on March 30. - Mr. Reagh

## II. Projects or studies under way

1. Calculation of joint and survivorship annuity tables.

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

2. Board of Actuaries of the Civil Service Retirement and Disability Fund.

The Board of Actuaries, of which the Government Actuary is a member, approved tables of factors for use in connection with the joint and survivorship options of the Civil Service Retirement Act. The Board also prepared suggested regulations in connection with the amendment of the Civil Service Retirement Act. The question of approval by the Board of the regulations officially submitted by the Civil Service Commission is still under consideration. - Mr. Reagh

3. Estimate of the cost of lowering the optional retirement age of Foreign Service officers from 60 to 55 years.

A request to prepare this cost estimate was received



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from Mr. Hosmer, Chief of the Office of Fiscal and Budget Affairs, of the State Department. This work is pending due to difficulties encountered because of the lack of basic data. - Mr. Brown

4. Study of horse race results.

This study was undertaken at the request of the Legal Division, for use in connection with the Annenberg case.

The results of some thirteen thousand horse races have been recorded on punch cards and tabulated to show the financial results of betting under various systems and of following the selections of different expert handicappers. A report embodying the results of the study is being prepared. - Mr. Reagh, Mr. Brown

5. Report of the Civil Service Assembly of the United States and Canada on "The Retirement of Government Employees."

A first draft of the chapter on "Financing the Plan" is in process of preparation. - Mr. Reagh

6. Retirement of employees of the land-grant colleges.

S. 1850 "To aid the States and territories in making provisions for the retirement of employees of the land-grant colleges" was submitted by the Bureau of the Budget for comment. A report was made to the Bureau stating that further data would be required before a definite recommendation could be made. - Mr. Reagh

7. Actuarial Advisory Committee under the Railroad Retirement Act.

The Railroad Retirement Board has submitted to the members of the Actuarial Advisory Committee a memorandum setting forth the proposed basis for a new valuation of the benefits provided under the Railroad Retirement Act. The memorandum is supported by numerous tables of factors upon which cost estimates have been based. Analysis is being made of the valuation assumptions and the procedure followed in preparing the cost estimates. - Mr. Reagh, Mr. Kroll

8. Tax litigation involving the amount of insurance at risk.

Several informal conferences have been held with Mr. Warren F. Wattles, Special Assistant to the Attorney

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General, regarding the amount of insurance at risk under a contract providing that on the death of the insured a stipulated sum would be paid for a period of twenty years certain and thereafter for the remainder of life. Mr. Wattles has been provided with a proper basis for determining the amount of such insurance. Assistance has also been given in the preparation of a letter to the Prudential Life Insurance Company requesting certain basic information necessary in making a precise calculation. Further work is in abeyance pending receipt of a reply to this letter. - Mr. Reagh, Mr. Brown

Other Projects or Studies

1. Treasury Bulletin.

Data were prepared or reviewed for the March issue of the Bulletin, as follows:

Prepared -

Estimated holdings of Federal securities outstanding on June 30, 1939 (See page 2 above). - Mr. Lindow, Mr. Conrad

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

Reviewed -

Amount of interest-bearing debt outstanding, the computed annual interest charge and the computed rate of interest. - Mr. Lindow

Estimated customs duties and taxes, and value of dutiable and taxable imports, by tariff schedules. - Mr. Lindow, Mr. Wilson

Estimated receipts from taxes imposed by various revenue acts on imports. - Mr. Lindow, Mr. Wilson

Computed duties collected, by countries. - Mr. Lindow, Mr. Wilson

Treasury criminal cases. - Miss Michener, Mr. Lindow

2. Other material for publication.

- (1) Galley proof of article on Treasury operations in the Americana Yearbook was reviewed. - Mr. Tickton

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3. Correspondence.

Replies were prepared to letters of inquiry on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Miss Ziegler, and other members of the staff in appropriate fields of work.

During March 291 letters were received in the Division and 312 were handled as required.

4. Charts.

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of March is attached.



Work completed in the Graphic Section, Division of  
Research and Statistics, March 1, to 31, 1940.

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Type of work	For Division of R & S	For Others	Total
<u>Graphic:</u>			
<u>New charts:</u>			
Total charts completed	42	10	52
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	25 (times)	-	25 (times)
All other charts brought up to date	892	21	713
<u>Miscellaneous:</u>			
Total jobs	26	12	38
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	36	37	73
Number of-			
Negatives	37	100	137
Contact prints	82	287	369
Enlargements	83	58	141
<u>Photostats:</u>			
Total jobs	131	34	165
Number of-			
Lettersize copies	510	2,012	2,522
All other copies	760	829	1,589
<u>Multilith:</u>			
Total jobs	-	8	8
Number of-			
Zinc plates	-	89	89
<u>Miscellaneous:</u>			
Total jobs	5	4	9

Bwlt  
3-40

Statistical Report on Work Completed by the  
Graphic Section, Division of Research and Statistics, by months,  
beginning January 1940.

Type of Work	Jan.	Feb.	Mar.	Apr.	May	June	Total
<b>A. Graphic</b>							
New charts completed	41	52	52				
Charts brought up to date	773	678	713				
Bond book charts completed	57						
Bond books brought up to date	-	24(times)	25				
Miscellaneous jobs completed	49	11	38				
<b>B. Photographic</b>							
<u>Photographs:</u>							
Total jobs	69	89	73				
Number of-							
Negatives	179	145	137				
Contact prints	192	947	369				
Enlargements	604	226	141				
<u>Photostats:</u>							
Total jobs	137	101	165				
Number of-							
Lettersize copies	2,361	464	2,522				
All other copies	781	868	1,589				
<u>Multilith:</u>							
Total jobs	2	4	8				
Number of-							
Zinc plates	65	66	89				
<u>Miscellaneous:</u>							
Total jobs	6	3	9				



THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

April 5, 1940

TO THE SECRETARY:

Following is a memorandum of matters that have come up since you were away and on which you might like to have a report.

Cabinet Meeting on Friday, March 29th.

Very little happened at this meeting. The President gave a report of Welles' return, saying that he was issuing a statement that afternoon that there were some slight prospects of peace but they were very slight.

The President said to Secretary Woodring that the Joint Report which was presented to the Military Affairs Committee went over very well and seems to have been received with some enthusiasm. Mr. Woodring said that everybody seemed satisfied and he wanted the President to know that Senator Sheppard had been very helpful.

The Secretary then discussed at some length his army revitalization plan, on which he hoped to get the President's approval. A similar bill was submitted last year while I was in the Budget, and as I recall, it is a scheme to retire a number of the higher grade officers at present in the service in order that the younger officers can be promoted. That particular bill had a great deal of opposition in the officer ranks.

Wallace only reported that his appropriation bill was in conference, that the wheat crop estimate was down but we still had surplus supplies, and that cotton, in his opinion, would not move out of the country during the coming year.

Mrs. Perkins reported that the Wages and Hours situation is gradually improving and industry and the Administration seem to be getting together. She gave some figures on employment, but they did not appear so important.



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Bank of America.

As I explained to you over the telephone, the Comptroller's Office, the Reconstruction Finance Corporation, and the Bank of America are in practical agreement on the Articles of Association covering the increased capital for the Bank. The capital will be in the form of \$12,000,000 preferred stock and \$18,000,000 in surplus, or a total of \$30,000,000 as agreed upon. This will be an increase of \$4,500,000 in capital stock over the Bank's original proposal. When this preferred stock is converted into common stock the Bank's capital account will show \$62,000,000 in common stock and \$62,000,000 in surplus account, or a total of \$124,000,000 in capital which will be frozen and which can be changed only on consent of the Comptroller.

Dean Bates is still working on his report, which, I understand, will be completed within the next few days. I do not believe you have met him and I suggest that you see him before he leaves the Treasury. I am sure he would like to meet you.

Harry Durning.

As I told you over the telephone, it came to our attention through Harry Durning's opponent in the New York primaries for nomination as delegate to the convention that Harry Durning had permitted his name to go on the ballot without resigning as Collector of Customs, which he thought was a violation of the Hatch Act. We in the Treasury feel that he had violated the Hatch Act and that Harry should submit his resignation effective as of the close of business Tuesday, April 2.

After talking with you on the telephone that day, we called Harry on the phone and told him that we feel he would come under the Hatch Act and that, while we regretted it very much, we thought he should submit his resignation to the President immediately, effective as of the close of business that day, in order to avoid any criticism of his action or putting the President in a position where he would have to remove him under the Hatch Act. Harry promised that day to submit his resignation by telegram the next morning effective

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as of the close of business the previous day. He did not do this, however, and in contacting him the next day he told us that in talking to Ed Flynn the night before they had decided not to submit his resignation until he had seen the President, which he hoped would be on Friday in Washington or over the week-end in Hyde Park.

I called Steve Early and told him the situation and that I was submitting a memorandum to the President on the matter. He immediately conferred with the President and I received telephone instructions to contact Harry Durning and tell him that the President did not want him to resign as Collector of Customs but that he wanted him to resign as a delegate to the convention. The President also said to tell him that he wanted him to write the Secretary of the Treasury on Wednesday explaining that he had allowed his name to go on the ballot with advice of counsel that he did not come under the Hatch Act; that he finds now, however, after being elected, that that advice was wrong; and he therefore feels that it is his duty to resign as a delegate. Harry and Ed Flynn should then call the Election Committee together and appoint some one to substitute for Harry as a delegate.

Ed Flynn called me this morning and said that he was in touch with Harry and that he probably would resign as delegate but he (Ed) wanted to talk to the President first and he thought he might get in touch with him some time today. He said he would call me back later.

Harry called later and said he would submit today to Jim Farley his resignation as delegate and send us a copy of his letter.

#### Self-Help Organization.

Mrs. Doyle and Mr. Carmody have accepted your invitation to lunch at one o'clock on Tuesday. Colonel Harrington has also accepted, but says that whether he can be here will depend upon his hearing before the Appropriation Committee of the House. He has been up once and expects to go up again on Monday, and hopes that will be final, but he may have to be there again Tuesday, in which case he will advise you Tuesday morning.

The copies of the papers which you left at the White House containing a suggestion that the new relief bill contain a provision whereby grants of not to exceed \$1,000,000 may be made for self-help organizations, are attached hereto.



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Cabinet Meeting on Friday, April 5.

Very little happened at today's Cabinet Meeting except that two matters came up which were of interest to the Treasury. One was that the President said he was very much interested in the receipt figures that I had given him a few days ago and that he wanted to call a conference about Tuesday or Wednesday of next week with you, Lauch Currie and Harold Smith to go over them to see whether he should send a letter up to Congress advising it of new estimates. I told him there was quite a bit of interest on the hill, particularly in the Appropriation Committee and the Ways and Means Committee, and I thought he should send such a letter. Otherwise, there will continue to be speculation on both the receipts and the expenditures.

The other matter that came up was concerning a conference that Secretary Wallace had with a newspaper man. The newspaper man told him he understood the Treasury was giving serious consideration to the question of further devaluation of the dollar and that agricultural exports were involved. I told the Secretary that I thought this was no more than the usual rumour which was constantly floating around. The President added that it probably had something to do with the free and official rates of exchange of Great Britain which had been discussed in the paper during the past week and that he expected to have a conference on this on Tuesday when he returned from Hyde Park, at which he would like you, Secretary Hull and Secretary Wallace to be present. He said that in the meantime he had asked the Treasury to do nothing about issuing instructions to its Collectors of Customs.

Secretary Wallace raised another matter, which had come to him through the same newspaper man, and which was also no more than a rumour. The newspaper man said that he understood Italy was withdrawing all of its balances held in this country and he wanted to know if Secretary Wallace had any knowledge of that. I told the Cabinet that I had no knowledge of Italian balances being withdrawn, that I had seen no indication of it in the daily reports submitted to my desk. The President said it should be



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looked into, however, as it might have important political consequences. He asked me to start the machinery going to ascertain whether there had been any balances withdrawn. Upon my return from the Cabinet meeting I asked Mr. Cochran to look into it and he will have a report for you on Monday.

#### Financing.

The working balance in the general fund at the close of business April 3 was \$1,699,000,000. The new receipt and expenditures estimates give a somewhat different picture than we had a month ago. Without any new financing by the Treasury or Government corporations, it is estimated that the working balance at the end of June would be about \$800,000,000. I had originally planned that we would sell \$150,000,000 of RFC notes in May, but Mr. Jones advises me that at the present time he does not feel he will need any money for some time to come. Their repayments are more than meeting their loan requirements. We could, therefore, if you so desire, use the May 15th date to refund the 3-3/8% bonds maturing June 15th.

It will be necessary to raise a substantial sum of money in July to meet the requirements of the Commodity Credit Corporation. That organization will need approximately \$300,000,000 to run it from July through to the end of the year, and it will need most of it in July, August and September.

It looks now as though we might be able to go through to December 31 with as little as \$400,000,000 additional cash for Treasury account.

The present balance of borrowing power under the debt limitation is \$2,267,000,000. On the estimate of the cash position for the period ending December 31 on the basis of the revised estimates, it appears that we may have as much as \$450,000,000 of borrowing power left on January 1 next.

WMB

MEMORANDUM FOR COLONEL HARRINGTON:

As you know, we have had some difficulty during the past year in getting funds made available from emergency appropriations to carry on the so-called self-help projects. In fact, the Comptroller General ruled that the Works Progress Administration appropriation for the fiscal year 1940 was not available for this purpose.

In order that we will not encounter this same difficulty in 1941, I should like for you to include language in the Works Progress Administration bill which will permit projects and grants to aid self-help and cooperative associations or corporations for the benefit of needy persons, limiting the amount that might be made available for this purpose to \$1,000,000, if, in your opinion, this amount is sufficient to fully take care of the projects which I have in mind.

DWB:cs  
3-11-40

MEMORANDUM TO THE DIRECTOR OF THE BUDGET:

There is transmitted herewith a copy of my memorandum of today to Colonel Harrington regarding the inclusion in the forthcoming relief bill of a provision to take care of the so-called self-help projects.

I wish you would follow this and see that language is included in the bill in such form as will give us the authority to make grants to care for these projects as we have prior to this year.

March 5, 1940  
DWB:HLR





THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

April 5, 1940

TO THE SECRETARY:

I am attaching hereto a report made by Archie Lochhead in accordance with my telephone request. He just called me on the telephone and said that it might not be as good a report as you wanted, but there really is no factual information on the subject. The memorandum really contains opinions of the operators in the foreign departments.

*DWB*

Enclosure

April 5, 1940

Dear Archie:

I have your letter of April 4, 1940, enclosing a memorandum of your conversations with operating men in the foreign departments of various New York banks. Thanks very much for this information, which I am sending on to the Secretary today. I am sure he appreciates all the trouble you have taken to get this data for him.

I understand from Merle Cochran that you have not been feeling very well and that you are expecting to leave Monday on a vacation. I am sorry to hear that you have been under the weather and I hope the trip you are planning will be beneficial to your health.

With best regards to you and the family,

Sincerely yours,

S/ DAN

Mr. Archie Lockhead,  
President,  
Universal Trading Corporation,  
630 Fifth Avenue,  
New York, N. Y.

## UNIVERSAL TRADING CORPORATION

ARCHIE LOCHHEAD  
PRESIDENT630 FIFTH AVENUE  
NEW YORK, N. Y.

April 4th, 1940.

Hon. Daniel W. Bell  
Under-Secretary of the Treasury  
Treasury Department  
Washington, D. C.

Dear Dan:

Following our recent telephone conversation, I have made calls on the operating men in the Foreign Departments of various New York banks who would be in position to give an opinion on the questions you raised.

I am enclosing herewith a summary of these conversations and am also enclosing separate copies of the opinions of several of the conversations with particular banks. Of course, I have not tried to cover all the details but have simply endeavored to give you a general idea as to their opinions. You will note that they all are thinking along about the same lines, although they sometimes express their opinions in different language.

I trust that this material is along the lines you desire.

I remain

Sincerely yours,



Archie Lochhead

AL/R  
Encs.



April 4th, 1940.

TO: SECRETARY MORCEN~~T~~HAU  
FROM: ARCHIE LOCHHEAD

EFFECT OF RECENT DEPRECIATION IN FREE  
RATE OF POUND STERLING ON EXPORT AND  
IMPORT TRADE OF THE UNITED STATES

The following is a summary of the opinions of Foreign Exchange officials of various banks in discussions held with them during the past few days. Short resumes of conversations with some of the particular banks are attached hereto.

I. None of the banks have as yet observed any particular transactions which were created by the lowering of the free rate of sterling. Sufficient time has not yet elapsed for such transactions to be cleared through the banks.

II. Most of them feel that Britain hopes that the fall in the free sterling rate will encourage British exports and cut down the importation of nonessentials, but do not believe that this will amount to any great figure, nor that it is the real reason for the drop in the free sterling rate.

III. They feel that exports of the United States will increase to Great Britain, and that imports will be smaller despite any exchange rate, owing to the dependence of Great Britain on us for various items which cannot be obtained elsewhere, and that the volume of purchases will be dictated primarily by their wartime needs rather than any rate of exchange prevailing.

IV. It is not thought possible that Great Britain can greatly increase her exports to the United States by a depreciation in exchange

as the productive capacity of her industry will mostly be taken up with war orders and the natural tendency for a rise in the internal price level will offset, to a great extent, the advantage gained by the depreciation in currency.

V. The chief points where the effect of the depreciation will probably come will be in the neutral markets, particularly South America where gains in trade which the United States might obtain from the inability of Germany to serve these markets, may be offset by the advantage British exporters will gain by a depreciation in sterling.

VI. The articles in which Great Britain has a practical monopoly, namely, whiskey, furs, jute, rubber, tin, will not be available at the free rate as England considers these as foreign exchange assets and will make the world pay for them at their gold value. If it develops that any other articles assume any real importance, England will not hesitate to add them to this list. These exports constitute Great Britain's main source of current foreign exchange, and they wish to retain this foreign exchange for essential war purchases in foreign markets. By allowing the free rate of exchange to drop, this will prevent dissipating these foreign exchange assets.

VII. The real advantage gained by Great Britain in allowing the spread between the official and the free rate is that it tends to freeze balances held in England by foreigners. Foreigners naturally hesitate to repatriate their sterling balances when they have to take the loss between the official and the free rate. This also has a bearing on any balances created in England by her purchases in other countries of agricultural products. A case in point is the Argentine where they are selling a considerable amount of agricultural products to England on apparent-



ly favorable terms, as they naturally tend to figure the price they receive on the official rate. Argentine, however, now finds that she is building up balances in London which Britain will not allow her to withdraw at the official rate, and she cannot find articles in England which are needed in the Argentine to use up these balances. Argentine is, therefore, faced with the alternative of taking a loss if they transfer the money from London, or of leaving the money in London, in which case she is practically lending England the funds derived from the sale of her products.

VIII. Most of the banks are alarmed not so much by the depreciation in currency, as they are by the large number of commercial treaties which England is effecting all over the world and which they feel are of greater consequence to the United States commerce, not only during the war time, but for some years to come, than any depreciation in the sterling rate. In other words, they feel that England is adopting every feature of a closed economy and artificial trade restriction which she criticized so strongly when they were used by Germany.

IX. There was a strong suspicion that the drop in the rate of sterling is the first move in the effort by Great Britain to break down the Johnson Act. In other words, the drop in sterling will focus the attention of sections in the United States which have articles they wish to sell in England but feel they are at present prevented from doing by the low rate of sterling. By Great Britain's action in only purchasing manufactured articles here, and refusing to buy agricultural goods, on the plea that they do not have sufficient funds for both, the support of the agricultural groups may be obtained to obtain a market for farm products.



CONVERSATION WITH BANK OF MANHATTAN COMPANY

(Mr. Shubert, Vice President and Mr. Moran  
Assistant Vice President.)

Do not think that the old theory of depreciated exchange will in itself create favorable trade balances under present world conditions. Do not have any evidence from their customers' transactions that depreciation of exchange has created any business. Have had more orders to sell sterling than to buy. Domestic customers transactions have about balanced, but heavy selling orders of sterling have been received from Scandinavian and Far Eastern countries. Think that if war continues even the present level of \$3.50 for free sterling is too high.

From conversations they have had with English friends came the impression that England would take all possible steps to conserve foreign exchange and obtain additional foreign exchange wherever possible. Feel that Great Britain is actively working to make it possible to borrow money here by creating popular sentiment for the repeal of the Johnson Act. Think that all foreign trade will be disrupted through being forced into unnatural channels by special arrangements and treaties made by warring nations.

## CONVERSATION WITH BANKERS TRUST COMPANY

(F. A. Klingsmith Assistant Vice President  
and C. Freygel, Vice President.)

Find that purchases of sterling by their customers in recent week or two not caused by additional imports from England, but rather to cover of short positions against articles previously imported. Also find from customers who had sold sterling for future delivery as a hedge against their accounts receivable in London, are now covering in order to realize their profit. Think that the advantage to England of a depreciated exchange in its effect on exports or imports is more fancied than real. Understand that England is blocking the removal of foreign balances from London in as far as possible, in order to prevent depletion of foreign exchange resources. Think that Britain will buy just as much in this market as they have funds to cover. Further purchases would depend on increased exports from England, or funds made available in the United States by credits or loans. Think that too much emphasis should not be placed upon the sterling block as previously conceived, as countries formerly considered in the sterling block would only remain on sterling basis as long as it suits their convenience. Countries not entirely dependent on England tending toward dollar exchange, and only ones held to England by strategic reasons or special trade treaties will use sterling as basis for their prices.

CONVERSATION WITH CHASE NATIONAL BANK

(S. Stern, Vice President and Mr. Wallace, Manager of Chase Bank, London office.)

A very few articles make up the bulk of Britain's foreign export, and they can easily require payment for these exports in foreign exchange at the rate of \$4.02.

Prices in Britain have been rising, the recent rise being estimated at about 17%, which takes away a great part of the advantage to exporters from the recent depreciation in free sterling.

British authorities not quite sure of exact amount of foreign balances in London, and afraid if free rate brought up to \$4., a large outflow of funds might result.

Once Great Britain decided not to support exchange, and to enter into special trade restrictions, they are going into the whole subject in a thorough cold-blooded manner and restrictions are likely to increase rather than decrease. Present rate of exchange not likely to stimulate exports sufficient to create foreign balances of any importance unless implemented by special export bounties, or other artificial stimulants, and feel such steps will be taken as soon as they can be decided on and put into effect. This is a life or death struggle for England, and they will take every step necessary to furnish them with materials and credits necessary to carry on the war.



## CONVERSATION WITH CHEMICAL BANK AND TRUST CO.

( N. B. Jackson, Vice President.)

So far have seen little effect on export or import trade caused by depreciation of free sterling. Results which would ordinarily follow this step obscured by war conditions and special arrangements between various countries. Think England will have difficulty in keeping internal price level low enough to obtain any real advantage from depreciated exchange. Think people are tending more and more to value articles in terms of other articles instead of in terms of money or foreign exchange. In other words people are prosperous or poor not in terms of money, but in concrete goods. Feel that rates of exchange exercise only a minor control in the absence of free trade and under present restricted world trade.

CONVERSATION WITH GUARANTY TRUST COMPANY

(Mr. Loree, Vice President.)

Do not think depreciation of free rate of sterling will have any great effect on our foreign trade. Great Britain will purchase necessary articles which are only obtainable in the United States. Controls will prevent, in as far as possible, British firms from buying any nonessential articles. They will continue to obtain as high a rate as possible for the goods on which they have a monopoly, such as tin, rubber, etc. Other articles which they may be able to manufacture for export will not add up to any great amount of foreign exchange. It does not seem possible that, with most industries being drafted for war requirements, that there is any great amount of productive resources which could be devoted to making articles for export. If any greatly enlarged export trade was developed, the demand for sterling to pay for these exports would tend to narrow the rate between the free and official rate.

Greatly concerned over special trade treaties such as the recent Argentine and Uruguay arrangements. Also alarmed over what effect on world trade will be caused by the tendency for greater French-Anglo cooperation in the economic field as well as the military. Between English and French colonial possessions, they control a great number of strategic raw materials, and if they combined their resources in this field they would have a large control of world trade. Do not think United States can offer any competition to this type of control with the exception of the granting of loans either government or private, to neutrals, and especially South American and Far Eastern customers, as credit is a greater inducement than any exchange rate.

## CONVERSATION WITH IRVING TRUST COMPANY

(Mr. Brugger, Vice President.)

The only effect of the depreciation in the free sterling rate which they have observed so far has been to decrease their foreign exchange business. Think that undoubtedly English will obtain advantage in increased exports and decreased imports due to the depreciated exchange, but a lower rate in itself will not produce any great amount of new business. Think that the effects of exchange rates on foreign business greatly exaggerated in a world that has turned almost entirely to closed economy. Think that the lowering of the exchange rate is only the first and probably temporary effort to promote trade which will be followed by stricter control by prohibiting imports at any price, and likewise forcing exports by any means possible.

Think our exports of war commodities will increase no matter what happens and that the export of other commodities in which we are particularly interested will depend on what credit demands we will be able and willing to grant.



AO

XXXXXXX

Tehran

Dated April 5, 1940

Rec'd 2:15 p.m.

Secretary of State

Washington

63, April 5, 9 p.m.

My 55, March 29, 9 a.m.

Treaty of Commerce and Navigation and four exchanges of letters were today unanimously ratified by the Iranian Parliament. Based on most favored nation treatment except where rights are claimed under a customs union or under treaties between Russia and Baltic states and Finland. Soviet commercial representation in Iran to enjoy diplomatic status and privileges and operate in the name of the Soviet Government. Shall have right to deal with private Iranian merchants as well as Government agencies but total sold shall not exceed total bought. Annual quota is to be fixed and within this quota transactions shall be exempt from Iranian export certificates. Russia shall have the right to establish in Iran gasoline filling stations, tanks and other buildings required for sale of petroleum products. Russia grants on basis of reciprocity free transit to Iranian goods destined to any third country but transit of non Iranian goods is limited to those originating in countries having treaty relations with Iran. Arms and munitions are excluded from transit through either country. Ratifications to be exchanged in Moscow and treaty to remain in force for three years.

One of the letters provides that nationals of third countries serving on vessels or in ports on the Caspian Sea shall not be permitted to use their position for purposes beyond the scope of their services. The other letters deal

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with representation in the courts, trademarks and regulations regarding technical details of transportation and transit.

I shall comment in a later telegram.

ENGERT

CSB

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 5, 1940, 7 p.m.

NO.: 433

FOR THE TREASURY DEPARTMENT. FROM MATTHEWS.

This morning I dropped in to see the Bank of Italy representative, Pennachio. While barely his cheerful self, I thought he was somewhat depressed, particularly over the possibility that the blockade against Italy would be tightened by the Allies. So far, he said, his country had no information of any specific measures to that end, but he expected that the importation of raw materials essential for Italian industry would become increasingly difficult.

Pennachio told me that numerous French friends of his tried to pretend that Italy was making plenty of money out of the war, and this was not at all true. He said many factors offset the profit, and involved a serious maladjustment of the whole Italian economy. The situation was not favorable in view of increasing transport difficulties and delays, as well as the obvious factors such as shutting off of tourist revenues. He said that prices in Italy are going up despite all they can do, so that recently they had to increase wages.

As for the possible tightening of the blockade, I remarked that I assumed it was not the intention of the



- 2 -

Allies to handicap Italian industry through exclusion of imported raw materials if they were convinced that Germany would not get the exported finished product as well as such raw materials themselves. He replied with a smile that in practice it was of course very difficult to work out the proper detailed mechanism containing adequate guarantees, which was among the factors that made the Italians somewhat generally understood.

As for the political relations between Italy and France, Pennachio said that Reynaud had had talks with Ambassador Guariglia, and in spite of the press relations between the two countries were "none the worse". He added that there has however been no improvement, and general agreement has given nothing but words, not acts. Reference, telegram of March 15, No. 348 from the Embassy; Pennachio had stated at that time that he hoped for some initiative on the part of France to improve relations between France and Italy. Reynaud he said is sending a French representative to prepare for the 1942 exposition in Rome. Pennachio commented that Reynaud writes a nice article for the Italian press one day, and then the next day Farinacci spits.

END SECTIONS ONE TO FOUR, INCLUSIVE.

MURPHY.

EA:LWW

PARAPHRASE, SECTIONS FIVE TO FIFTEEN, INCLUSIVE  
TELEGRAM NO. 433 OF APRIL 5, 1940, FROM PARIS

Pennachio said that he disliked these press polemics, but we could see they had to cater to extremist opinion to some extent. He said that I could be sure of one thing - that everything possible would be done by Italy to maintain peace in the Balkans. He expressed doubt whether at the present time Russia would make any move towards Bessarabia. He described as "silly" the German - plus Italian - press campaign regarding the famous map in the office of Reynaud, but still seemed a little dubious. I told him that in the photograph in ILLUSTRATION I was the third person - he had not recognized me - and that I could give him assurance that the map was nothing but an ordinary pre-anschluss map of Europe which for many months had been in Reynaud's office, and that during the interview with Mr. Welles the map was in no way discussed or alluded to. Pennachio seemed to be definitely relieved on hearing this, and announced that he would immediately inform his Governor. However, he went on that whether or not the Allies actually had the large military forces in the region of Syria which were attributed to them, his Government was quite anxious about the possibility of an Allied move in the Near East.

As for the duration of Reynaud's Government, Pennachio seemed to be somewhat dubious. I gathered that it would not be displeasing to him if it did not hold up, although he did not say so in so many words.

Pennachio



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Pennachio thought that the internal financial situation of France was excellent and said in effect that the optimistic statements of French bankers as to the flow of subscriptions to armament bonds could be discounted, but it is shown conclusively by statements of the Bank of France and other facts that a very high rate is being maintained for the subscriptions, and such facts are accurate. Pennachio did not seem to have any figures for such subscriptions, but in the telegram of April 1, No. 417, from the Embassy I reported that the present rate each month is approximately 10 billion francs; this amount in addition to the more than 5 billion francs in tax returns would comfortably cover the current war outlay of France if it has not gone too far beyond the 500,000,000 francs per day which Couve de Murville mentioned to me some weeks ago; reference, telegram of February 9, No. 190 from the Embassy.

For the time being, Pennachio thinks, the upward trend of prices here has been largely halted. However, he believes that the prestige of the pound has suffered from the slump on the free market. He wondered whether the franc would have remained firmer if it had been unconnected. Reference, telegram of March 15, No. 348 from the Embassy; Pennachio referred to his previous position that to be successful exchange control would have to be enforced



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ruthlessly and rigidly or the rates would drop more seriously. He added that he could not see that the British would block foreign sterling accounts, that the international banking position of the City would suffer consequences too serious if such a move were made. He had however not noticed anything to indicate that the British intended deliberately to encourage a lower pound value for competitive export reasons. If he felt there were any basis for such a charge, I believe he would be only too likely to stress the point. He termed the current situation a "phenomenon" in that in France there is no flight either from the franc into foreign currencies, through exchange control loopholes, or from money into goods, even though the franc's future in view of the enormous waste and destruction of war seems to him far more serious than in 1936 and 1937 when France was having internal political troubles and when such a serious flight took place. The reason for this he believes is partly French patriotism and partly the effectiveness of the exchange control. He said in effect that many people have of course long since taken measures for self-protection, and there is not much incentive for them to rush to real estate, particularly urban real estate, in view of the present property restrictions on rents, et cetera, and potential taxes on property.

He said that the commercial and compensation agreements

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between France and Italy were working satisfactorily, that on the first of April the first four million franc monthly payment was made - reference, telegram of March 30, No. 412, from the Embassy. There should soon be completed the liquidation of blocked French commercial credits, he said, as these amount to less than 90 million French francs. There are outstanding no more than 150,000,000 in "financial credits", coupons, dividends, et cetera, on blocked French investments in Italy, which under the new agreement are to be reduced by deduction of 14 percent of total franc compensation deposits. It is expected that the interchange of goods will balance the remaining clearing sums. Private negotiations are to be undertaken as to the franc-lira rate by creditors in the two countries to settle certain other accounts of French creditors on Italy and Italian creditors on France. However, such negotiations are to be carried on through the compensation offices. The commercial and compensation accord, as you will recall, did not cover purchases of armaments by France - reference, telegram of March 15, No. 348, from the Embassy. He said that such purchases are now so small as to be "insignificant". Such shrinkage may well be due to political reasons, though Pennachio did not so state.

He remarked in conclusion that he was wondering when  
foreign



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foreign security holdings in French hands would be requisitioned by the French authorities; the subject seemed to interest him. He said that he could not know what percent of such holdings could be secured by the authorities but he imagined that the total volume thereof was greater than was the general belief.

I had lunch today with Royall Tyler, who had been on another trip to Italy and just returned. Tyler told me of the sequel to the negotiation of rates of purchase for dollar checks through authorized dealers in foreign exchange in Milan, Leghorn and Florence - references, telegrams of March 13, No. 335 and March 18, No. 357, from the Embassy. When the news of this practice got to Mussolini, he was "furious", Tyler said, and ordered that the guilty bankers be arrested immediately. However, the matter was promptly dropped when the bankers produced a circular letter signed by Ricciardi authorizing such procedure. He said that subsequently the circular instructions have been changed so that now\* the negotiated rates apply only to dollar checks for more than \$10,000. He understands that the possessors thereof may, however, obtain up to 60 lire per dollar.

It was Tyler's understanding that contrary to the general belief of "diplomats accredited to the Quirinal"

- and

\* Received "not".



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- and he based his view on information from other sources in Italy and especially well-informed sources in the Vatican - a possible peace move was discussed in the talks on the Brenner. However, Tyler said, Mussolini could not see much of a prospect for success especially after the statement by President Roosevelt, and he declined to accept paternity for a peace baby still-born.

ENC SECTIONS FIVE TO FIFTEEN.

MURPHY.

PARAPHRASE OF SECTIONS SIXTEEN TO EIGHTEEN, INCLUSIVE  
NO. 433 OF APRIL 5, 1940 FROM PARIS

Tyler told me that his information likewise failed to conform to the belief of the above-mentioned diplomats to the effect that Il Duce is slipping in his leadership or that Ciano is now in the anti-German camp - Tyler believes that Ciano in this regard has done some successful leg-pulling.

As you know, Tyler is an intimate personal friend and adviser of Prime Minister Teleki. He said that the Prime Minister came away from Rome convinced that the Italians definitely do not want to enter the present conflict nor do they want trouble in the Balkans. The Prime Minister was slightly less pessimistic as to Italy's attitude and moral support of Hungary. Incidentally, Tyler said, the visit of the Prime Minister had been planned months ago mainly to confirm or refute the statements made to him by Ciano through conference with the Duce himself.

Tonight Tyler leaves for Helsinki to represent the League. He said that Avenol is not satisfied with the way things are going, although the League has "a Swedish representative" at Helsinki. Urgent assistance from the League has been requested by Finland for "reconstruction work". The Finns seemed to be keenly disappointed that they did not receive "by return mail" assistance ranging  
from

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from food supplies to houses. This is the reason for the visit by a League representative to study needs and possibilities. About the fifteenth of April he expects to go through Paris again.

In today's JOURNAL OFFICIEL there is a decree calling for a declaration of the naming of tanning materials held by all persons and enterprises. An arrete on the same subject provides that such declarations must be made to the military authorities of the regions in which the stocks are held within a period of eight days. The aforementioned decree represents the latest of a series issued in regard to declarations of holdings of materials necessary to the national defense (see my telegrams Nos. 237, February 20, 5 p.m., and 259, February 26, 6 p.m.).

The Chamber yesterday approved the bill introduced by the Daladier Government providing for the setting up of a "superior export council" with a view to increasing production and decreasing exports (see my telegram No. 311, March 8, 6 p.m.).

The securities market was strong today most variable revenue issues gaining between 1% and 2% partly on a feeling that a government crisis is not imminent and partly on better relations with Italy. Rentes registered minor gains and losses.

END MESSAGE.

MURPHY.

EA:LWW





TREASURY DEPARTMENT  
WASHINGTON

OFFICE OF  
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO  
COMMISSIONER OF INTERNAL REVENUE  
AND REFER TO

IT:P:CA  
CAA

April 5, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Walter Kidde and Company:

Duly reported conferences with the contractor were held on Monday, April 1, and Thursday, April 4, 1940.

An unreported Bureau conference was held on Tuesday, April 2, 1940.

  
Commissioner.

IT:P:CA  
CAA

April 8, 1960.

**REPORT FOR SECRETARY MORGENTHAU:**

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

**Walter Kidde and Company:**

Daily reported conferences with the contractor were held on Monday, April 1, and Thursday, April 4, 1960.

An unreported Bureau conference was held on Tuesday, April 2, 1960.

(Signed) Guy T. Hoivoring  
**Commissioner.**

CAA/NEA

## DEPARTMENT OF STATE

Washington

April 5, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information one copy of telegram No. 51 of April 2, 1940 from the American Legation, Copenhagen, Denmark, reporting on the quotation of sterling in Denmark.

## Enclosure:

No. 51 of April 2  
from Copenhagen.



HSM

GRAY

Copenhagen

Dated April 2, 1940

Rec'd 12:23 p. m.

Secretary of State,

Washington.

51, April 2, 5 p. m.

Quotation of sterling in Denmark suspended temporarily in anticipation new regulations by National Bank whereby they would take over complete control of sterling here. Twofold reason, first, to comply with new Anglo-Danish payment agreement, secondly, to provide funds for subsidizing agricultural exports.

Details will be cabled as soon as available but all purchases by Denmark from the United States will continue to be paid for at 5.18 regardless of sterling changes.

Notify Commerce.

ATHERTON

McL

Federal Reserve Bank  
of New York

OFFICE CORRESPONDENCE

Date April 5, 1940

To Mr. Liddy  
From R. TiransSUBJECT: The International Hydrographic  
Bureau.

The International Hydrographic Bureau is one of a large number of International Bureaus which have sprung up since the Hague Conventions of 1909. The International Hydrographic Bureau was founded in London in 1919 and was definitely established in 1921. It has the same status as Postal Union and the International Bureaus of Weights and Measures, Whaling, etc.

Though placed under the direction of the League of Nations on October 2, 1921 the Bureau has no direct connection with the League. It does not derive its funds from the League budget nor is it subject to it in matters relating to its policy or work. (Early in the 20's it was desired to bring all International Bureaus and Organizations within the framework of the League but this met with such opposition on the part of the individual bureaus that no more could be achieved than the establishment of an advisory connection between them and the League of Nations.) The object of the International Hydrographic Bureau is to establish a permanent association between the hydrographic services of various maritime powers with a view to the improvement of conditions of maritime journeys and transport, and in general to advance the science of hydrography.

In 1938 the following were members of the International Hydrographic Bureau: the Governments of Argentina, Australia, Brazil, United Kingdom, China, Denmark, Ecuador, Egypt, France, Japan, Monaco, Norway, Poland, Portugal, Siam, Spain, Sweden, United States and Uruguay.

The International Bureau is run by a governing body. It derives its funds from contributions by the member organizations or states; these are fixed on the basis of the maritime importance of its members. The total budget in 1938 amounted to 177,600 gold francs or roughly 50,000 dollars. In 1938 the chairman of the governing body of the Bureau was Vice-Admiral J. Hayes of the United Kingdom. The American member of the governing body was Rear Admiral W. S. Crosley of the U. S. Navy.

The International Hydrographic Bureau is required by statutes to hold conferences every five years, or more frequently if the majority of the members so specify. It held conferences in 1919, 1926, 1929, 1932 and 1937. The Bureau publishes regularly a Hydrographic Review, a Bulletin and special publications of a scientific character. It has very fine buildings and an interesting museum at Monte Carlo, Monaco. Apart from the fact that Monaco is a member of the Bureau, there is no connection between it and the Principality of Monaco.

In taking a decision regarding the request of the International Hydrographic Bureau to earmark gold it should be remembered that there are numerous other organizations of a similar character endowed with an analogous legal status and entitled to the same considerations. This statement is not intended to cast doubt on the usefulness of such organizations as to draw attention to their number.

Further information on the International Hydrographic Bureau might be obtained through the U. S. Hydrographic Bureau and from the Handbook of International Organizations published by the League of Nations. Our Library does not own this publication.

RR:AK

lms



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 6, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

**CONFIDENTIAL**

We did not protest to Great Britain under the Tripartite Agreement when that country adopted Exchange Control and permitted sterling to decline to approximately \$4.00.

Application of the official rate of 4.03-1/2 to certain specified British exports has resulted in the free rate sterling, with which certain other British exports can still be purchased, depreciating to around 3.50.

In their note of March 30, the British denied having depreciated their currency deliberately. To date there is, to my mind, no evidence thereof in the Exchange Control application which would warrant our protesting under the Tripartite on the ground that the British are seeking an "unreasonable competitive exchange advantage".

I am convinced that war conditions will prohibit Great Britain from making any serious inroads into our domestic market with products financed in 3.50 sterling. At that, the idea of receiving a little more goods and a little less gold from Great Britain should not be unwelcome to the Treasury. I believe that the range of exports that can be sold against free sterling will be narrowed.

So long as there exist two rates for sterling, at both of which trade is actually being carried out, I think our Customs authorities should recognize them and assess duties accordingly.

It seems logical to me that the American Consular invoices and other shipping documents should specify whether the goods exported are sold against "official" or "free" sterling. Invoices in the past have differentiated between "gold" and paper "francs", for instance.

If the goods are invoiced in free sterling, the Collector of Customs would simply use the "buying rate in the New York market at noon on the date of exportation", as certified by the Federal Reserve Bank of New York, and conversion would be made at a value measured by such buying rate. The buying rate is "the buying rate for cable transfers payable in the foreign currency so to be converted". The law gives the Federal Reserve Bank of New York considerable discretion in finding the rates to be certified for customs purposes, the language of section 522(c) obviously intending that the rate at which business is actually being done shall measure "the foreign currency so to be converted", rather than some arbitrary or fictitious rate.

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My conviction is that honest application of the law requires assessment on the basis of the type of currency in which the transaction actually takes place and of its value in trade.

So far I see no evidence of any bounty or grant to exporters in free sterling which would call for the imposition of countervailing duties.

I can conceive that collectors may find the export value higher than the foreign value in certain cases, and will consequently assess on the basis of the former.

A handwritten signature in dark ink, appearing to be 'B. M. S.', is centered on the page. The signature is fluid and cursive, with a prominent initial 'B' and a final flourish.

**CONFIDENTIAL**

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE APR 6 1940

TO Secretary Morgenthau

FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of March, 1940.

*I. W. F. H.*

Attachment



SUMMARY REPORT ON STUDIES OR PROJECTS IN  
THE OFFICE OF THE GENERAL COUNSEL -  
MARCH 1940

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Attorney General's Committee on Bankruptcy. Several questionnaires proposed by the staff of the Committee to be sent to referees, receivers, trustees, and others have been examined by the Reorganization Section under the supervision of Thurman Hill, and comments and criticisms thereon furnished to the Staff of the Attorney General's Committee.

2. Cancellation of Indebtedness. A major project pending is that dealing with the income tax consequences of a cancellation of indebtedness whether affected in a bankruptcy proceeding or otherwise. An appropriate solution will require the cooperation of various agencies including the Bureau of Internal Revenue, the Treasury Department in general, and the Securities and Exchange Commission, as well as certain bankruptcy representatives or administrators. The cooperation of different committees in Congress would also be required. As observed in our February report, there is no chance of perfecting this solution at this session of Congress. However, certain alternative stop-gap suggestions for limited legislative revisions calculated to serve the current needs of the Department have been prepared.

3. Amortisation of Unproductive Leaseholds. Treasury Regulations in the past have permitted oil operators to amortize for

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income tax purposes the cost of unproductive leasehold interests. Regulations 103 prohibits this practice for taxable years beginning after December 31, 1938. During the month of March, consideration was given to the question of the retroactive effect of this regulation. This study resulted in the issuance of a Treasury Decision approved March 25, 1940, by virtue of which such retroactive effect is qualified to a certain extent.

4. Mutual Investment Companies. The Internal Revenue Code provides for the exemption from the income tax of certain mutual investment companies to the extent that they effect a current distribution to shareholders of income or profits realized. It is now proposed in Congress to set up a different standard by reference to which the exemption is allowed. Consideration has been given to the proposed extension as well as to suggestions that the exemption be extended further to the capital stock tax, the excess-profits tax, and, in a qualified manner, to long-term capital gains not distributed to shareholders. The effect upon the revenue of the existing provisions as well as the proposed extensions have likewise been under consideration.

5. Employees' Trusts. There have been under consideration the provisions of existing regulations with respect to the character of a stock bonus, pension, or profit-sharing plan essential to the exemption from the income tax provided by section 165 of

the Revenue Code. Section 165 refers to a trust maintained for the exclusive benefit of "some or all of the employees". Section 19.165-1(a) of Regulations 103, dealing with the same subject matter, refers to a trust maintained for the benefit of "all or a large percentage of the total number of the employer's clerks and workmen (as distinguished from persons in positions of authority.)". The propriety of the Treasury construction of the statute has been questioned. There is being weighed the possibility of having to amend the Regulations and the advisability of recommending a revision of the Code if the pension trust exemption is to be construed as one operating equally in favor of a trust for employees generally and a trust maintained for the benefit of a limited few and especially favored employees such as those constituting the executive board of the employer enterprise.

6. Procedure Re Adoption of Regulations and Review Thereof by Courts. The Logan-Walters Bill pending before the House provides for certain notices and hearings before the issuance of regulations, and vests in the Court of Appeals of the District of Columbia jurisdiction to render advisory opinions in connection with the validity of regulations. It provides further for interdepartmental commissions to review specific rulings by administrative officials and employees, and an ultimate



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review by the courts. The provisions of the bill are made expressly inapplicable to "any matter concerning or relating to the internal revenue" laws. A careful study is being given, however, to any possible effects of the proposed legislation upon the collection of revenue, and the possible consequences if the proposed legislation should be extended generally to cover the administrative and interpretative regulations of the Bureau of Internal Revenue.

7. Tax Payment by Attorney General as Successor to Alien Property Custodian. The Attorney General has questioned his authority as Successor to the Alien Property Custodian to pay certain income taxes due from nonresident aliens. Study is being given to the preparation of appropriate Executive Orders or other means of overcoming the objections of the Attorney General now impeding tax collections.

8. Inspection of Income Tax Returns. Study is being given to a possible revision of the method of inspecting income tax returns by the District of Columbia, the Territories of Alaska and Hawaii, Puerto Rico, and the Philippine Islands, it being suggested that the revised method conform to the method pursuant to which State officials are permitted to inspect returns.

9. Regulations under Swedish Tax Convention. Regulations under the tax convention between the United States and Sweden effective

January 1, 1940, have been under development, review, and revision throughout the month.

10. Extending Jurisdiction of Board of Review. There has been under consideration the development of legislation conferring jurisdiction on the United States Processing Tax Board of Review over claims for the refund of floor stocks, compensating, and custom processing taxes under the Agricultural Adjustment Act.

11. Regulations under Federal Unemployment Tax Act. A preliminary draft of regulations relating to the tax on employees of eight or more under the Federal Unemployment Tax Act has been under review.

Items 2 to 11, inclusive, were handled under the supervision of G. E. Adams, Head of the Legislation & Regulations Division.

The following matters were worked on in the Mint and Monetary Section under the direction of Mr. Bernstein:

12. Inter-American Bank. Various suggestions for changes in the proposed by-laws, charter, and convention for the Inter-American Bank were received and given consideration by this Department. A number of conferences were held with representatives of the State Department and the Federal Reserve Board and drafts of suggested changes agreed upon. Pehle, Friedman, and Ferguson worked on this matter.

13. Sabotage Awards. The suit against the Secretary of the Treasury which would enjoin him from paying awards of the Mixed Claims

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Commission on the sabotage claims was heard on appeal by the Court of Appeals for the District of Columbia on March 27, 1940. The case has not been decided as yet. Pehle and Hodel worked on the brief filed on behalf of the Secretary of the Treasury by the Department of Justice.

14. Alien Property Bureau. A conference was held at the State Department with reference to the proposed legislation to discontinue the Alien Property Bureau and provide for the disposition of the funds being held in the German Special Deposit Account. The State Department raised several objections to such legislation being considered at this time and it is not anticipated that further action will be taken in the near future. Pehle and Hodel worked on this.

15. Moving of Silver to West Point. Bids were received on March 20, 1940, for the moving of between 200,000 and 400,000 bars of silver from the New York Assay Office to West Point. The lowest bid received was 13 cents per bar which compared with 15.5 cents per bar in the contract entered into last year. Pehle and Friedman drafted the necessary papers, etc.

16. New Orleans Mint. We prepared a proposed item for inclusion in a reorganization plan under the Reorganization Act of 1939 which would transfer to the Assistant Assayer in Charge of the New Orleans Mint the function now performed by the Chief Clerk of such Mint of acting in the place of the Assayer in Charge during his absence. Pehle worked on this.



17. March of Dimes Medallion. Several protests were received against the action of the Secret Service in ruling that the March of Dimes medallion, which was manufactured for the Buffalo Chapter of the National Foundation for Infantile Paralysis, might not be used. The matter was taken up with Mr. Gaston who obtained Chief Wilson's views thereon. It was decided as a policy matter that the Treasury should back up the Secret Service. Appropriate letters explaining the Department's position were sent to the Buffalo Chapter and to Senator Mead who had inquired with respect to the matter. Fahle worked on this.

18. Mexican Claims. Six suits were filed to which Treasury officials are parties seeking to enjoin the payment of certain awards of the Special Mexican Claims Commission to the holders of such awards and to provide for payment of such funds to a receiver. The suits are brought by attorneys claiming interests in the awards by virtue of fee agreements entered prior to May 31, 1938. Mann is working on these cases.

19. Argonaut Cases. A proposed offer of settlement made by the plaintiff in these cases has been given consideration and a letter to the Department of Justice recommending the acceptance of such offer of settlement has been prepared. Friedman has been working on this case.

20. Bakewell v. United States. We prepared a brief which was filed in the Eighth Circuit Court of Appeals on behalf of the

Government in this case. The case was decided favorably to the Government by that Court of Appeals. Friedman worked on this case.

The following matters were handled in Mr. Tietjens' section:

21. Proposed Legislation Pertaining to Deposits of Public Moneys by United States. Mr. Sherbondy is cooperating with Reeves, of the Legislative Section and the Office of the Comptroller of the Currency in the preparation of a draft of proposed legislation to concentrate in the Treasury Department certain supervision over all deposits in banks of public moneys by officers or agents of the United States Government. A recent decision of the Supreme Court of the United States (Inland Waterways Corp., et al. v. Young, March 25, 1940) has considerably broadened the authority of public officers to deposit public moneys in national banks and to receive from such national banks security for such deposits.

22. Proposed Amendment to Sec. 13b of Federal Reserve Act Terminating Advances to Federal Reserve Banks for Industrial Loans. Mr. Sherbondy is also working on a draft of a proposed amendment to section 13b which would terminate advances by the Secretary of the Treasury to Federal Reserve Banks for industrial loans and would provide for the repayment of advances heretofore made.

The following matters received attention by the Legislative Section under the direction of Mr. Bernard:

CONTINUATION OF PROJECTS

23. Bills relative to the Harrison Narcotic Act:

(a) Bill to relieve the hospitals from double tax (for description see original report, No. 9). This bill, prepared by Miss McDuff, is still in the hands of Budget.

(b) Bill to withdraw registration under the Harrison Act from persons violating state or Federal narcotic laws (for description see report for January, No. 41). The proposed bill, with a memorandum summarizing its background and legal aspects and requesting a policy decision as to whether or not the Department should sponsor it, is in the hands of Mr. Gaston.

24. Bond Survey (for description see original report, No. 10). A completed draft of a bill, incorporating suggestions of numerous administrative and legal officers of the Treasury Department, and a heavily documented letter of transmittal to Congress, have been cleared by all interested Treasury administrative officers and the General Counsel's Office. Mimeographed copies of the bill and the letter are now being prepared for the Bureau of the Budget to circulate among the other Departments. An interdepartmental conference held on the proposed bill indicates that the support of all the Departments will be forthcoming. Mr. Spingarn and Mr. Gorman are handling this.

25. Assignment of Claims Against the United States (for description see original report, No. 11). Transmittal letters to Congress are almost completed. Mr. Spingarn and Mr. Gorman are working on this.



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26. Compilation of Money Statutes (for description see original report, No. 11). Miss McDuff is continuing the work on this material.

27. Compilation in Annotated Form of Laws and Regulations Affecting Government Personnel (for description see original report, No. 13). The Legislative Section is continuing this project.

28. Codification of Federal Regulations (for description see original report, No. 16). The Treasury phases of this work are being handled by Mr. Spingarn.

29. Codification of Anti-counterfeiting and Related Laws (for description see original report, No. 7). Mr. Koken is continuing his work on this matter.

30. Restriction of Import of Vital Materials (for description see report for January, No. 39). A draft of a bill restricting imports has been submitted by a subcommittee to the Executive Committee on Commercial Policy. A Treasury conference, attended by Messrs. Foley, White, Ostrander, and Spingarn, was held in Mr. Gaston's office on the question of what the Treasury's position should be regarding any proposed legislation restricting imports into the United States. It was decided to recommend against such legislation at the present time.

31. Coast Guard Omnibus Bill (for description see report for January, No. 40). This bill, revised by Mr. Koken, is still in the hands of Budget.

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32. Fiscal Service (for description see February report, No. 40). The Legislative Section has completed the preparation of a proposed Reorganization Plan creating a Fiscal Service in the Treasury Department and a Presidential message to accompany such plan. The plan has been approved by the Department of Justice and the Bureau of the Budget.

33. Council of Personnel Administration (for description see February report, No. 41). Memoranda on the legality of the creation of the Council of Personnel Administration and the authority of the Civil Service Commission to transfer certain of its employees to the Council of Personnel Administration have been prepared. A proposed letter for the President of the Civil Service Commission to send to the Comptroller General relative to the proposed detail of some of its employees to the Council has also been completed. Mr. Groman prepared these.

#### NEW STUDIES

34. Bookmaking Bill. A proposed bill imposing a special tax upon any person engaged in the dissemination of racing information in interstate commerce has been drafted by Miss McDuff. This draft was forwarded to Messrs. Klaus and Campbell in Chicago for comment and has been returned with their suggestions, now being incorporated in the bill. The taxing feature of this bill adds a new chapter to the Internal Revenue Code. The provisions of the other feature of the bill, i.e., the prohibitions against the transmission of gambling

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information in interstate commerce, are based largely on the bill which Senator Wheeler introduced three years ago (S. 2758, 75th Congress) and the study of that bill made by the Legislative Section at the time.

35. Federal Tort Claims Bill. The comments of the various staff members of the Legal Division on the proposed Federal Tort Claims Act, sponsored by the Department of Justice, are being coordinated by Mr. Koken. In connection with its consideration of this bill, the Senate Judiciary subcommittee requested the Department to furnish information with respect to the number of tort claims handled by the Department over the past few years. Accordingly, the various Treasury bureaus, offices, and divisions have been circularized for their figures on this matter covering the five-year period 1935 to 1939, inclusive.

The following personnel projects were worked on by Mrs. Campise under Mr. Cox's supervision:

36. Installation of a punch card system for keeping chronological records of employment status, educational background, and experience of legal personnel. The data have been gathered and coded except for a group of cases which are waiting information on relative class standing. This information is being supplied by the law schools whenever records are available. As soon as all data available are received, the cards will be punched and will then be ready for tabulation.



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37. Installation of a punch card system for recording applicant's records. The form for recording the information to be punched has been set up and necessary codes prepared. This project is in the data-gathering stage.

Items, as follows, were in general charge of Assistant General Counsel Cairns:

38. Law of Libel and Slander of California. The various statements made by L. M. Giannini, President of the Bank of America, at the stockholders' meeting held on January 9, 1940, were gone over with the end in view of determining whether the statements were libelous, and an extended search and examination of the law of libel and slander in California was made in order that our findings might be used in case further statements were made. This study was made by Mr. Morton and Mr. Dirneen of the Opinions Unit.

39. Currency Conversion. Ralph Dwan, Chief Counsel, Customs, and some of his assistants have been collaborating with Mr. Cairns in a study of the customs aspects of the United Kingdom exchange control. A memorandum has been prepared discussing the rate or rates of conversion which should be used for the purpose of the assessment and collection of duties on merchandise imported into the United States from the United Kingdom, in view of the fact that two rates for pounds sterling are being certified by the Federal Reserve Bank at New York to the Secretary of the Treasury. The memorandum also discusses somewhat the possibility of countervailing duties or dumping

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duties. A draft of a memorandum has also been prepared dealing with a similar exchange control in Canada and Newfoundland and similar certifications by the Bank. Dwan's shop is now making a study of the customs effect of somewhat similar exchange control in Brazil, Chile, and Uruguay and similar certifications.

40. Monopoly Study. Mr. O'Connell, the Treasury Representative on the Temporary National Economic Committee, has reported that the collection of the material involved has been completed, but the task of organizing and analyzing the voluminous data which have been gathered and of formulating conclusions therefrom has proved so great that it is now expected that the month of April will be required to wind up the job. It was previously reported that this job was expected to be completed by March 15. Messrs. O'Connell, Kades, and Handler are engaged upon this work.

STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

84

INTER OFFICE COMMUNICATION

DATE April 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

In our conversation by telephone yesterday afternoon Mr. Knoke mentioned that the decision had been taken at the meeting of the Directors of the Federal Reserve Bank of New York on Thursday to send out letters to foreign central banks, announcing that the Federal Reserve Bank will begin to charge the correspondent foreign banks for personnel costs involved in handling gold bars for foreign central banks, when being earmarked and when being released for sale to the Assay Office or for export. Such services, Knoke explained, were costing the Federal Reserve Bank of New York approximately \$65,000 per year. The cost that will now be passed on to the foreign central banks will be \$23.45 per million dollars when gold is being earmarked, and \$8.05 per million dollars when it is being taken out from earmark and to the Assay Office. In the past it has been customary to charge for insurance, trucking, etc. The new charge comes principally from weighing and recording gold shipments, some of which remain on earmark only a few days before being sold to the Assay Office.

I mentioned to Knoke the complaints which I had frequently heard while in Europe on the part of central bankers against the  $1/4\%$  handling charge which our Treasury collects, and against certain minor charges which the Federal Reserve Bank of New York collected. Knoke stated that the Board thought the new system of charges should be instituted, and only regretted that it had not been put into effect before. Mr. Knoke is proceeding to Ottawa this weekend to visit the Bank of Canada and will not return to New York until next Thursday. He stated that Mr. Sproul would not release the letters to foreign central banks before this coming Tuesday, April 9.

While it is understood that the Federal Reserve Bank of New York is free to make its own decisions on such matters as that described above, and furthermore that it makes no profit from the gold transactions and has little profitable business with foreign central banks since their banking operations on this market, other than leaving their gold and funds, are restricted, the question arises whether this is a propitious time to put new regulations into effect. Are foreign central banks likely to start any gossiping that the United States Government, through its fiscal agent, is taking steps to make the reception of gold in this country more difficult and expensive?

*B. M. S.*



STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

85

INTER-OFFICE COMMUNICATION

DATE April 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Bell mentioned to me yesterday afternoon, upon his return from the Cabinet meeting, that Secretary of Agriculture Wallace had at that meeting brought up two reports, one to the effect that gossip was current that further dollar devaluation was being considered in Government circles; and secondly that Italy was removing its balances from the United States. When I told Mr. Bell that I had heard of no one in the Treasury speaking of devaluation, he said he had made a somewhat similar remark at the Cabinet meeting. He did desire, however, any information in regard to Italian balances. I replied that the tendencies in recent weeks had been for Italy to sell gold and build up balances in this country, rather than to withdraw funds.

In this connection, the gold holdings of the Bank of Italy declined during the fiscal year 1938-1939 from \$193,000,000 to \$164,000,000 or approximately 19%, while note circulation rose approximately 30%. Within the past few weeks the Bank of Italy has exported to the United States gold which it sold here. The dollar proceeds have been used to increase Italian balances on this market. The grand total of Italian balances in New York on January 3, 1940 was \$36,800,000; on January 31, \$41,800,000; on February 28, \$42,500,000; and on March 20, \$52,400,000. In some shipments of gold from the Bank of Italy, there have recently been noted considerable amounts of Russian gold. We have no way of knowing whether this gold actually belonged to the Bank of Italy or whether this bank was acting for the Soviet Government, but the accounts of the Russian State Bank with the Chase Bank in New York failed to indicate that proceeds of Italian gold sales were credited in any part to the Russian account.

*B. M. P.*

STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Minister Procope of Finland called me this morning at 9 o'clock. He asked if I could give him any word on the matter which he had discussed some days ago. I told him that Secretary Morgenthau was still absent and would not be back in the Treasury until Monday morning. Minister Procope is leaving for Philadelphia on Monday afternoon and would appreciate it very much if the Secretary would permit me to get some word to the Minister on Monday forenoon in regard to the status of the loan proposition. He has not approached the State Department in Secretary Morgenthau's absence, and has had no word from that Department.

*F. M. S.*

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE April 6, 1940.

TO Secretary Morgenthau  
FROM Mr. Cochran

The foreign exchange market was very quiet today and the sterling quotation showed virtually no movement. The opening rate was 3.58-1/2. Business was done at 3.58-3/8 in the mid-morning, and sterling closed at 3.58-1/4.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank totaled £128,000, from the following sources:

By commercial concerns.....	£ 29,000
By foreign banks (Europe).....	£ 19,000
By Fed. Res. Bk. (for Yugoslavia).....	£ 80,000
Total	£ 128,000

Purchases of spot sterling amounted to £193,000 as indicated below:

By commercial concerns.....	£ 45,000
By foreign banks (Far East and Europe).....	£ 148,000
Total	£ 193,000

The following reporting banks sold cotton bills totaling £33,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 21,000 by the National City Bank	
9,000 by the Irving Trust Company	
3,000 by the Guaranty Trust Company	
£ 33,000 Total	

The Bank of Manhattan reported that it had purchased £2,000 from the British Control at the official rate of 4.03-1/2. The bank stated that the purchase was made for a customer who intended to use the sterling to pay for the chartering of a ship.

The discount for the Canadian dollar narrowed further to close at 15-13/16%.

The other important currencies were steady and closed as follows:

French francs	.0203-1/8
Guilders	.5309
Swiss francs	.2243
Belgas	.1704

CONFIDENTIAL



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We purchased \$523,000 in gold from the earmarked account of the Bank of the Colombian Republic.

The State Department forwarded to us a cable stating that the Twentache Bank, Amsterdam, was shipping \$1,032,000 in gold from the Netherlands to the Guaranty Trust Company, New York. This gold will be sold to the U. S. Assay Office at New York.

Mainly as a result of an alteration in the reporting procedure of the Yokohama Specie Bank's New York agency, large increases were recorded on the statement from the Federal Reserve Bank of New York showing the deposits for account of Asia as reported by the New York agencies of Japanese banks on April 3. Such deposits totaled \$56,485,000, an increase of \$14,349,000 since the last report as of March 27. Included in this total were \$28,699,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, and deposits of \$14,813,000 made by the head office and Japanese branches. The last-mentioned item appeared as a credit balance for the first time in the April 3 report; previously, it had been applied against the total overdraft of the head office and Japanese branches on the books of Yokohama's New York agency, to produce a "net" overdraft figure. The transfer of this item to deposits thus had the result of raising both deposits and overdraft. As of April 3, the overdraft amounted to \$97,540,000, an increase of \$12,872,000 since March 27. Had the overdraft been reported as formerly, the figure would have been \$1,941,000 lower than the overdraft reported on March 27.

More than offsetting yesterday's decline, the Bombay silver quotation rose the equivalent of 3/5¢ to 39.51¢.

Mr. Knoks spoke to me yesterday afternoon in regard to Russian balances with the Chase National Bank. The balance of the State Bank of Russia with the Chase Bank rose from \$5,800,000 on March 22 to \$7,500,000 on March 30. The letter of credit account of the State Bank of Russia with the Chase Bank rose in the same period from \$7,300,000 to \$7,600,000. The cash balance of the Amtorg with the Chase gained slightly from \$1,100,000 to \$1,200,000; while the letter of credit account of the Amtorg came up from \$3,100,000 to \$3,800,000. During the period under review there were entered into the account of the State Bank of Russia \$2,000,000 from the Swiss Bank Corporation in New York; \$500,000 from the Union Bank, Switzerland; \$2,000,000 from the Swiss Bank Corporation, Zurich; and \$250,000 from the Union Bank, Zurich, making a total of \$4,750,000 received from Switzerland. On the debit side, there were paid out from the account of the State Bank of Russia, \$1,500,000 to Amtorg; \$917,000 to its letter of credit account; and \$825,000 to the Rotterdam Bank.



**CONFIDENTIAL**

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: April 6, 1940, noon

NO.: 847

FOR TREASURY. FROM HEATH.

In an order dated March 30, 1940, the Reich Treasury announces that zinc coins in denominations of 1, 5 and 10 pfennigs will be issued. Up to the present time there has been issued no decree to retire the 1 pfennig copper pieces and the 1, 5 and 10 aluminum bronze coins which are in circulation now, but it is presumed that eventually these coins will be withdrawn and melted, and their content added to the industrial metal reserves of the Government. The new coins are merely to supplement the old for the moment. Note should be taken in this connection that at present there is a certain shortage of fractional coins. This is in part due to increased circulation requirements in view of the addition of Polish territories to the Reich. It is also partly due to the fact that Renten bank notes have not entirely replaced the nickel one-mark pieces which on the first of March were retired from circulation. Thus an increased use of fractional coinage is necessary.

KIRK.

EA:LWW



lw

GRAY

Berlin via Copenhagen

Dated April 6, 1940

Rec'd 5:00 p.m.

Secretary of State

Washington

843, April 6, 9 a.m. (SECTION ONE)

In their issues March 30 and 31 the DAZ, RHEINWEST FAELISCHE, and HAMBURGER FREIENBLATT devoted leading editorials to criticism of liberal commercial policy. The DAZ article was written by Gravell, Director of the Reich Statistical Office who ~~di~~clared that reciprocal commitments as regards quantities of goods to be exchanged on the basis of just price relations were the foundation of the new German trade policy. He asserted that foreign trade on such a basis did not involve economic or political dependence but on the contrary a factual economic freedom which was much more desirable than the freedom of the liberalistic foreign trade system in which each partner was free to do whatever he wished but who was also obliged to submit to economic ruin if his neighbor so decided. He concluded his article with



lw -2- No. 843, April 6, 9 a.m., Section One from Berlin

with the assertion that economic freedom of the liberal type was a delusion which in actuality meant exploitation and dependence. True economic freedom was only possible in the community of interests arising from a uniformly organized region of supply (versorgungsbereich) in which the participating countries could make the best use of their economic possibilities and special abilities and in which the countries would reciprocally make available to each other their products.

The article in the RHEINWEST FÄLISCHE ZEITUNG attacked the liberal theory of comparative costs asserting that what seemed more expensive from the standpoint of pure price might from the point of view of commercial policy be the cheapest since the most costly trade situation was that of unconditional dependence. The concluding assertion was that natural regional trade and exchanges between neighboring countries would lead to a greater volume of commerce than had ever occurred under trade conducted in the "old international style".

The HAMBURGER FRE. DEM. BLATT article announced a new "era of world economy" since free world trade was a thing of the past. The present situation was that of strengthened national economies.

KIRK

JRL

PARAPHRASE OF SECTIONS TWO AND THREE  
OF TELEGRAM NO. 843 OF APRIL 6, 1940  
FROM BERLIN

Considering Graevell's official position and in view of the fact that summaries of the three articles appeared in "Economic News", which is published by the Ministry of Economics, a member of the staff asked Bergemann, who is head of the Commercial Policy Division of the Ministry, whether the views of the Economics Ministry were represented in the articles. Bergeman replied that the articles did not represent the views of the Ministry of Economics and said that the Ministry had not been consulted before their publication. He said that it had been made clear in communications and speeches by various officials of the Ministry of Economics that the narrow bilateral trade arrangements made by Germany were to be considered merely as emergency devices of a temporary nature and that Germany would try to advance to a freer system whenever conditions made it possible to do so. However, he admitted that no studies have been begun by the Economics Ministry with reference to economic problems which will arise when the war is over or with reference to the policies and projects which will need to be undertaken to bring about economic reconstruction. He remarked that all available time and personnel had been absorbed in the handling



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handling of present problems. In time of war, he added, there was a tendency to praise and justify all the emergency policies which the war made necessary.

In a private conversation with Wiehl, the Foreign Office's Director of Commercial Policy, the question of the Reich's future trade policy also arose. Wiehl stated that Germany's economic difficulties and the Government's policy of directing the country's economic forces toward certain political goals had necessitated the present foreign trade agreements. He said that his personal opinion was that both as regards internal and external economic relations, Germany would move toward a freer situation upon the return of a less difficult economic and political situation following a stable peace. However, he said, there was a tendency in the Government to insist that because certain successes had been accomplished by means of the present Government economic controls, they should be made permanent. He admitted that no study of postwar economic problems and their solution was in progress in the Foreign Office and he thought it unlikely that studies of this kind would be undertaken in the near future. All the belligerents, he added, are inclined to avoid talk of peace plans since they are afraid such talk might be regarded



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regarded as a sign of weakness. The study being made at the Reichsbank, which apparently is confined to possible postwar international monetary and financial arrangements, is the only active study of postwar economic problems that has been started, so far as is known.

Please inform Treasury.

(END OF MESSAGE)

KIRK

EA:EB

# APPEALS TO HILL ON CUSTOMS RULES

## J. W. Bevans Changes Treasury Hampers Efforts to Lift Our Foreign Trade

### LISTS NEW HANDICAPS Regulations on Exchange, Origin Marks and Seizures Hampers Importers

Charging that the Treasury Department is working at cross-purposes with the State Department in the latter's efforts to promote international trade, James W. Bevans, local customs attorney, who is counsel on customs matters to the National Council of American Importers, Inc., yesterday appealed to Secretary Hull to find some means of bringing the Treasury Department in a more liberal view of customs matters.

In a letter congratulating Mr. Hull on the success of the Senate fight to renew the Reciprocity Trade Agreements Act, Mr. Bevans wrote that importers find themselves facing more administrative handicaps in importing foreign goods now than they did under the protectionist regime of President Hoover.

#### Six Years of Harassment

"The last six years show a record of almost continuous harassment of importers by customs officials," Mr. Bevans charged. "The most recent occasion has been the move by New York officials to use the official sterling rate of \$4.05 in fixing values on British goods purchased in the English market with Treasury market sterling valued at \$4.30 to \$4.70. Treasury Department officials are now considering applying this regulation to all ports, a bill in Congress to "end a series of oppressive acts to which importers in New York City have been subjected with consequent injury to America's foreign trade."

The bill, introduced by Representative Thomas H. Cullen of Brooklyn, is expected to be called up for public hearings in the near future, he concluded.

at the very last. Customs officials have been compelled to import goods from those dealers than they would and would want court decisions a year or more from now before getting returns. The thousands of large quantities of Chinese goods he held, the regulation is proving a serious strait.

An arbitrary order suspending the validity of the markings on imported watch movements led up to the holiday importing season last fall, Mr. Bevans charged. The last of the watches held up at that time were released only two weeks ago, long after the season during which they could have been readily sold.

"So far as I have been able to learn," he wrote, "not a single one of the 10,000 watch movements seized was found to be improperly marked. Despite this, importers were put to trouble and expense and lost a large part of their market without justifiable excuse. The dispute arose over the question of whether movements marked 'unadjusted' actually were unadjusted."

#### Protest Origin Rules

Seizure of the Sudetenland area and later of all Czechoslovakia by Germany, he added, was the signal for the Treasury Department to issue, without advance warning, orders requiring German marks of origin on all merchandise coming from those regions. The orders were issued, he explained, despite the fact that the State Department never has recognized Germany's conquest of Czechoslovakia, and still accords full honors and recognition to the country's Minister in Washington.

Importers of Chinese goods from regions seized by Japan are daily opposing the Treasury Department to order 'made in Japan' markings on such wares, despite the State Department's strong stand against Japanese aggression.

Mr. Bevans called attention to the fact that the technical and legalistic attitude of Treasury officials accustomed here forced importers, brokers, merchants and the customs officers organizations to take an unprecedented action in sponsoring a bill in Congress to "end a series of oppressive acts to which importers in New York City have been subjected with consequent injury to America's foreign trade."

The bill, introduced by Representative Thomas H. Cullen of Brooklyn, is expected to be called up for public hearings in the near future, he concluded.

## ANGLO-FRENCH PURCHASING BOARD

NEW YORK:  
15 BROAD STREET

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

This letter from New York

April 8, 1940

SECRET

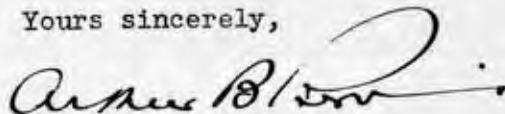
Dear Mr. Secretary:

New Aircraft Programme

In accordance with your suggestion, I inclose a note of our telephone conversation on April 1st.

We are anxiously looking forward to official advices as to releases and priorities since we are of course most anxious at this stage to achieve the maximum progress possible.

Yours sincerely,



The Secretary of the Treasury  
Washington, D. C.



2:30 p.m., April 1, 1940

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The Supreme Council has now given the Anglo French Purchasing Board the necessary authority to go ahead with the air programme, within certain broad limits, as soon as it is known officially that releases have been granted. There still remains the question of distribution amongst the various aeroplane types, which will be ironed out in the immediate future and which will meantime involve no delays so far as the Allied Governments are concerned. The programme will be of the order of six hundred million dollars as it is felt this will not strain unduly the machine tool situation as might the original programme contemplated.

Mr. Purvis said he was asked officially to express the very real gratitude of the two Governments for the valuable and friendly help given by Mr. Morgenthau and anticipated from him in the future.

Mr. Purvis advised the Allies hoped no official press release would be felt necessary by the United States Administration in regard to this decision but that, should there be (which of course it was realized was entirely the Administration's decision), the Allies would appreciate very much an opportunity to agree to such a release in advance so as to take care of public opinion at their end. Mr. Morgenthau could see no reason for any publicity at this juncture. In reply to a specific query, Mr. Morgenthau said it would be in order for an A. F. P. B. representative to get in touch with Mr. Swartz from time to time to ascertain how best to synchronize with the United States press releases in this matter.

Mr. Morgenthau felt the releases would be made within a day or two at which time he presumed negotiations would start. In this connection Mr. Purvis advised that, where unaffected by the releases, negotiations were already starting, particularly in the engine end. (E. g. Curtiss Wright are being authorized to proceed with its plant expansion (\$750,000) and certain options already existing would be exercised (4,050 engines for the French and 20 flying boats for the British.)

Mr. Morgenthau stated the opportunity which he believed would be given to the Allies to secure a proportion of the planes on order for the United States Army and Navy might bring about considerably earlier deliveries than would otherwise have been the case, perhaps to the extent of five months or more. Mr. Purvis understood that after the United States Army and Navy had taken say one-third or one-half of the planes covered by its existing contracts, the opportunity would probably be given the Allies to secure priority on the balance.

New York  
April 8, 1940



DEPARTMENT OF STATE  
WASHINGTON

April 8, 1940.

In reply refer to  
EA 841.248/401

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch no. 4829 from the American Embassy at London, dated March 9, 1940, transmitting copies of statements of the British Secretary of State for Air and debate in the House of Commons regarding air estimates for 1940, as reported in Hansard.

Enclosure:

From London, no. 4829,  
March 9, 1940, with  
enclosure.

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

APR 8 1940

RECEIVED  
DEPARTMENT

ff



LONDON, March 9, 1940

No. 4829

SUBJECT: Air Estimates, 1940.

The Honorable  
The Secretary of State  
Washington, D. C.

Sir:

I have the honor to report that the Secretary of State for Air, Sir Kingsley Wood, in presenting the Air Estimates for 1940 to the House of Commons on March 7, 1940, declared that, while they could only be presented, for obvious reasons of security, in token form, the Estimates involved "by far the greatest effort and expenditure ever made by this country in any year in relation to our air defenses". Without attempting any dramatic effects, Sir Kingsley then

unfolded

unfolded what has since been generally regarded by the press as a reassuring picture of the growing power and efficiency of the Air Force.

Numerically, he stated, the output of aircraft "accruing to us and to France is in excess of that of Germany". As an example, he revealed that the output of the Spitfire and Hurricane single-seater fighters had doubled in the last six months, and that the output of the larger bomber types had risen by more than 50% in the same period. While this period had primarily been one of development and consolidation of strength, Sir Kingsley Wood declared that British pilots and machines had already given a good account of themselves.

He stated that over 1,000 sorties had been made well into German territory and, that British fighters in France -- many of them in action over the Siegfried Line -- had taken off more than 2,000 times for patrol, pursuit and combat. He claimed that fighters had, without a British loss, accounted for some 40 German aircraft around the British Coasts apart from the many known to have been forced down in neutral territory or in the sea on their return. Units of the Coastal Command had flown more than 5,000,000 miles on reconnaissance or convoy duty; they had sighted submarines on more than 100 occasions; they had delivered more than 60 attacks, and more than 700 convoys had been successfully escorted by aircraft.

Sir Kingsley Wood stressed the fact that during the past two years the machinery had been built up for the closest coordination of naval and air operations.

He stated that the Commanders-in-Chief of the various naval areas and the air officers commanding the groups of the Coastal Command shared the same headquarters, and that their responsibilities extended over the same areas. The closest connection between the two Services was insured not only by the constant meetings between the First Lord of the Admiralty and himself with their respective Chiefs of Staff, but by the special appointment of an Air Marshal and of an Admiral whose task it was constantly to review together the operational situation in the North Sea and around the Coasts, and to advise their respective Chiefs of Staff. "There has never been", he said, "such close cooperation, joint endeavor and mutual understanding between the two Services".

While having spoken in a confident vein throughout his statement, Sir Kingsley Wood pointed out in conclusion that the strength of the German Air Force must be clearly borne in mind and that, if an attack on this country were launched, it could not be beaten off without a considerable amount of damage and number of casualties. No air defense organization, he said, could ever be an impenetrable barrier.

"We have", he continued, "only to look at the manner in which our bomber and reconnaissance aircraft have flown the length and breadth of Germany to see how different the facts are. If and when serious attacks are made on this country, considerable damage may be caused, but we need have no doubt that our people will endure with the same high courage as other peoples have recently shown. Moreover, we can be sure that the powerful and efficient air defense organization which we have built up will take a heavy toll of the enemy and that our bomber force for their part will be both ready and able to hit hard, hit often and to keep on hitting."



In the debate that followed, while Sir Kingsley received general commendation from both sides of the House for the progress which had been made in the development of the Air Force, certain particular phases of his survey did not pass without challenge. Mr. Dalton (Labor Opposition) raised the old question as to whether there were too many types of aircraft and whether a standardisation of the component parts was not inopportune. Sir Roger Keyes (Conservative) again propounded the argument, which has now become familiar with him, namely, that the Coastal Command should be under Royal control. Mr. Tinker (Labor) was critical of the "leaflet" flights over Germany and Wing-Commander Wright (Conservative) made a strong plea for the bolstering of civil aviation. These comments and the other points of view expressed were generally regarded and treated at the close of the debate by the Minister for Air as expressions of personal viewpoints and not as severe criticisms of his stewardship as Minister. He denied, for example, that the First Lord had ever intimated to him that there should be any alteration in the existing relationship of the Coastal Command and the Admiralty. Hence he could only treat Sir Roger Keyes' comments, withal with respect, as an individual expression.

In regard to civil aviation, Sir Kingsley stated that he regretted that he had been unable to make an encouraging statement thereon, but that he felt it his duty "to put first things first and to put every ounce that we can into our military efforts". A voluntary report being prepared by the Assistant Comptrols Attaché

deals

- 5 -

deals with the restricted prospects for British civil aviation at some length.

Copies of Sir Kingsley Wood's statements and of the debate as reported in Hansard for March 7, 1940 are enclosed herewith.

1/

Respectfully yours,  
For the Ambassador:

Herschel V. Johnson  
Counselor of Embassy

Enclosures:

1/ Copies of Sir Kingsley Wood's statements and of the debate as reported in Hansard for March 7, 1940, in quintuplicate.

VC/hll

A true copy of  
the signed original.  
Hll

SOURCE: PARLIAMENTARY DEBATES,  
House of Commons,  
7 March 1940.  
London. Cols. 895-705.

NUMBER:



MEMORANDUM FOR THE SECRETARY

Shipping Situation. APRIL 8, 1940.

The only change of significance in the export cargo situation is the increase in the demand for ship's space to lift steel. There was a gain of about 15% in orders for steel received in March and the greater part of this gain is attributed to export orders, some companies reporting that 15 to 20% of their orders are foreign and it is estimated that 10% of the production of all companies in the United States is going into export channels. Great Britain is the largest buyer. In this connection it is reported that the British Ministry vessels are going to be required to carry much larger percentages of their cargoes in the form of steel.

The railroads at New York are continuing to lighter an average of 700 cars per day for export. This average has held remarkably uniform for weeks past. The back-log of export freight is decreasing as the average number of cars on hand daily in February to be lightered for export was 3723 and for March 3355.

The number of cars in storage in railroad facilities as of April 4th was 4900 with an unused available capacity of 9653.

Grain on hand in railroad cars, elevators and boats at the Port of New York is well under two million bushels.

Indicating the balance between export freight and the ships to accommodate it is the fact that on April 4th there were only 68 railroad lighters on demurrage alongside ships.

Railroad car loadings in the United States are running at the rate of 98½% of the ten year average. For the week ending March 30th there was a slight increase, accounted for by Grain and

-2-

Coal, all other major classifications being less than the previous week.

In spite of the scarcity of fixtures, the time-charter and net form charter rates hold firm but the undertone is definitely softer. Coal rates to South America have declined. Grain from the River Plate to Antwerp is \$28.00 against the last fixture of \$29.00 and a recent high of \$32.50 per ton. A fair amount of business in grain from United States North Atlantic ports to Antwerp has been done this week for April movement but the demand was not aggressive enough to move the rate from the 75¢ per 100 lbs. level.

Trans-Atlantic non-conference operators, Isbrandtsen-Moller, Bernstein and United States Navigation Company, are having difficulty with the ships they have scheduled; in the case of Isbrandtsen they have nothing scheduled definitely beyond steamers now loading and which have been on the berth for a considerable time. One regular Conference line, the Black Diamond, apparently is experiencing difficulty in getting a suitable vessel as they have nothing whatever scheduled to Antwerp/Rotterdam.

Basil Harris.



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

In a quiet foreign exchange market, the sterling quotation moved lower. In Amsterdam, the rate declined from 3.58-1/16 to 3.57-9/16 just before our opening. The first quotation in New York was 3.57-5/8. It moved steadily downward to a low of 3.55 in the early afternoon. A firmer tendency then appeared and sterling closed at 3.55-1/2.

Sales of spot sterling by the six reporting banks totaled £528,000, from the following sources:

By commercial concerns.....	£ 162,000
By foreign banks (Europe).....	£ 366,000
Total.....	£ 528,000

Purchases of spot sterling amounted to £416,000, as indicated below:

By commercial concerns.....	£ 151,000
By foreign banks (Europe, Far East and South America)...	£ 265,000
Total.....	£ 416,000

The Irving Trust Company reported that it had sold cotton bills valued at £3,000 to the British Control on the basis of the official rate of 4.02-1/2.

The Guaranty Trust Company reported that it had purchased £10,000 for May-June delivery from the British Control at 4.03-1/2. The sterling will be used by one of Guaranty's customers to pay for shipments of rubber.

The rate for the belga, which moved to lower levels last week, turned stronger today. The closing quotation was .1709-1/2.

The improvement in the Canadian dollar came to a halt today. The opening discount was 15-3/4%, which is the best rate that has been quoted for that currency for some time. The Canadian dollar subsequently weakened, however, and the closing discount was 16-1/8%.

The other important currencies closed as follows:

French francs	.0201-1/2
Guilders	.5309
Swiss francs	.2242-1/2

The Federal Reserve Bank of New York purchased 80,000 belgas for account of the Bank of Latvia.



We sold \$790,000 in gold to the National Bank of Belgium, to be added to its earmarked account.

We purchased \$6,215,000 in gold from the earmarked account of the Bank of Norway.

There were no new engagements of gold reported to us today.

The Bombay quotation for spot silver advanced the equivalent of 7/16¢ to 39.97¢.

The London prices fixed for spot and forward silver were both unchanged at 20-1/8d. The U. S. equivalents were 32.35¢ and 32.20¢.

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 six purchases of silver totaling 429,747 ounces under the Silver Purchase Act. Of this amount, 50,000 ounces represented a sale from inventory, and the remaining 379,747 ounces consisted of new production from foreign countries, for forward delivery.

A handwritten signature in dark ink, appearing to be 'B.M.R.', is located in the center of the page.

CONFIDENTIAL

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**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

DATE April 8, 1940

TO Secretary Morgenthau  
FROM Mr. Haas *JH*  
Subject: Railroad freight movement for export.

Export freight receipts levelling out

Receipts of freight for export at New York during March have held at approximately the February level, ranging between 4,000 and 4,500 cars per week. (See Chart 1 and table attached). Weekly receipts of export freight at 9 other North Atlantic ports during March averaged slightly higher than in February, but they have shown a declining tendency in recent weeks.

Lighterage freight in storage declines further

The volume of freight actually exported from New York during March (see Chart 2) has been greater than receipts of export freight would indicate, averaging higher than in February, since export freight in storage has been steadily reduced. Chart 3 shows the recent declining trend of lighterage freight (largely for export) in storage and on hand for unloading in New York harbor.

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK  
AND AT NINE OTHER NORTH ATLANTIC PORTS

Week ended 1939-40	New York <u>1/</u> (In carloads)	Nine other North Atlantic ports <u>2/</u>
October 28	3,707	
November 4	3,562	
November 11	3,547	
November 18	3,334	
November 25	3,497	
December 2	3,435	
December 9	3,922	1,548
December 16	4,088	1,658
December 23	4,848	1,602
December 30	3,856	1,104
January 6	4,000	1,251
January 13	4,056	1,433
January 20	4,060	1,557
January 27	4,389	1,825
February 3	4,274	1,498
February 10	4,617	1,590
February 17	3,974	1,637
February 24	4,550	1,667
March 2	4,577	2,388
March 9	4,059	2,448
March 16	4,072	1,845 <sup>3/</sup>
March 23	4,424	2,033 <sup>3/</sup>
March 30	4,150	1,492 <sup>2/</sup>

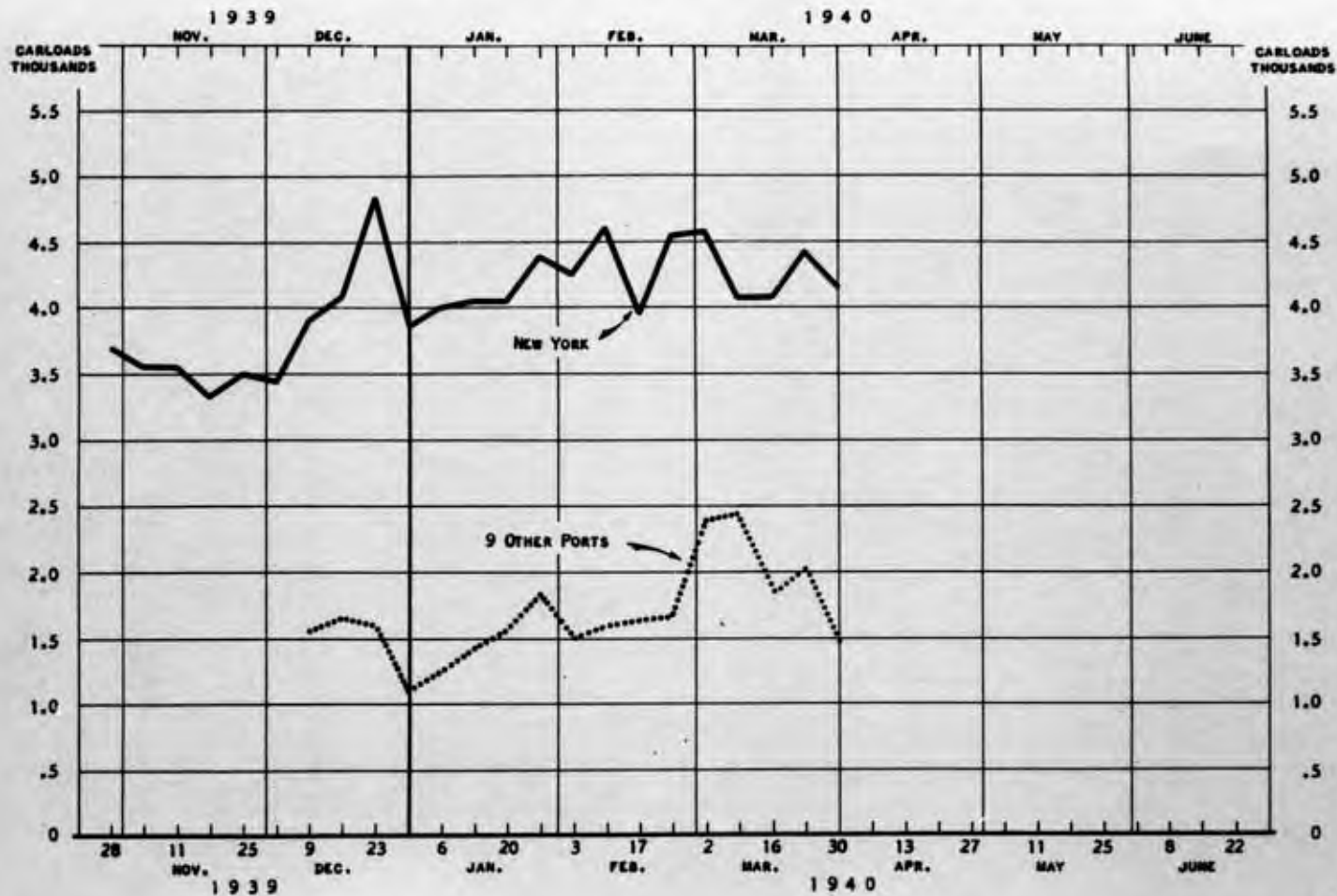
1/ Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

2/ Source: Association of American Railroads, Car Service Division, Report of Carload Freight for Export and Coastal Vessel Movement.

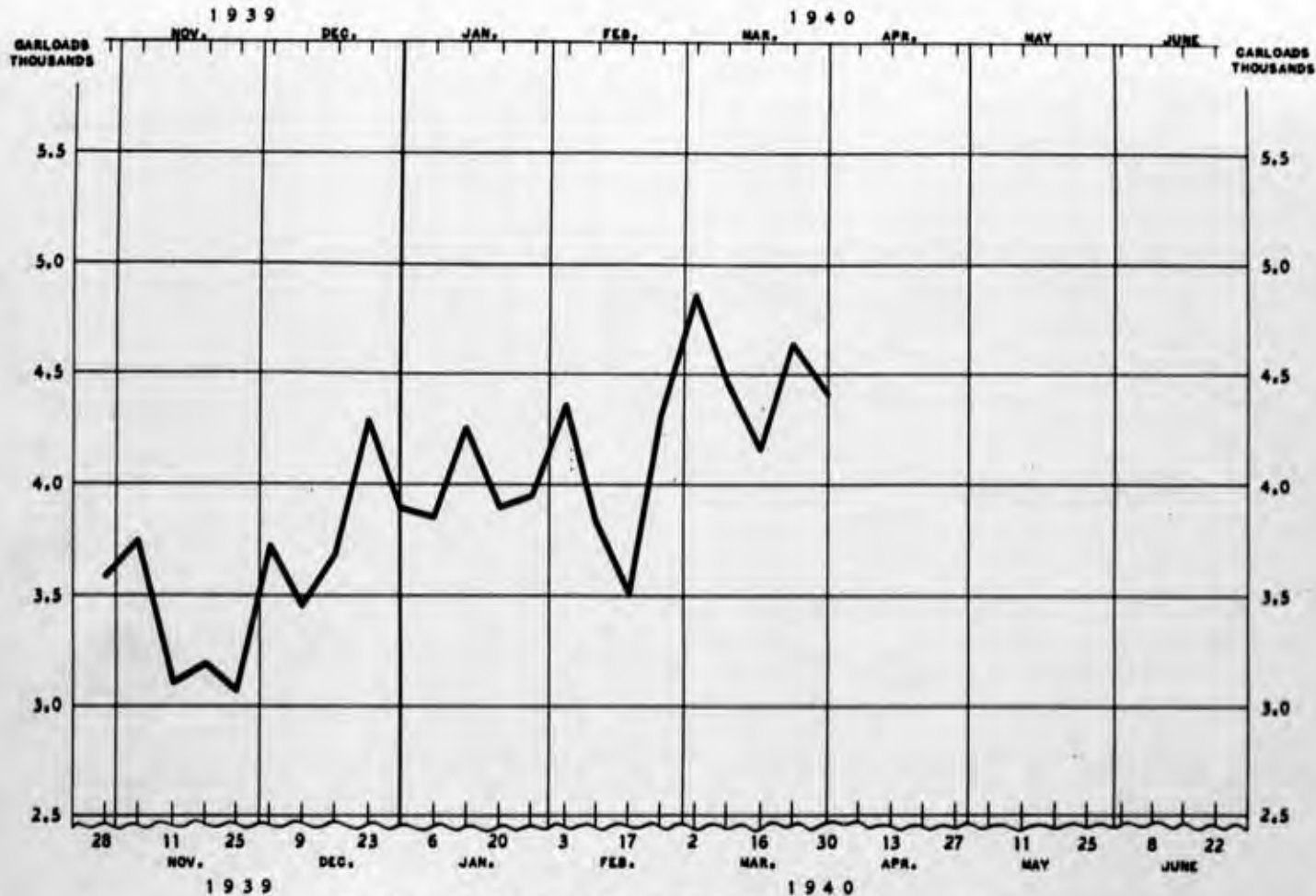
3/ Revised.



RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK  
AND AT 9 OTHER NORTH ATLANTIC PORTS



CARLOADS OF FREIGHT EXPORTED FROM NEW YORK \*



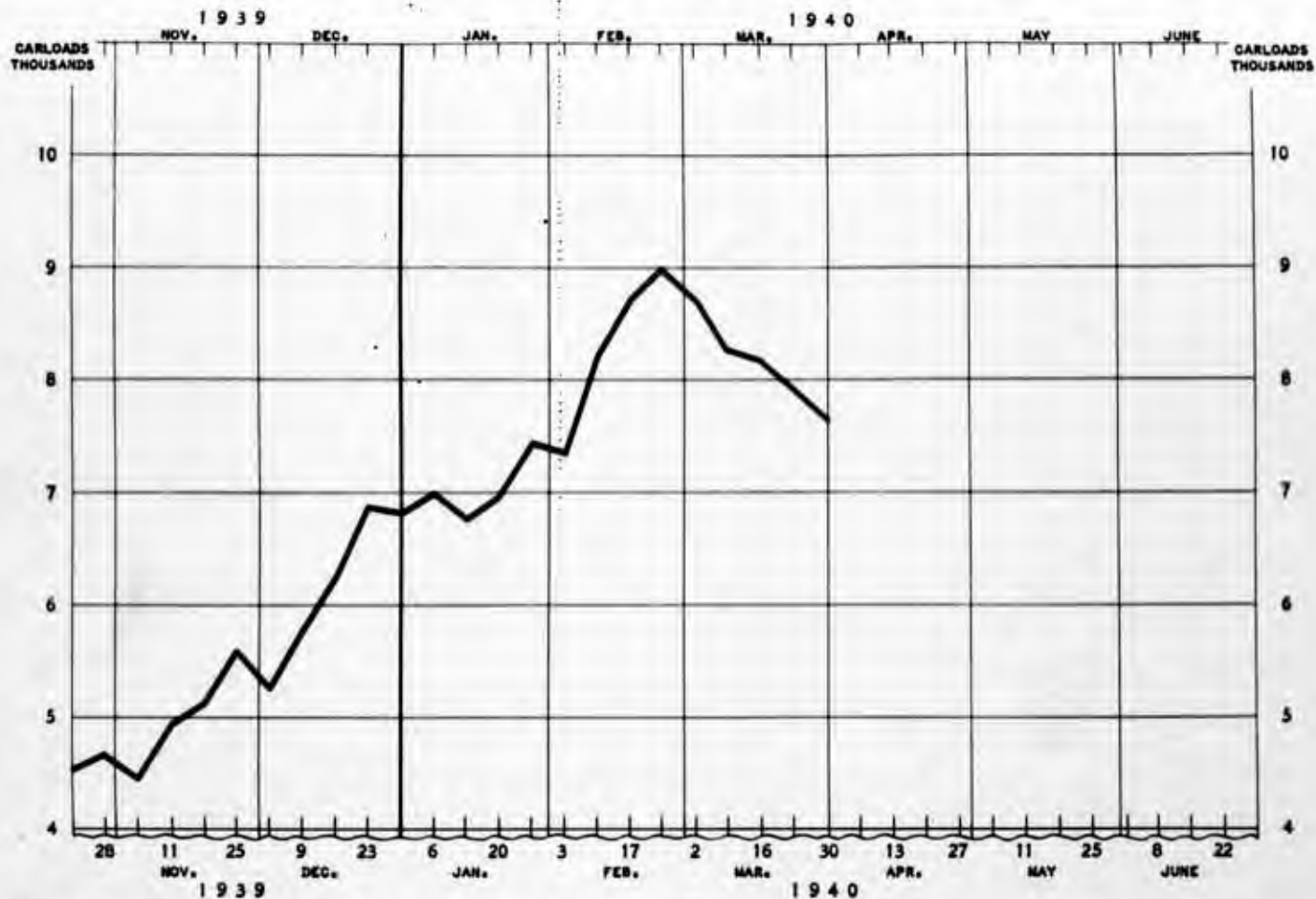
\* AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.

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

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Chart 2  
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LIGHTERAGE FREIGHT IN STORAGE  
AND ON HAND FOR UNLOADING IN NEW YORK HARBOR \*



\* LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.

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

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Regraded Unclassified

114

Chart 3



JR

GRAY

Paris

Dated April 8, 1940

Rec'd 3:05 p.m.

Secretary of State,  
Washington.

437, April 8, 7 p.m. (SECTION ONE)  
FOR THE TREASURY FROM MATTHEWS.

Frederic Jenny in last evening's LE TEMPS analyzes with his usual clarity and considerable understanding of the British dilemma the recent free market drop of sterling franc. He sets forth as follows one of the leading points of difference in French and British exchange control policy: "two exchange policies are conceivable and both are defensible.

MURPHY

WAC

JT

GRAY

PARIS

Dated April 8, 1940

Rec'd 4:35 p.m.

Secretary of State,  
Washington.

437, April 8, 7 p.m. (SECTION TWO)

The first which had been effectively practiced by the London authorities until the beginning of March consisted in tolerating a free exchange market abroad which was relatively large and in favoring its maintenance by avoiding anything of a nature to break the equilibrium of purchases and sales. The other which since the beginning has been that of the French Foreign Exchange Office - which itself furnishes foreign exchange for transfers of foreign holdings and prohibits in principle the payment in francs for French exports - tends to reduce to a minimum exchange operations on the free market and to maintain equilibrium by drying up as far as possible sources of demand for as well as sources of supply of francs". He says that the British Government is now "faced with the choice of one of these two methods".

MURPHY

EMB

JR

GRAY

Paris

Dated April 8, 1940

Rec'd 3:29 p.m.

Secretary of State,  
Washington.

457, April 8, 7 p.m. (SECTION THREE)

If it wishes to return to the first it can doubtless do so through giving demand for sterling on the free market its former elasticity by partially or completely suppressing the measure which brought in the trouble in that market. If on the other hand it wishes to assimilate its policy to terminate followed by France it must restrict sales of sterling abroad. He believes that no automatic rebound of the free rate is possible while settlement in pounds (sterling) is "imposed on foreign exporters" and he points out that "the first principle of an effective monetary defense is to avoid having substantial quantities of national currency in the hands of foreigners to be offered by them on the exchange market".

CSB

HUMPH



JR

GRAY

Paris

Dated April 8, 1940

Rec'd 3:40 p.m.

Secretary of State,  
Washington.

437, April 8, 7 p.m. (SECTION FOUR). He continues:  
"The problem in question since the beginning of the war is much more delicate for Great Britain than for France for the simple reason that the volume of foreign holdings is infinitely greater in London than in Paris. This explains why the Bank of England in lieu of giving the owners of such holdings who desire to repatriate them foreign exchange as does the French foreign exchange office, only permits them in principle to liquidate their pounds (sterling) on foreign free markets". He points out that opinions as to the remedy vary, some favoring the blocking of such foreign holdings for the duration of the war, with an exchange guarantee on their ultimate withdrawal, where others urge that foreign exchange be granted at the official rate for transferable foreign holdings still in London, on the ground that since many holdings have long since been liquidated British bank credit would be less affected by the loss of gold or foreign exchange involved.

CSB

MURPHY

PARTIAL PARAPHRASE, SECTION FIVE, TELEGRAM NO. 437  
OF APRIL 8, 1940, FROM PARIS.

Jenny concludes, "The preceding indications make it clear that the problem posed by the recent fall in the pound and the franc on foreign markets is in no sense insoluble. It is a simple technical problem consisting in a search for the most rational application of exchange control. There is no reason to doubt that after having weighed with care the pros and cons of different possible steps the responsible authorities will soon take the decisions which the situation seems to require".

From a previous telegram, dated April 1, No. 417, from the Embassy, you will recall Jenny's optimism that the British intend to "act" hardly finds echo among the financial authorities in France. However, Rueff has left for London to discuss this question, presumably. A report came to me today that a French concern through Morgans sold \$800,000 for pounds on the market in New York, and immediately took francs for the pounds. The control does not permit direct conversion from dollars to francs at the New York rate by a French concern or resident; but the aforementioned legal loophole will be availed of increasingly if there are no measures to remedy the situation.

END SECTION FIVE.

MURPHY.

EA:LWW

JT

GRAY

PARIS

Dated April 8, 1940

Rec'd 5:15 p.m.

Secretary of State,  
Washington.

437, April 8, 7 p.m. (SECTION SIX)

In this morning's AGENCE ECONOMIQUE ET FINANCIERE, that journal's American correspondent after discussing reduction of American exports of agricultural products (with the exception of cotton) to the Allies writes, "The Department of Agriculture advised agricultural interests from the beginning that they should not count on an increase in sales of their products. Nevertheless, these interests exercise an increasingly strong pressure on the administration and Congress to compell the Allies to purchase American agricultural products along with airplanes and other war materials.

MURPHY

NK:EMB



JT

GRAY

PARIS

Dated April 8, 1940

Rec'd 5:30 p.m.

Secretary of State,  
Washington.

437, April 4, 7 p.m. (SECTION SEVEN)

As of possible interest here are the proposals of which Washington was informed: licenses for export of war materials shall not be granted except on condition that the Allies buy a certain quantity of agricultural products. As this proposal has no chance of receiving consideration by the authorities a group of American farmers suggests the creation of a special tax on American armament enterprises which profit from increased exports of war materials. The proceeds of this tax would subsidize agricultural interests whose sales have greatly diminished."

MURPHY

EMB

REB

GRAY

Paris

Dated April 8, 1940

Rec'd 6:25 p. m.

Secretary of State,  
Washington.

437, April 8, 7 p. m. (SECTION EIGHT)

An arrete of the Minister of Supplies appearing in Saturday's Journal Officiel requires all persons or enterprises having stocks of sugar in excess of 500 kilos to make declarations relinquishing their holdings. Declarations will cover stocks in their possessions or consigned to them as of April 13, 1940 and are to be submitted to the military authorities of the department in which the stocks are located.

A report is published here to the effect that among the accords recently concluded between the French and Brazilian Colonial Ministers is one providing for a joint organization for the sale of cocoa on foreign markets. This is said to imply "a permanent collaboration between the two governments as well as between the British cocoa control and the French general association of importers of colonial cocoa."

MURPHY

LMS

EMB

JT

GRAY

PARIS

Dated April 8, 1940

Rec'd 5:22 p.m.

Secretary of State,  
Washington.

437, April 8, 7 p.m. (SECTION NINE)

Yesterday's JOURNAL OFFICIEL published a further decree designed to reduce the consumption of fuel (see my telegram 425, April 3, 6 p.m.). It provides that no public buildings, including hotels and apartment houses, are to be heated during the period April 1 to October 15 and that the heating of hot water in such buildings is to be suspended for four consecutive days per week in winter as well as summer. Infractions of these regulations are punishable by fines and the police are authorized to enter the furnace rooms of these buildings "at any time to ascertain whether the regulations are being observed.

MURPHY

NK:EMB



JT

GRAY

PARIS

Dated April 8, 1940

Rec'd 7 p.m.

Secretary of State,  
Washington.

437, April 8, 7 p.m. (SECTION TEN)

Normal and permanent budgetary revenue just published for the month of February is 4,917,000,000 francs an increase of 1,147,000,000 francs over the figure for the corresponding month in 1939. This increase was occasioned both by yields from new levies introduced subsequent to February 1939 such as the arm tax (525,000,000) and the special 15% direct tax (90,000,000) by augmented returns from the income tax (214,000,000) the business tax (247,000,000) the special national salaries tax (151,000,000) sugar and saccharine levies (55,000,000). Reductions in relation to February 1939 collections occurred with respect to revenue from registration fees (129,000,000), tax on income from stocks and bonds (38,000,000) stamp taxes (22,000,000) and special indirect contributions (15,000,000).

Influenced by weakness of Scandinavian issues following the Allied move in mining Norwegian territorial waters and by heaviness of the Brussels and Amsterdam exchanges French  
variable

-2- #437, April 8, 7 p.m. (SEC TEN) from Paris

variable revenue securities are down from 1 to 3% today.

Rente issues, however, advanced fractionally.

(END OF MESSAGE)

MURPHY

LMS:EMB

TO THE DIRECTOR  
OF THE BUREAU OF  
INVESTIGATION  
WASHINGTON, D. C.  
APR 10 1941  
RECEIVED

REB

GRAY

Berlin

Dated April 8, 1940

Rec'd 6:34 p. m.

Secretary of State,  
Washington.

864, April 8, 9 p. m.

FOR TREASURY FROM HEATH.

Although no official announcement has as yet been made I am informed that the reichsbank has decided to reduce its discount rate to 3-1/2% from the 4% rate at which it has stood since 1932.

KIRK

EMB



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 8, 1940.

TO Secretary Morgenthau  
FROM Mr. Haag *JA*

Employment under the Work Projects Administration is reported at 2,288,000 persons for the week ended March 27, 1940. This figure represents a decrease of 24,000 persons from the previous week and of 38,000 persons from the number reported at the end of February.

Attachments

**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 - Weekly  
United States

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

Source: Work Projects Administration.



WORK PROJECTS ADMINISTRATION  
Number of Workers Employed  
United States



SOURCE: WORK PROJECTS ADMINISTRATION

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

## GROUP MEETING

April 8, 1940.  
12:00 Noon

Present: Mr. Thompson  
Mr. Cochran  
Mr. Graves  
Mr. Sullivan  
Mr. Haas  
Mr. Cotton  
Mr. White  
Mr. Gaston  
Mr. Schwarz  
Mr. Foley  
Mrs Klotz

H.M.Jr: I hear everything has been very quiet and peaceful and John Sullivan has nothing to do, so I will give you a few assignments.

Sullivan: No, I am no longer political. I am a career man, after last Tuesday.

H.M.Jr: I always thought you were a career man.

Sullivan: Definitely, after last Tuesday.

H.M.Jr: What happened last Tuesday?

Sullivan: Well, one New York man in Treasury asked another New York man in Treasury when the primary was in New York.

Gaston: When was it?

Sullivan: It was that day and neither of them knew, so I decided I was a career man.

H.M.Jr: So are Ed and I.

In his letter to me, Dan wrote me a letter in which he said there were two things which would come up this week. One of them, the President is going to have a meeting with the Director of the Budget and Currie and myself on the debt limit.

Now, during Dan's absence, is the debt commissioner the fellow that knows the debt limit?

Thompson: I should think Ed Bartelt would be the man.

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Hitchelder is looking after the work of Mr. Bell's office.

H.M.Jr: Who would be the man?

Thompson: I think Eddie Bartelt.

H.M.Jr: Tell Eddie I would like to see him at 10:15 tomorrow morning on the debt limit. Dan wrote me a letter in which he said that the debt limit was around 400 and some-odd million dollars and inasmuch as it affects taxes and legislation, I think Sullivan and Foley had better be here, too. Do you want to sort of keep track of them?

Thompson: Yes, I will do that.

H.M.Jr: That doesn't come under you, George, does it?

Haas: No, not the accounting part of it.

H.M.Jr: But I mean just so - there will be talking about the taxes and all that. We will have a little meeting at 10:15.

Foley: This is just our own people?

H.M.Jr: Yes. I called up the Director of the Budget and he asked to be excused because he said he was working on the third reorganization plan which has to be ready Wednesday morning.

The other thing I wanted to get ready for is the President's meeting with Wallace and Hull and myself on the two-price pound. When does Basil Harris get back?

Thompson: He ought to be here.

H.M.Jr: I thought we could do something on that at 3:00 this afternoon.

Foley: That is fine, because it is very pressing and we ought to --



- 2a -

H.M.Jr: Well, in that Cabinet meeting, the President said he wasn't going to do a thing about it. Now, of course - I will tell you the story which Dan told me which - well, both the facts are so ridiculous. Mr. Wallace said he sat down with an unknown and unnamed newspaper reporter who said, one, that the President is working on a plan to raise the price of gold. Well, I said that Harry just wasn't doing that and denied that categorically. I just knew Harry wasn't doing that.

White: Yes. Whatever you denied, I will swear to.

H.V.Jr: Also that goes for Merle Cochran.

Cochran: Thank you.

H.M.Jr: And the second thing is that the Italians were drawing down their funds. What I get out of that is this, that Henry Wallace has got some kind of a trick in his mind about commodity prices, so anybody who has had anything to do with the two prices on the pound are invited to be here at 3:00 o'clock and we can do a little on that and then the other thing which I thought - I wanted to see that John had something to do.

On the reorganization bill, alcohol, F.A.A. comes in the Treasury. I read the interview with Captain - telling just how we were going to handle it. Now, the only instructions I have got from the President of the United States is to see that Alexander has a job and inasmuch as it is Internal Revenue, John, I thought you might look into this whole thing. The fellows who know a lot about this are McReynolds, who is now with the President, and Harold Graves and Guy Helvering and I thought you might get them together and go into the whole question, you see, and of course you want to be very careful - I mean, Ed Foley has been to all kind of pains to see that you keep the General Counsel in Federal Alcohol Administration. You will just have to steel yourself to do that. He will want you to keep him. Ed is going to do everything he can to see that you keep the Counsel at \$10,000 a year, but you will have

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to do the thing purely on a scientific basis.

Sullivan: I thought he wanted to raise him to twelve.

H.M.Jr: I think it would be a nice job and McReynolds and Harold Graves know an awful lot about it. I think if you could find out what you fellows know - Norman, because it is administrative procedure - and McReynolds and Graves and then after you have got your ideas - because what this fellow told the President just doesn't go with me, because what he told the President, he was just going to continue as it is. Now, I have told the President for three or four years, either kick it out of the Treasury or put it in. Now, the President has put it in the Treasury.

Foley: His office is abolished. He is out. He has got no job when this reorganization goes through.

H.M.Jr: You know a lot about it.

Graves: Yes.

H.M.Jr: So, will you take that up? I think it is very interesting and incidentally, the fellow who drew the legislation, if you want any background, is Eddie Greenbaum, so if you want to go back to the original thing, how it happened, Eddie Greenbaum was the fellow who drew up the legislation. I am right on that, am I not?

Klotz: Yes.

H.M.Jr: I am giving the fellows who used to work on it, so you can get the background, and so forth. The President's attitude originally was on the thing that that was a social matter. It is no longer a social matter. It is just a question of administration.

Gaston: They also have a Public Relations man there.

H.M.Jr: I know. Well, that is about all I have got. Everything else is very quiet.

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Norman?

Thompson: I have some personnel matters I would like to discuss.

H.M.Jr: Well, we will get around to it.

Thompson: For something nice to report, the rose garden is completed and will be in bloom shortly.

H.M.Jr: That is very important.

Harold, I am surprised that you can't keep your mouth quiet (handing Mr. Graves a clipping). Where did that come from?

Graves: From Elder.

H.M.Jr: What is the idea?

Graves: I don't know.

H.M.Jr: That says 235 thousand dollars. Is that the right figure?

Graves: Yes, approximately.

H.M.Jr: Why would he do it?

Graves: I don't know, but there are facts here that we couldn't possibly have known. We have got this Chicago lawyer.

H.M.Jr: Is he a good one?

Graves: Yes.

Foley: Who is it?

Schwarz: Harry B. Sutter.

Graves: He is with one of the best firms in Chicago.

Foley: I don't know Sutter. What is the name of the firm?

Graves: I didn't make a note of it.



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H.M.Jr: Sutter, Sutter, Kelly and Levy.

Foley: It must be a good firm. I don't know about the Sutters, but the Kellys and Levys are all right.

H.M.Jr: Well, they are just fronts.

Schwarz: Sutter provides the dough.

Sullivan: The New York Times fellow came to me Friday and wanted to discuss that same matter and I told him we weren't free to mention it.

Gaston: The fellow from the Chicago Tribune called me up at 12:00 o'clock last night and asked if it was true that we had slapped a lien on Bowman Elder.

H.M.Jr: Well, you (Graves) are going to ride up to the house with me. I am going to leave about 12:30.

Mr. Magill called up and said he would be here Friday.

Graves: I wanted to talk to you about that.

Foley: Jim Landis called me also on Friday, Thursday or Friday, and he wanted to know - if he doesn't have to come down, he would like to know reasonably soon.

H.M.Jr: Harold will write back word and give it to McKay. All right, Harold?

Graves: Fine.

H.M.Jr: Harry?

White: This silver matter is being held up in the Senate until Barkley wants to call it. There is some question as to whether he will hurry about the matter, so that Townsend may see fit to attach it to whatever bill he can. That is the status of that at the moment.

The Inter-American Bank status is that there are several --

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H.M.Jr: Tell the story about when you came down, remember?

White: There was an important point to be decided which called for the Secretary's decision and the understanding I had before I left was that if he decided one way, he would telephone. If he decided the other way, he wouldn't telephone. So the Secretary, after a moment's thought, said, "Which decision requires a telephone call?" I indicated and he said, "Well, let's have it the other way."

H.M.Jr: Needless to say, that is the way he wanted it.

White: That is the way great problems are decided.

Foley: The way you want them, Harry?

White: It is because of your earlier remark, Ed, that I will let that by, about the Kellys and Levys.

They are meeting this morning - I left the meeting - on the Inter-American Bank. There is apparent agreement on all of the matters with the exception of whether 50 percent shall be subscribed as specified or whether the 100 percent shall be subscribed as specified. I think they will agree on that this morning, as well as the other changes and the fact that seven countries have now accepted --

H.M.Jr: Have you learned your seven countries since I saw you last?

White: Yes, I can read them off, now. It is United States, Mexico, Brazil, Colombia, Bolivia, Ecuador, and then there are some with qualifications with respect to - they will be glad to, when they have the money, and there are about eight that haven't answered yet and there are several who said they cannot join because they haven't enough funds. Chile said she has a fundamental objection in response to the inquiry which was sent to all the countries, but she hasn't said what they are yet. She will forward them later.

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H.M.Jr: What do you want me to do today?

White: I am just indicating that everything is going forward smoothly and at this point there is no decision to be made, but if, as I suspect, this committee will pass favorably on the by-laws in convention as written now, then it will go to the larger committee, and they are hurrying it up. At that point it will be, I take it, the State Department's job and Mr. Berle indicated he would want your cooperation to present the matter to Congress.

H.M.Jr: Well, we will wait.

White: But for the moment there is nothing to be done. It is going along smoothly.

H.M.Jr: George? Have you got those specials?

Haas: Yes.

H.M.Jr: George, would you keep after me, because I want to get hold of the Standard Statistics. I thought we could make a friend out of him by showing him where he was wrong on that stuff on gold.

Haas: Yes. They just put a new head - the man who was President became Chairman of the Board.

H.M.Jr: Somebody there is good.

Haas: Yes, that wasn't bad for losing the available data.

H.M.Jr: But I mean this whole thing. I think it is amazing.

White: Mr. Secretary, I had meant to say the Department of Commerce, the industrial section, at least a group of them, got out an analysis and a forecast which is very excellently done, irrespective of the conclusion, which you may or may not agree with, but the basis of the conclusion is very well done. I just got it. I don't know



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whether you got it, George, or not.

Haas: Yes, I got it.

White: Well, I think it might be well to have George submit a critical comment on it for you.

H.M.Jr: What does it say for the rest of the year?

White: They say it will go between eighty and a hundred. They are a little bit more bearish than anything else. I think he is more bearish than he indicates in there. I know that he thinks it will approach the low rather than the upper limits at his range.

H.M.Jr: Standard Statistics says 111 for the year.

Haas: The interesting feature is that that happens to be the exact figure we took last November.

White: It was an average of all the estimates and I think they must have got it somewhere. It is identical. It couldn't be an accident. Well, it could be, but --

H.M.Jr: Well, I wonder if they forecast 111 or anything earlier than that?

Haas: No, 115, I think it was back there.

White: Do you think it could be an accident?

Haas: I think it is an accident.

H.M.Jr: Well, give the Gilbert thing to George.

Haas: I have got it.

H.M.Jr: Because I have seen that stuff and on the inventory stuff and all I wasn't at all impressed. The inventory was purely theoretical. They had no actual information.

White: That wouldn't be a fair criticism of the present report.

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H.W.Jr: But the other one, I put my finger on it and they did not have actual first hand information. It was a theoretical report. Give it to George.

White: He has got it.

H.W.Jr: What else, George?

Haas: That is all. On that housing material, do you have a deadline on that?

H.W.Jr: Incidentally, you have been holding out on me. I read the report of the thing you have been working on and I hear - this is the darndest thing. Do you know what the lawyers asked me to do? Analyze eleven thousand horse races to see which system is the best. It is the darndest thing I ever heard of. The General Counsel asked me to analyze 11,000 horse races to find out which betting system was the best.

Haas: He is going to get Annenberg on that.

H.W.Jr: George, when you get the answers, see me first.

Haas: You know that they held us up a little bit on that? We found out that some Senators had the forms out.

H.W.Jr: I see.

Chick?

Schwarz: I was reading in the morning paper that you were scheduled to lead, among other Cabinet officers, a three-day seminar next month.

H.W.Jr: That is right. I get up and say, "How do you do, ladies and gentlemen. I am awfully glad to meet you Democrats and I now introduce the man who has the answers on everything, Harry White with the latest."

White: I have most of the answers. I will get them, anyway. It is a three-day session for women members of the National Democratic Club.

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Schwarz: I just wanted to be sure that was right.

H.M.Jr: I am sorry I didn't tell you, but I did tell you about meeting Bruce.

Schwarz: We have got an office all set.

Saturday, going back to Indiana, Kintner and Alsoop commented on what they said was the unusual statement attributed to Commissioner Helvering that Treasury would make some announcement in connection with the investigation. They since learned that Mr. Helvering said he made no such promise when he was interviewed at the White House.

H.M.Jr: Well, he is under Sullivan. Sullivan is taking care of that.

Schwarz: Keep him quiet.

H.M.Jr: Right.

Schwarz: You might be interested to know that the same young gentleman who wrote that column on April 15 will publish a book which I believe will be the series of stories they wrote for the Saturday Evening Post, to be called the American White Paper, the story of the United States' diplomacy in the second World War. The Post didn't use it, so maybe the publisher will.

H.M.Jr: We will hold our breaths and see how it comes out.

Cotton: Last week we had a couple of meetings at the Export-Import Bank to consider a program the State Department wants to put over in Latin America and no action was taken except in the case of Colombia where an allocation of five million dollars was made. The main point is the question of a loan to Chile and it may come up this Wednesday. I have talked a little to Harry about it and I think I would like to have some chance to tell you about it.



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- H.M.Jr: Will you ask Mac for an appointment? I gave you the assignment of letting me know what these different people are buying.
- Cotton: I have got that in hand and I will bring it in.
- H.M.Jr: Will you, please.
- I got your (Cochran's) memorandum on Ashton-Gwatkin recently and I thought I would see him, but - see them together. Do you think that would work all right?
- Cochran: I think it would be preferable and when I told you they were going away on Wednesday - this morning I heard there was a luncheon at the Canadian Legation on Friday, so I guess it will be longer.
- H.M.Jr: I spoke to Mrs. Morgenthau and we will be very glad to have them come Thursday night at 7:30 and I would like to have you and Harry there. Ashton-Gwatkin and Professor Rist. I don't want them to get down on a too personal basis and I take it they want to - they want to have a chance.
- Cochran: Yes, sir.
- H.M.Jr: They are going to the Legation Friday. Then it will be all right to be down there Thursday night, won't it?
- Cochran: I think they are here now. They were due to come back this week-end.
- H.M.Jr: I don't have to have Purvis there, do I?
- Cochran: No, not at all.
- H.M.Jr: You can hold everything else? I will see you later.
- Cochran: Procope phoned just before I came in and wanted an appointment, the Finnish Minister. He wanted it tomorrow, if possible.

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H.M.Jr: Is he going to bring his wife down?

Cochran: I don't know.

H.M.Jr: He will have to wait. I can't answer. I don't want to see him. He makes me sick.

White: Sir Scripps came to see me. He had some things to say that I would like to repeat to Cochran and yourself sometime today.

H.M.Jr: All right.

Cochran: Do you want me to speak to these two gentlemen about the dinner?

H.M.Jr: If you would, please.

Sully?

Sullivan: Just two brief memoranda. One on this to Alexander and the one on this to Currie (handing memoranda to Secretary). Not necessarily now.

H.M.Jr: Right. How is the baby?

Sullivan: Swell. Three pounds and three ounces in six weeks.

H.M.Jr: Ed?

Foley: Jerry Frank wants certain copies of reports of earnings and dividends filed with the Comptroller by the Bank of America and also a certified copy of the Articles of Association and By-laws. We don't have the By-laws, but as to the other things, we are saying that --

H.M.Jr: Does that come from one brain cell to another, as the judge says?

Foley: Yes.

H.M.Jr: Right?

Foley: Right. Some time ago Jerome Siegler in New York, who is bringing that suit on Hecht in behalf

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of the Universal Trading Corporation - he sent certain interrogatories. You are not subject to the jurisdiction of the New York Supreme Court here in Washington. Therefore, he can't compel you while you are here to answer the interrogatories. I told him to send them down and I would talk to you and we would let him know. He has written a rather insistent note and it is my recommendation that I tell him I have talked it over with you and you don't want to answer the interrogatories at this time.

H.M.Jr: Would you mind, before you do that - because it affects both my official and personal life and also - would that be entirely agreeable?

Foley: Sure, absolutely.

H.M.Jr: I would appreciate it, inasmuch as it affects me in a dual capacity. They could serve a paper on me up there.

Foley: They could serve you in New York and of course we could ask the United States Attorney to have it vacated, on the grounds it involves your official rather than your personal capacity.

H.M.Jr: Are they good questions?

Foley: Yes, they are good questions and I have got all the answers written out, but I don't see any reason why we should accommodate this fellow and I don't think he could get the case up to trial before the election and he held a press conference some time ago and Hecht made certain statements about this action that he was bringing and how he has been badly treated and the conspiracy that the Chinese had undertaken to keep him from getting his fee and all that, which resulted in his being served by Dewey's office and by Bennett's office with certain papers in connection with fraudulent stock transactions that he had been implicated in.

H.M.Jr: After you talk to him, will you talk to me again?



Foley: Yes.

W.M.Jr: What have you gents done with my friend, Harry Durning?

Gaston: I have a letter here addressed to Dan Bell, enclosing copies of two letters he addressed to Jim Farley, in one of which he submits his resignation as delegate to the National Convention and in one of which he asks him not to give it any publicity as he thinks that ought to come from the Treasury Department.

H.M.Jr: Why?

Gaston: I don't see why it should. I think Harry himself should make the announcement that he has resigned.

H.M.Jr: He ought to do it today, definitely. When Basil Harris gets in, let Basil call him up. Tell him to call him up and tell him to announce it.

Foley: The thing was all right while he was dealing with Harry. It got complicated when Ed Flynn got into it.

H.M.Jr: But tell Basil Harris to tell Harry to get that out. And that opinion of that young lawyer in New York, according to Sullivan, was a good opinion, I mean a scholarly one.

Sullivan: According to who?

H.M.Jr: According to you.

Sullivan: No, sir.

H.M.Jr: I thought you said it had good reasoning.

Sullivan: No, sir.

H.M.Jr: Where did I get that information?

Sullivan: I am sure I don't know, sir.

H.M.Jr: Did you read it carefully?

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Sullivan: I read it carefully, but that wasn't my conclusion.

Foley: He never should have done that, Mr. Secretary. He shouldn't have done that any more than Harry should have gone directly to the Attorney General without going through us.

H.M.Jr: What is his name?

Foley: His name is Altschuler.

H.M.Jr: Well, it is settled now.

Foley: Yes.

H.M.Jr: And as usual, the President is right.

Foley: Sure he is right, absolutely.

Gaston: I think under the law he ought to be dismissed. He has already violated the law. Maybe we will get by with it.

H.M.Jr: Let's get him by.

Foley: Of course. I went over and talked to Bob about it and Bob said he thought that was the sensible thing to do and he didn't think we ought to take any action because he had submitted his name on the ballot.

H.M.Jr: All right, Herbert.

Gaston: The Coast Guard graduation, Coast Guard Academy graduation, May 20, would you like to make the speech again this year?

H.M.Jr: No.

Gaston: Do you have any ideas on the subject?

H.M.Jr: I think Mr. Gaston should make it.

Gaston: Thank you. All right.

H.M.Jr: Did we click?

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Gaston: We clicked.

The Lockheed 18 plane, the present date of delivery is May at the factory.

H.M.Jr: I hear number one --

Gaston: Maybe they will better it, but probably not.

H.M.Jr: I hear number one had the wobbles, so I didn't get it.

Gaston: I didn't hear that.

H.M.Jr: Ask Mac to tell you of my conversation about Burke wanting to go on leave. I would like to know whether he has made up his mind.

Gaston: O. K.

Reorganization: I am inclined to think that our Bureau of Navigation and Marine Inspection will not be included in this order from what Harold Smith said to Waesche. He said he was personally in favor of it but he saw some obstacles and I am inclined to think we won't get it, but maybe I am wrong.

The other thing is that Preston Delano called up to tell me that the Articles of Association had been sent out for the Bank of America and that they had agreed over the telephone to various high points in them but they haven't actually seen the Articles. They may raise some difficulty when they see the Articles.

H.M.Jr: Articles of what?

Gaston: New Articles of Association for the Bank of America.

H.M.Jr: How do you happen to get in on it?

Gaston: He called me up, because he didn't know to whom he should report since Dan Bell was gone. That is another question. Through what



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chanel do you want these reports to come while  
Dan is gone?

H.M.Jr: Who should it be?

Thompson: On the Bank of America?

H.M.Jr: Anything.

Thompson: I should think it would be me.

H.M.Jr: That is what I thought.

All right, gents, I will be back. Glad to be  
back and thanks for taking care of things while  
I was gone.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE April 8, 1940

TO Secretary Mergenthau

FROM Mr. Haas *SH*

Subject: The Business Situation,  
Week ending April 6, 1940.

Conclusions

(1) Following the recent indications of a levelling-out of the business decline, last week's developments provide evidence that an upturn in business activity is near at hand:

(a) The belated appearance of warm weather after an unusually cold and unfavorable March has tended to expand spring buying in various industries and to speed up industrial activity.

(b) U.S. Steel orders have increased to 59 per cent of capacity, the highest since January. Trade reports likewise mention an improvement in steel orders, partly due to a depletion of consumers' steel inventories and to substantial export bookings.

(c) Private heavy-construction awards last week rose 60 per cent over the previous week to the second highest figure of the year; and inquiries for structural steel increased to the highest total tonnage so far this year.

(d) Textile sales, which often point to important business turns, continued to expand last week. An increase in our reported figures on textile orders, together with the increase in steel orders, has raised our weekly new orders index to the second highest figure since December 2.

(e) The security markets reflect a turn in the business outlook. Stock prices have extended their gains of the previous week on a broad expansion in buying, reaching the highest levels since early January. The volume of transactions last week on the New York Stock Exchange was the highest since last September.

Secretary Morgenthau - 2

(f) Weekly business indices again show resistance to declines. For the week ended March 30, the New York Times index was unchanged, while Barron's index advanced half a point.

(2) On the unfavorable side of the picture, commodity prices remain under the shadow of severe weakness in sterling exchange and have not yet responded to the improving business tendencies. Steel scrap prices have not as yet confirmed an upturn in steel demand.

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#### Business outlook improves

The appearance of warm weather after a month of unseasonal cold has brought a delayed expansion in spring buying, which is tending to speed up activity in various industries. Viewed in connection with the active upturn in the security markets, which has turned business sentiment more optimistic, the rise in new orders appears to mark a definite turn in the business trend. While the change may not be immediately reflected in seasonally-adjusted production indices, since the seasonal trends in various industries have not yet reached their peak, an improvement in these indices will probably not be long delayed.

An improvement in steel orders, coinciding with an improving stock market trend, heads the list of favorable developments of the past week. New orders reported by the U. S. Steel Corporation last week increased to 59 per cent of capacity, the highest since January. Trade observers estimate that orders have increased to between 50 and 55 per cent of capacity for the industry as a whole.

The strong influence of stock market movements on steel buying is indicated in Chart 1. It will be noted that the upturn in steel orders last January also followed an improvement in stock prices. Judging from this chart, the additional rise in the stock market last week has not yet been reflected in reported steel orders.



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Spring weather affects steel buying

The appearance of warmer weather has been influential in stepping up the volume of steel buying by domestic purchasers, according to reports from trade sources. Steel buying last week, which brought the best gain in several months, according to trade reports, was especially active among middle western and southern purchasers. In those areas the weather has turned more favorable for farm operations, bringing an increased demand for farm implements and miscellaneous steel products. Substantial export orders, and a depletion of consumers' steel inventories, according to the Iron Age, have contributed to the improved volume of buying.

The spring weather has also stimulated the demand for construction materials. Inquiries for structural steel last week aggregated 32,000 tons, the highest weekly figure so far this year, which compares with 8,025 tons in the previous week. Private awards for heavy construction projects in the week ended April 4, as reported by the Engineering News Record, increased 60 per cent over the previous week, reaching the second highest figure of the year. While private awards were 92 per cent over those of the corresponding week last year, public awards were 27 per cent lower.

Demand for steel from the automobile companies has remained light, and automobile production last week tapered off slightly to 101,655 units from 103,370 units the previous week. This receding tendency, however, will probably be halted by the surprisingly good retail sales reports now coming in, according to Ward's Reports. Automobile sales during the final period of March, according to this authority, were considerably above expectations, and may lead to an upward revision in production schedules.

Domestic deliveries of Buick cars during the last 10 days of March totalled 10,757 units, as compared with 13,695 units during the entire two previous periods. Retail deliveries of Chrysler cars in the week ended March 30 were the largest for any March week in the past 10 years. Chevrolet sales in March reached the largest monthly total since April 1937; and sales of Ford and Mercury cars in that month were the largest since July 1937.

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### Steel rates improve in leading districts

The upturn of 1.0 point in the rate of steel operations last week was not an isolated increase, but reflected improvement in a number of important districts, foreshadowed by a previous flattening-out tendency. (See Chart 2) Steel rates in all four leading districts, Pittsburgh, Chicago, Youngstown, and Philadelphia, show evidence of establishing a bottom around recent levels. The steel rate this week is scheduled at 61.3 per cent of capacity, a slight decline from last week's figure of 61.7 per cent.

On the other side of the picture, however, steel scrap prices (shown in Chart 2) have not as yet reflected an improvement in steel demand. While scrap prices are usually considered a valuable forecaster of prospective steel activity, some observers believe that the large stocks of scrap acquired by mills last fall remain a depressing price factor. It may also be noted that the decisive turn in the steel rate last May was not indicated in scrap prices until a week or two later.

### New orders index higher

Reflecting particularly the increase in orders for steel and textiles, our weekly new orders index has risen to the highest level, with one exception, since the week ended December 2. (See Chart 3)

The textile buying boom continued into the early part of last week. Sales of gray goods on Monday were estimated as high as 25,000,000 yards, the biggest day since the beginning of the war. Buying spread to a broad list of products, and prices on many materials advanced 1/8 to 1/4 cent a yard. Trade observers were particularly pleased by the insistence of buyers on quick delivery, which was taken as an indication that inventories were becoming depleted.

### Business indices resist further decline

Weekly indices of business activity have again shown resistance to further declines, after sagging somewhat during the earlier weeks of March. The New York Times index for the week ended March 30 remained unchanged at 94.1 (see Chart 4), with three of the six components showing improvement. Barron's index (shown on the chart) rose in that week to 103.0 from 102.5 in the previous week.



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On the other hand, prices of industrial materials, as indicated on the chart, have failed so far to reflect an upturn in industrial demand. Ordinarily they may be expected to rise strongly during the early stage of a business upturn. The commodity price situation is one uncertain factor in the business outlook.

The psychological effect of the recent break in "free" sterling apparently continues to overshadow the commodity price picture, offsetting for the time being the effect of recent favorable developments. Weekly and daily movements of the BLS price index of 28 basic commodities are shown in Chart 5 in comparison with the sterling rate.

The broadening rise in the security markets has had a strong influence in turning sentiment more optimistic. Stock prices last week rose to the highest levels since early January, while the volume of transactions expanded to a daily average of 1,344,000 shares, the highest since the week ended September 30.

Present situation in marked contrast to that of 1937

In refutation of the contention of one minority group of economists that a business recession this year comparable to that of 1937 is a distinct possibility -- a belief derived from computations which indicate to them that the business upturn last fall was primarily due to large-scale inventory accumulation -- the following contrasts between the present situation and that of 1937 may be pointed out:

1937

Heavy accumulation of inventories of finished goods, which required a long period for their liquidation.

1940

No evidence of excessive inventory accumulation of finished goods. Some maladjustment due to a bunching of orders, largely for capital goods, in September and October.

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Little understanding of the real business situation. Business analysts generally optimistic up to beginning of recession.

Nature of business rise well understood, and recession in early 1940 thoroughly prepared for -- the "most widely predicted recession on record."

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Secretary Morgenthau - 6

Production continued high for half a year after demand fell off, building up huge inventories of finished goods.

Production quickly adjusted to decline in demand, avoiding inventory accumulation.

Commodity prices, inflated by speculative buying and other factors, started severe decline in April 1937, causing forced liquidation.

Commodity prices generally stable at moderate levels, providing no incentive for liquidation.

Price situation deflationary, due to increased reserve requirements and other factors.

Excess reserves reach new high levels.

Severe collapse in automobile sales.

Automobile sales provide bright spot in business picture.

#### National purchasing power exceeds 1937 level

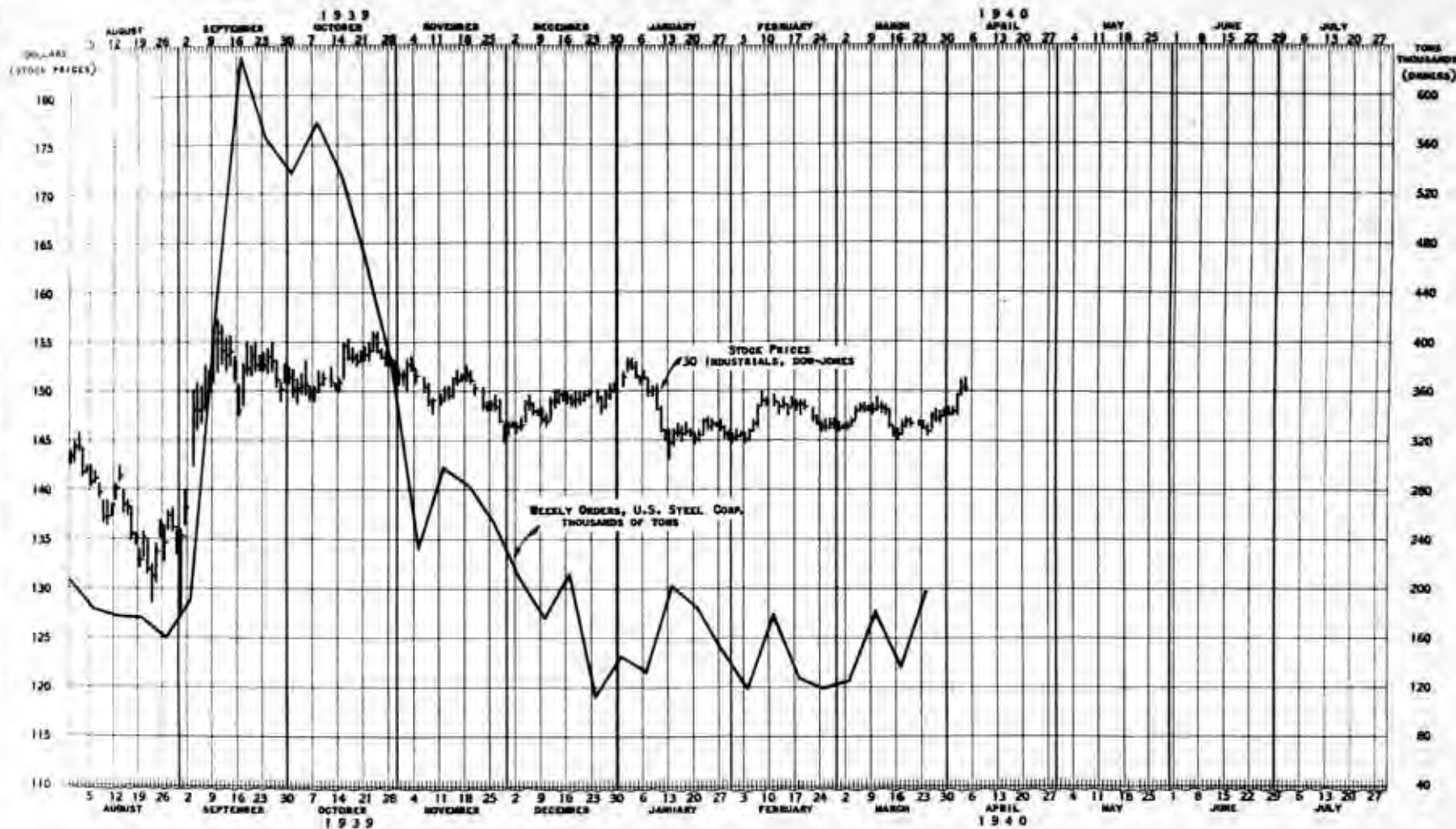
Although national income payments in recent months have not quite reached the highest levels of 1937, a decline in living costs has raised the purchasing power of the national income (as indicated by the Cost of Living Index of the National Industrial Conference Board) to above the 1937 peak. (See Chart 6, upper section) National income payments (seasonally adjusted) declined somewhat in February, but the average for the first two months of this year has been at an annual rate of \$72.6 billions. The total for last year was \$69.7 billions.

Farm income (excluding Government payments) has risen substantially since the price upturn of last September, and continued to improve during February. (Lower section of Chart 6) Total farm income for the first two months of 1940, including Government payments, exceeded that of the first two months of 1939 by \$218 millions, of which \$90 millions represented an increase in income from farm marketings and \$128 millions represented an increase in rental and benefit payments.

Secretary Morgenthau - 7

The high level of income payments has brought a rise in our index of sales (dollar volume) in January and February to above the peak levels of 1937. (See Chart 7) More liberal spending by consumers, and an expansion of sales on installments have raised the sales index in recent months to above the estimated sales equivalent of national income. For this reason, and because of the usual deferred effect of business downturns, some decline in sales from the present level can probably be expected.

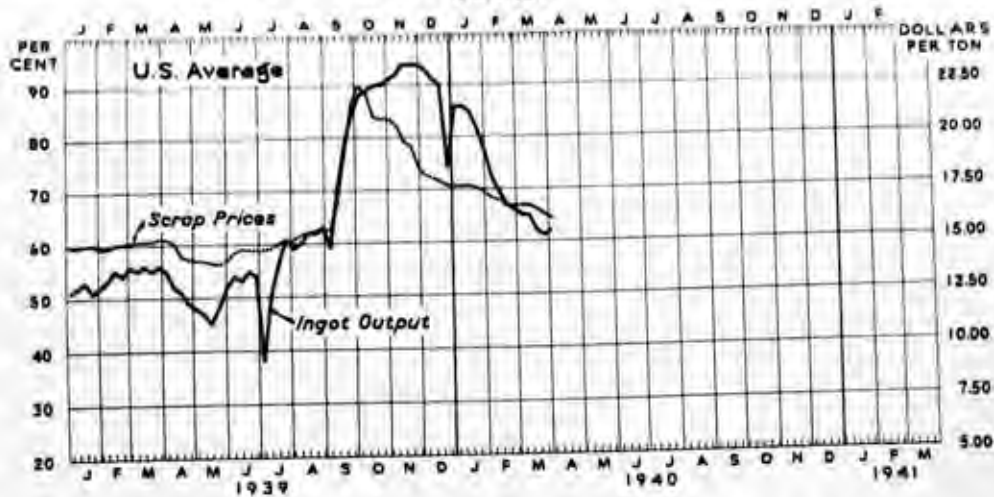
STEEL ORDERS COMPARED WITH STOCK MARKET TREND



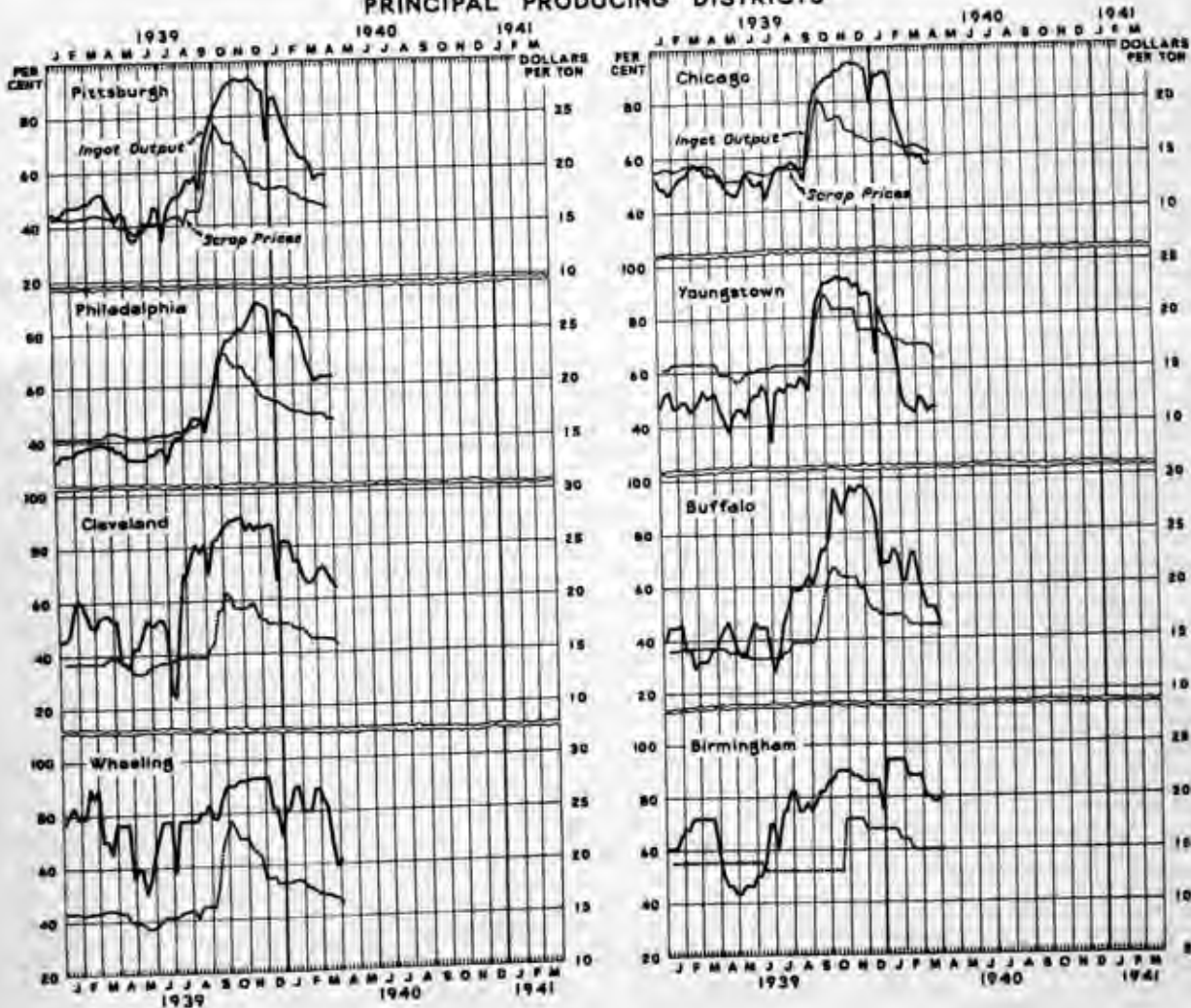


# STEEL OUTPUT AND SCRAP PRICES

Ingot Output in Percent Capacity  
WEEKLY

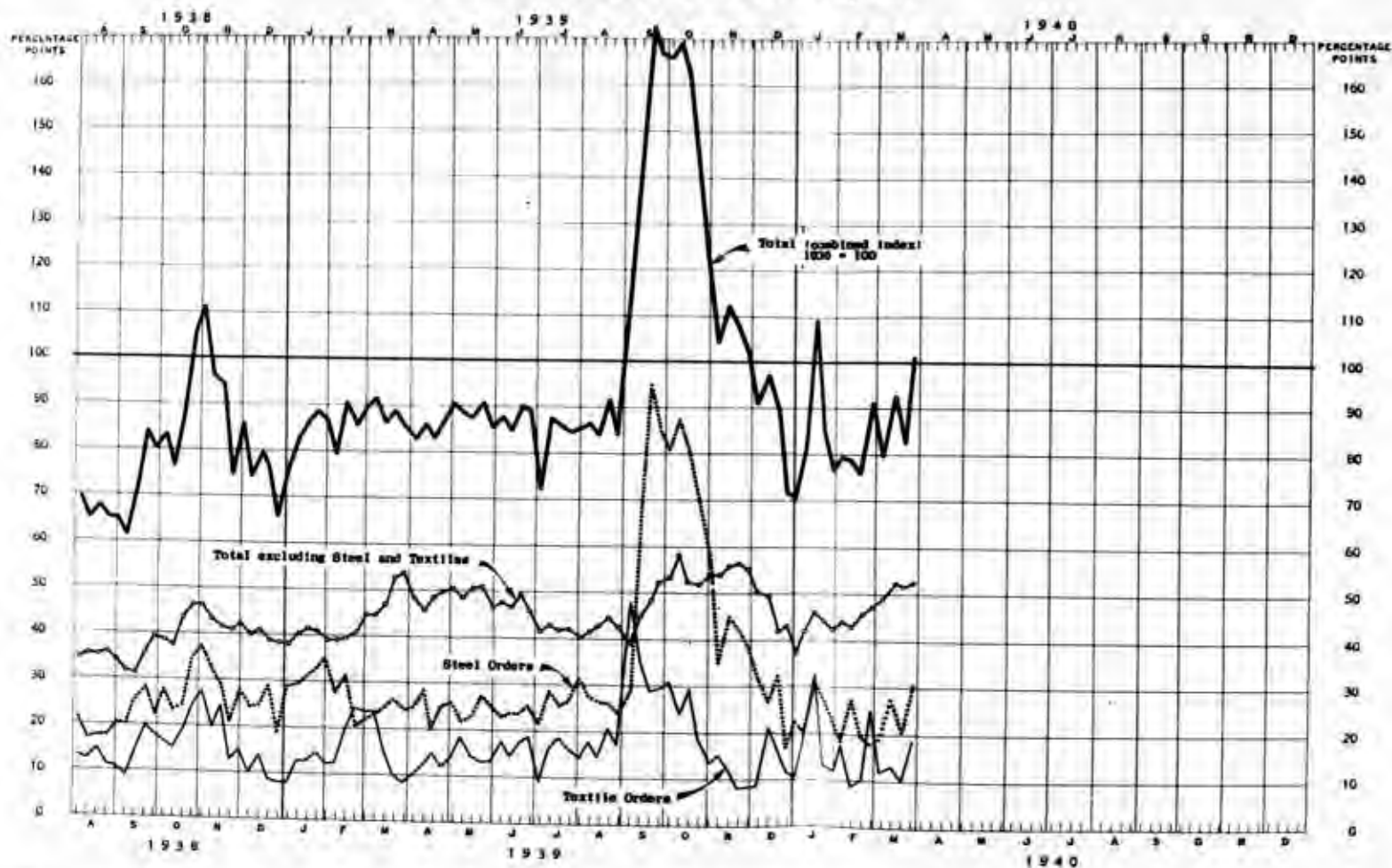


## PRINCIPAL PRODUCING DISTRICTS



### INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components

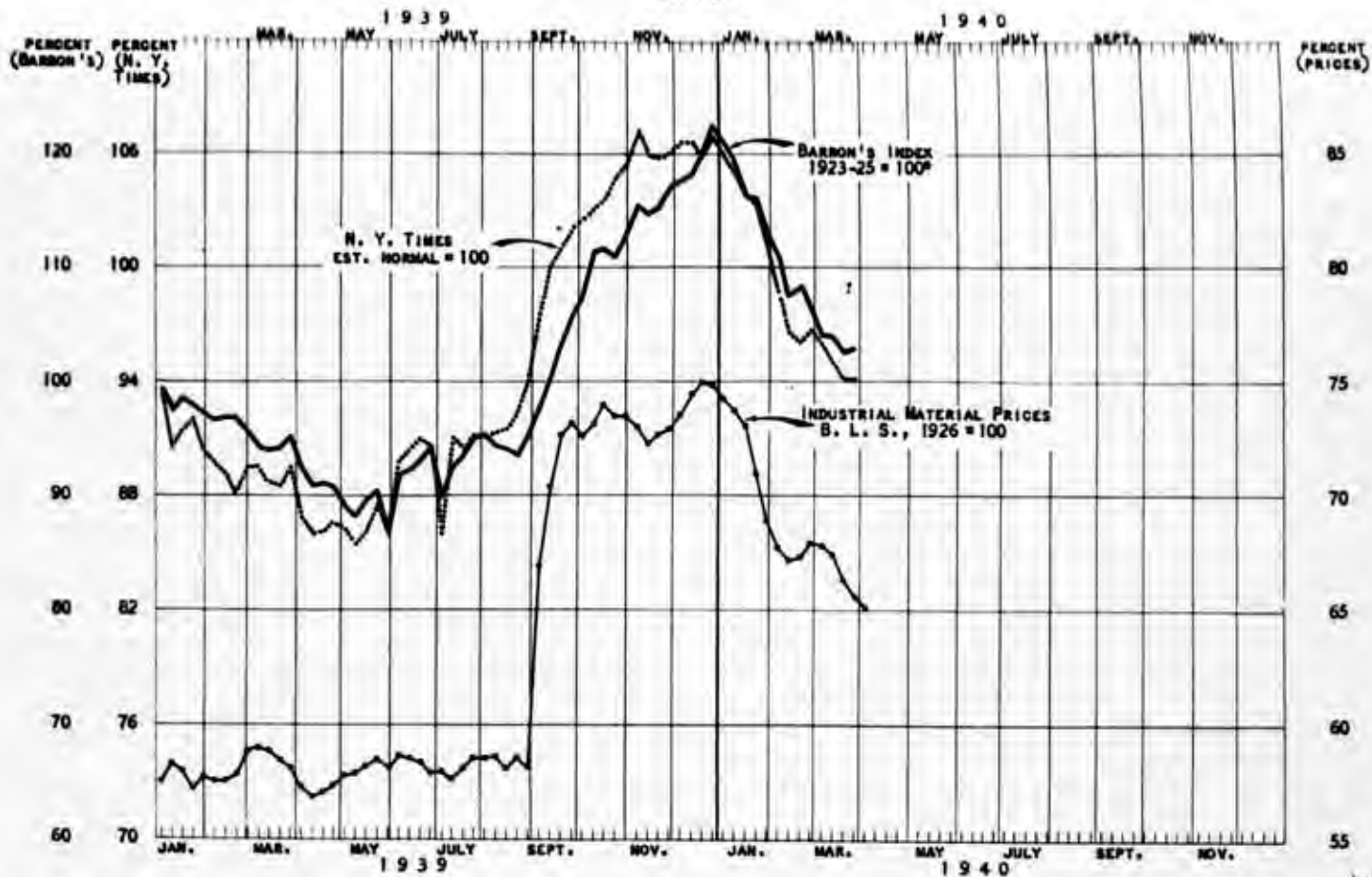


Office of the Secretary of the Treasury  
Division of Economic and Statistics



INDICES OF BUSINESS ACTIVITY AND PRICES OF INDUSTRIAL MATERIALS

Weekly



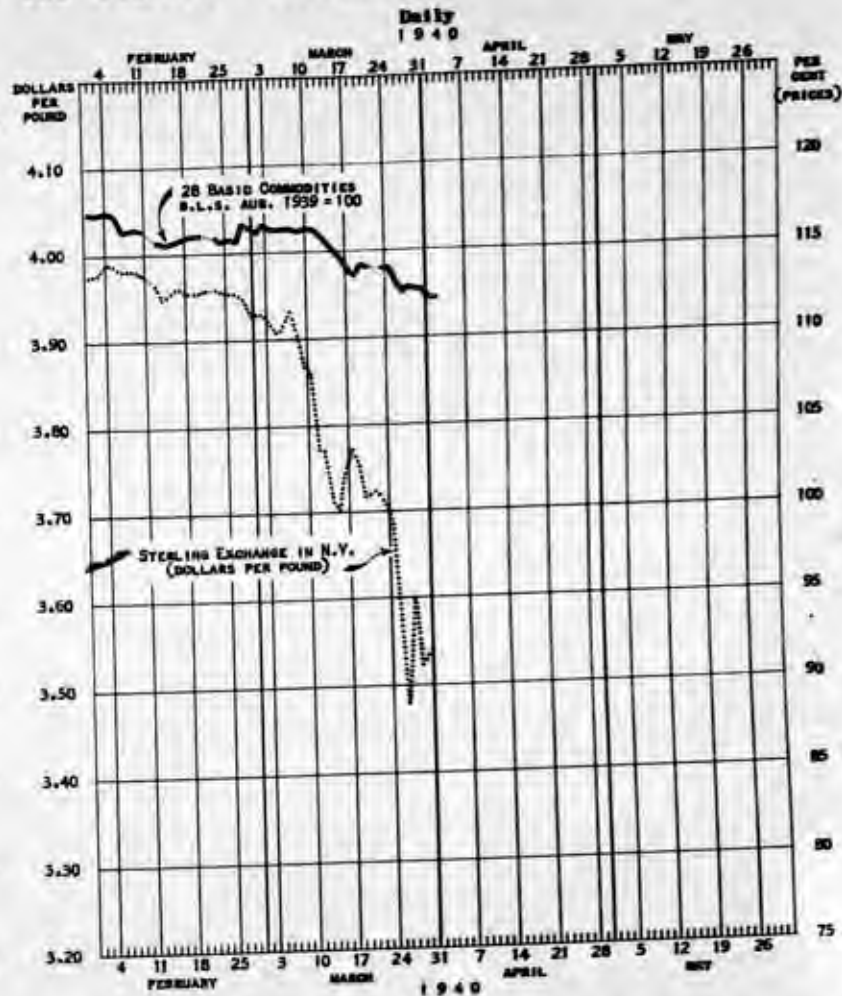
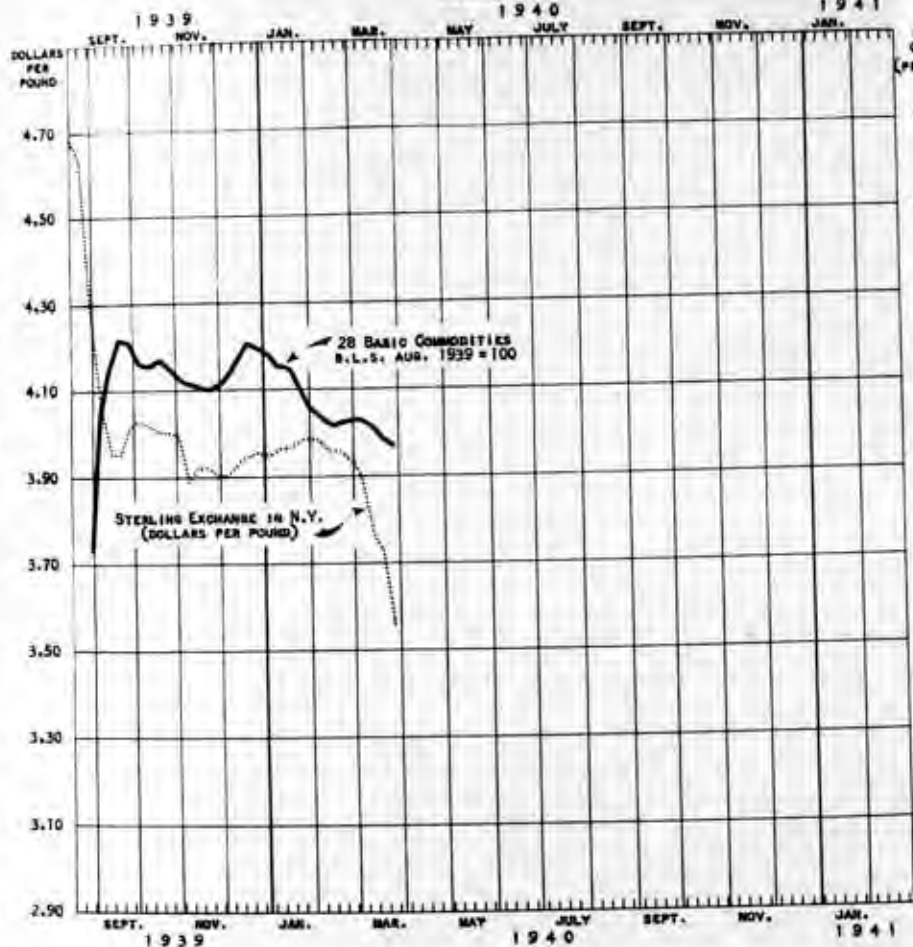
\*ADJUSTED FOR SEASONAL, NOT FOR TREND

Chart 4  
159



# BASIC COMMODITY PRICES IN U.S. AND STERLING EXCHANGE

## Weekly



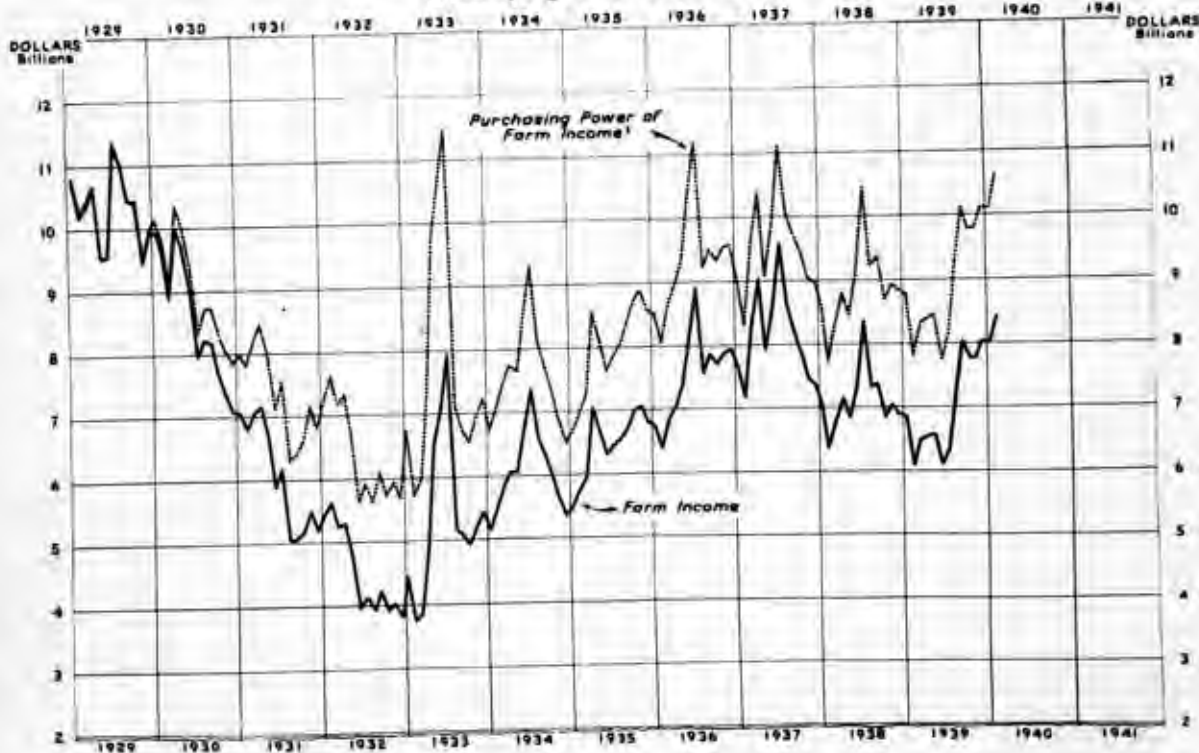
## NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER

Monthly Figures on Annual Basis\*



## FARM INCOME AND ITS EQUIVALENT PURCHASING POWER

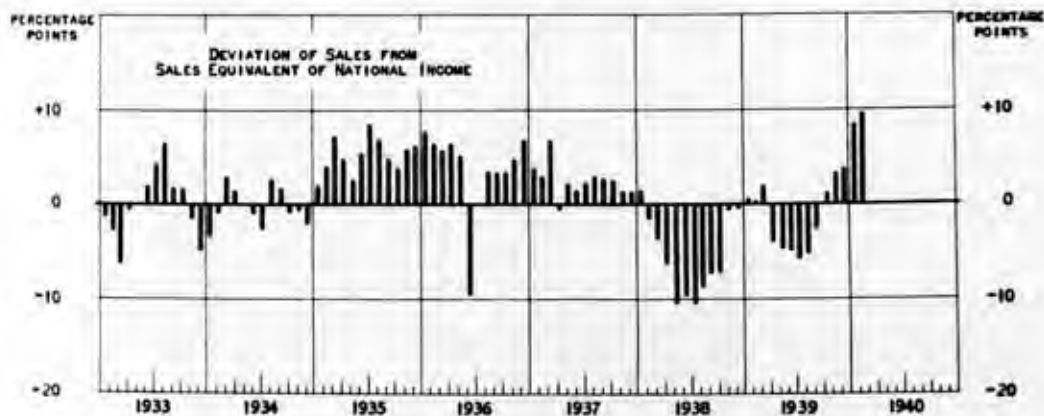
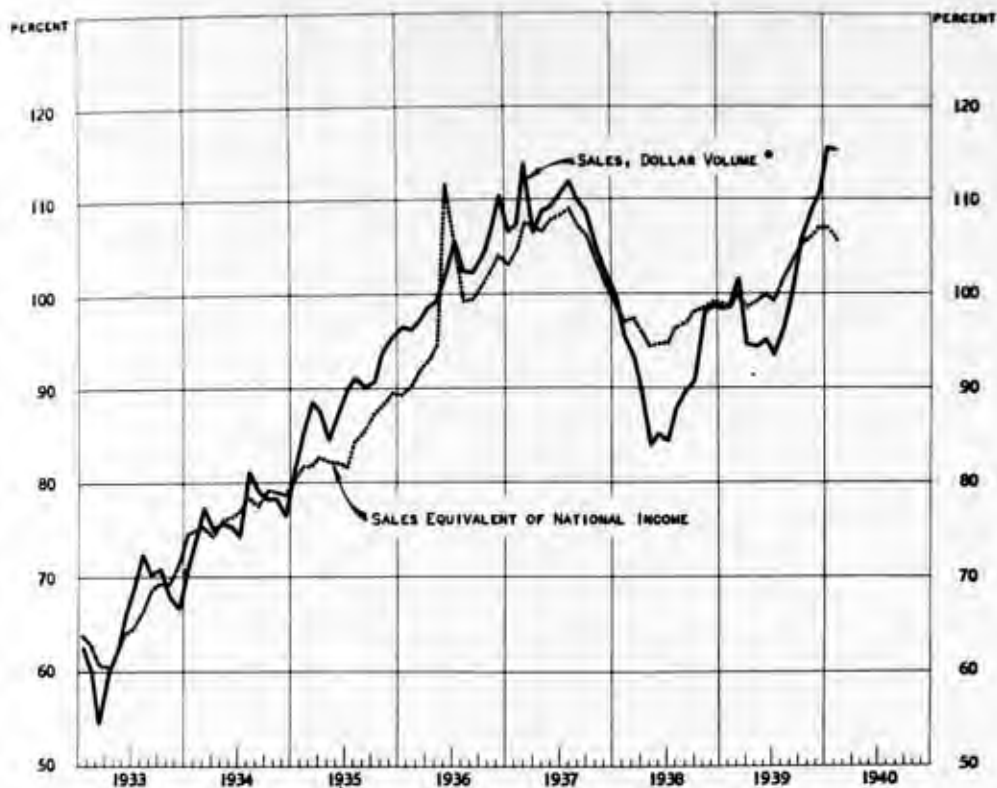
Monthly Figures on Annual Basis\*



\*Seasonally Adjusted Monthly Figures Multiplied by Twelve  
 \*Based on Cost of Living Index of May 1929 = 100  
 \*Based on Prices Paid by Farmers, 1929 = 100

## INDICES OF SALES AND SALES EQUIVALENT OF NATIONAL INCOME

1936 = 100, SEASONALLY ADJUSTED



\* REPRESENTS OFFTAKE OF MANUFACTURED GOODS



April 8, 1940  
11:40 a.m.

HMJr: Hello.

Operator: Mr. Smith for you.

HMJr: Hello.

Harold Smith: Hello.

HMJr: Henry Morgenthau.

S: Yes, how are you?

HMJr: How are you?

S: Pretty good.

HMJr: Harold Smith, the reason I'm calling you is this: I'm back in Washington and Dan went to Cabinet on Friday and he said the President was going to see you, Currie and myself in regard to the debt limit.

S: Yeah.

HMJr: And I thought that before we saw the President we might at least see whether our figures agree.

S: Yeah.

HMJr: And that was the reason I called up, to suggest a meeting for tomorrow morning.

S: Well, you see my -- my difficulty is that I'm more than up to my ears on this reorganization stuff which he wants to have ready when he gets back here Tuesday night or Wednesday morning.....

HMJr: Uh-huh.

S: .....to send up -- to send up Wednesday.

HMJr: Uh-huh.

S: And that's disturbing me a good deal.

HMJr: I see.

- 2 -

S: And some negotiations and I -- that's the reason I felt that if we could put this other off in any way or I can -- if I could send somebody else over.

EMJr: No, I tell you what I'll do, I'll get our estimates, see?

S: Yeah.

EMJr: And I'll send them to you by hand.

S: Yeah.

EMJr: And you have somebody check them.

S: Yes.

EMJr: Because I think it's rather stupid if we go over -- with you and Currie and then we begin to argue before the President.

S: Well, that's right. That's right. We -- I don't know that we have any.....

EMJr: Well, we'll make some estimates as of -- and send them over to you and send a copy to Currie and then if there's any question you can.....

S: Yeah. All right.

EMJr: And I'll let you know who will handle it while Bell is away.

S: Yes.

EMJr: Who would handle that for you?

S: Oh, I imagine Lawton.

EMJr: Lawton.

S: Yes, I imagine Lawton.

EMJr: Well then I'll have whoever is acting for Bell while he's gone to contact Lawton.

- 3 -

S: Yes, fine.

HMJr: O. K.

S: I'm awfully sorry.....

HMJr: That's all right. I understand. Yeah.

S: O. K. Thanks very much.

HMJr: Goodbye.



-65

April 8, 1940  
11:56 a.m.

HMJr: Just fine. How are you, Harry?

Harry  
Collins: Only pretty well.

HMJr: Only pretty well?

C: Yeah. A little tired but I'm -- I'm all right.  
Nothing to bother about.

HMJr: Anything pressing as far as I'm concerned?

C: Not a thing, sir. They are still struggling over  
there with their procedure and so forth, but we  
are really getting some action and I'm hopeful  
that by the end of this week why these people,  
some of them at least, will be in the contract-  
talking stage.

HMJr: But not yet.

C: Not yet. No, sir.

HMJr: Well, I'll be darned. Tell me this, Purvis --  
you know when he called me up down there last  
Monday, said that he'd hear during the week what  
models they wanted to be revised according to the  
spring fighting conditions. Have you heard any-  
thing?

C: Nothing more, sir. That's -- they're still talk-  
ing. It's going to depend presumably upon their  
talks with some of the people. Now the way it  
stands at the moment is this, that Bell will be  
there tomorrow presumably to talk business with  
them.

HMJr: Yeah.

C: And I think the same thing will pertain to Wright.  
Now, they drew up -- the Army drew up two types  
of releases. One of them was a guarantee on the  
part of the manufacturer that they would get cer-  
tain information and so forth from the foreigners,  
and the other was that they would abide by what-  
ever decision was made concerning the amount of

- 2 -

development expense that would have to be amortized on their contracts. Those two papers were apparently agreeable to the contractors but then they got to Louis Johnson -- as far as him on Friday and he said he wanted them drawn up in a legal manner that would stand up in any court and then he promptly left Washington. So those two papers are to be revised this morning.

HMJr: When is Purvis coming to town?

C: He said that he should probably be down Tuesday or Wednesday. We could get him here sooner if you want him.

HMJr: Well, I'll see you during the day and then I would like to see him.

C: Yes, sir.

HMJr: I think -- I'll try and find out when the President is coming back.

C: Yes, sir.

HMJr: And then I'll -- I'll let you know.

C: Aye, aye, sir, and then I'll get in touch with him as soon as I hear from you.

HMJr: O. K.

C: All right, sir. Goodbye.

COPY

TREASURY CHAMBERS,  
WHITEHALL, S.W.1.

8th April, 1940.

My dear Jerry,

I have done what I could as regards the points raised in your letter of the 8th March about the large residual item in the American balance of payments.

In addition to unrecorded capital movements such as those mentioned in your letter, we think that the increase in the figure is partly to be attributed to the effect of the "cash and carry" clauses of the Neutrality Act which have produced during the last few months net payments far in excess of the visible trade balance.

Two other causes occur to me as possible partial explanations, namely the repurchase through devious channels of defaulted or nearly defaulted bonds by foreign countries, and money sent secretly to the United States with the object of avoiding double taxation. As tax rates increase, the incentive to secret transmissions of funds must increase likewise.

I am afraid I can only suggest the above as possible additional explanations to those suggested in your letter. We have no reliable figures on the matter and cannot verify the suggestions.

Yours sincerely,

(Sgd.) KENNETH BEWLEY.

*Handwritten notes:*  
Mr. [unclear]  
[unclear] 26.1.40.  
[unclear]

G.H.S. Pilsent, Esq., C.M.G.,  
British Embassy,  
Washington.



AMERICAN CONSULATE,  
Tsinan, China, April 8, 1940.

SUBJECT: CONTROL OF CHINESE CEMENT FACTORY  
RELINQUISHED BY JAPANESE MILITARY  
ONLY TO BE ACQUIRED BY JAPANESE  
FIRM.

The Honorable

Nelson Trusler Johnson,  
American Ambassador,  
Peiping, China.

Sir:

I have the honor to refer to the Consulate's Monthly Political Report for March 1940, in which it was stated (page 7) that "The Japanese Army's announced intention to return mines and industrial plants to the Chinese owners.....was taken with the metaphorical grain of salt by local businessmen, who interpreted the gesture to mean continued control of such private properties by the puppet regime or by monopolies ..... It is reliably understood that, following the above announcement the Chief of the Special Service Section of the Japanese Army in Shantung privately urged the puppet Provincial Commissioner of Reconstruction to exert his influence to bring about 'cooperation' between Chinese factory owners and Japanese firms (monopolies?)."

In this connection, it is of interest to report that control of the Chih Ching Cement Company, Tsinan (Chinese),

has

has been relinquished by the Japanese Army only to be "acquired" by the Ch'ing Ch'eng Cement Company (Japanese).

The firm as now constituted is said to be under Sino-Japanese management, but the fact is that two-thirds of the capital shares totaling local \$300,000 in value are understood to have been transferred to the above-named Japanese firm, the former Chinese owners retaining only a one-third interest. No doubt this reorganization of the firm was effected without the investment by the Japanese interests of capital in proportion to the shares transferred. Otherwise this case is an exception; Japanese interests in "acquiring" the controlling interest in Chinese plants, et cetera, in this district have consistently bargained or pledged their "good will" and "cooperation" in lieu of proportionate capital investments.

The principal asset of the Chih Ching Cement Company is a cement factory capable of producing 15,000 tons of cement annually. Since the company's "reorganization" it has been announced that a plan for doubling the factory's production is being considered.

Other important industrial plants, coal mines and public utilities in this consular district, in practice if not in theory, have been brought under Japanese control.

Respectfully yours,

Carl O. Hawthorne,  
American Vice Consul.

A true copy of  
the signed  
local

866.21/860.2  
COH:KCC/KCC

Original to Embassy, Peiping,  
5 copies to Department,  
Copies to Embassies, Chungking and Tokyo,  
Copies to consular offices, Shanghai and Tsingtao.

RE STERLING EXCHANGE RATE

April 8, 1940.  
3:00 p.m.

Present: Mr. Gaston  
Mr. Sullivan  
Mr. White  
Mr. Cochran  
Mr. Foley  
Mr. Johnson  
Mr. Cairns

H.M.Jr: Well, who is the leader of this group?

Foley: Well, I think that Huntington and Bill Johnson probably know more about it than anybody else. The thing that we have to decide right away is how we are going to handle the reply to a letter from Hull to you that came over on the fourth, saying that he had word from the British Embassy, from Lord Lothian, and Lothian would like an opportunity to obtain from his Government their attitude before we did anything. Hull wanted to know what he could tell Lothian. That we have to decide this afternoon, I think, and also to determine whether or not the passage of the extension of trade agreements affects in any way the Administration's attitude about the proposed T. D. that the Treasury feels that it has to put out in order to inform Collectors how to deal with this problem.

H.M.Jr: Can I see Mr. Hull's letter first?

Foley: Yes sir, it is on my desk.

H.M.Jr: Have you got a draft of an answer?

Foley: No, because I didn't know what we had to say.

H.M.Jr: What the hell? What has happened to the Treasury?

Sullivan: Cairns had an answer a week ago this morning.

Cairns: The reason we did not reply on Friday was because we thought we might see the President and we didn't want to tie our hands before we saw the President.

Foley: It will be here in just a second.

H.M.Jr: Well, is there any room for debate from a purely legal standpoint as to whether we take the official rate or the unofficial rate?



- 2 -

Foley: We have submitted to the Department of Justice a memorandum establishing our reasons why we must take the official rate. The Department of Justice has informed Huntington that the Opinion Section over there has been through the matter and agreed thoroughly with the position that we take and the Attorney General is willing any time we want him to say so, to agree with us.

Now, they didn't want to issue an official opinion because they thought there might be some litigation at some point and they wanted to reserve for the defense of that litigation their reasons for agreeing with us, but the matter has been given consideration over there and they are in accordance with our position. Isn't that correct?

Cairns: Yes.

White: We might point out the alternative is not necessarily a free rate and official rate, but there is a third possibility since the free rate would be patently out of the question but rather the true rates.

Cairns: That is right.

H.M.Jr: What is that?

White: Using the official rate for transactions which were undertaken at the official rate, using the free rate for transactions that were undertaken at the free rate, having two rates for value purposes.

H.M.Jr: Let me read this letter a minute, please.

Are those legal boys holding that?

White: I wasn't presenting that as my point of view. That is an alternative.

Cairns: I think it is illegal, but that is an alternative.

H.M.Jr: Is it legal?

- 3 -

Cairns: Not in my opinion.

H.M.Jr: Got any support here? Johnson, you used to be a lawyer before you became an administrator.

Johnson: I have held for the official rate from the beginning. I can't change now.

Cairns: Mr. Oliphant decided the official rate in 1936.

H.M.Jr: Did he?

Cairns: Yes, and offered it.

White: But there might be some room for the other.

Cairns: Oh yes, of course. It is not an open and shut question.

H.M.Jr: This says it is postponed until the Ambassador has the view of his Government, which they are telegraphing as soon as possible.

White: I heard unofficially that those views were to be received in a day or two. That is what I heard.

Foley: Mr. Secretary, more than two weeks ago - two weeks ago last Friday, Herbert Feis called up in a great dither and said that they must have time to go into this because it involved a trade agreement program and involved --

H.M.Jr: That is all finished now and I know all about it.

Foley: Yes, and then they talked to the British after that and when Dan and Huntington and I went over and saw Mr. Hull they hadn't had any word back from the British and then you (Cairns) sent Feis a memorandum saying that somebody from the British Embassy had come in and said that they weren't very much concerned.

Johnson: Summerscale talked to me by telephone.

H.M.Jr: Who is he?

- 4 -

Johnson: Assistant Commercial Secretary, Commercial Counselor.

H.M.Jr: Well, let me read this.

Foley: It seems to me that we could say we would like to have the views of the British Government and we will be glad to give them consideration. We feel that the problem is one that must be settled very promptly. We can't delay indefinitely.

H.M.Jr: Well, is there in Customs now any goods waiting for clearance which have to be settled one way or the other, which might come under the unofficial rate? Are there any goods?

Johnson: We have had no requests from Customs officers, but I was told that steamers were to arrive the latter part of last week and there has been a statement in the New York press that the Customs officers at New York have stated that they will use the official rate in the absence of any instructions.

H.M.Jr: I saw in the Times a reported interview with you.

Johnson: I didn't say anything.

H.M.Jr: All right. While I am sort of making up my mind, I think I told you people I had Dr. Burgess make a survey for me. I think what he found out is rather interesting. You people may all know it, but I didn't. "We have also made some interesting computations. We asked our London branch for an estimate of the percentage of British exports which under the new regulation would have to be purchased official sterling. We estimate the following percentage under the official classification. Exports from the United Kingdom, 13 $\frac{1}{2}$  percent. Exports from India, Burma, Ceylon, 53 $\frac{1}{2}$  percent. Exports from Malay, 88 $\frac{1}{2}$  percent. These percentages are based upon 1938 trade figures and of course are very approximate, but they give a rough idea of how much British trading might be done at the official rate."

White: Our figures, of course, are different. They are almost a fourth from that and about a half



- 5 -

from the whole British Empire.

H.M.Jr: This is from the London office.

White: In fact, the London office has information which is a year later than ours.

H.M.Jr: They are using '38 as a basis. I still think it would be worth while sending them up.

White: We have two men up there now, Mr. Secretary, who are going over all the invoices.

H.M.Jr: How about seeing this man who is working on it, calling on Dr. Burgess?

White: Yes. I don't know how to get further information, but I will tell you what they are doing. They are taking every invoice that comes in on the British data and we are seeing whether it is in dollars or in sterling.

H.M.Jr: I wish the fellow would contact Dr. Burgess and see who is working on that for him and let us get what he has.

White: Yes. That information they just got out. They just find out how much of those five classifications that are listed.

H.M.Jr: Anyway, it is - I mean, it is a big organization and let's see what they have got. Do you think this is a purely mathematical thing?

White: Oh, yes.

H.M.Jr: Such as whiskies and --

White: That is right. Chemicals from the United Kingdom and how much from the other countries.

H.M.Jr: Why don't I call up Mr. Hull and tell him I am back and say I have his letter of the fourth and I see the British Ambassador said he would have an answer and I would like to know, is the answer in and when the answer is in, I would like very much to come over with my people and

- 6 -

see Mr. Hull, that we can't wait very long and I wish that he would have somebody call up the British Ambassador and ask how long it would be.

Foley: I think that is a good suggestion.

H.M.Jr: Merle?

Cochran: I think it is all right.

H.M.Jr: He said he would have a telegram to report. Would he please have somebody communicate with Lord Lothian today and say that we would like to have this thing as soon as possible and when can we expect it.

Foley: I have a strong suspicion that in view of the way this information that Johnson got was handled, that Feis might have gotten in touch with the British Embassy and said, "Let's hold this thing up indefinitely. There is no great hurry and as long as you haven't got the information, the Treasury can't take any action."

H.M.Jr: The President - I had a very frank talk with the President, in which the President wanted the thing stalled until after trade treaty.

Foley: I can understand that, but they have got another idea over at the State Department. They are stalling because they are afraid that they are not going to be able to move certain agricultural surpluses.

H.M.Jr: Well, and that ties in with Wallace. Wallace is talking about he hears we are working on further devaluation of the gold dollar, which is just the bunk. That is why I called up Harry on Sunday and asked Wallace to give - asked him to give me the strongest argument from the Department of Agriculture's standpoint why a lower pound would be to their advantage.

White: Yes, that is as I originally understood your request. Then I have made - I got the impression this morning that Wallace was in favor of - also was interested in this particular thing, wanted

- 7 -

us to take the free rate, the lower rate.

H.M.Jr:

I know how Wallace's mind works. He is only interested in one thing and that is a higher price for the export commodities. Now, why should he be interested, what are the arguments he could use for a lower pound?

White:

For a lower pound as against a fictional rate. It just goes to the contrary of what he does with one exception. If the State Department has convinced him that the negotiations which are going forward with respect to additional purchases of our agricultural commodities are being jeopardized, if we take one position rather than the other, which I take it was the information that the State Department indicated to us, then Wallace might be in favor of a lower rate because he thinks that he might - that the State Department is making a deal and they might not make it if we take one action or the other.

Gaston:

He is thinking obviously of stimulating British exports to the United States, imports of British goods and thereby they will have more exchange to purchase American agricultural commodities.

White:

He usually takes the other position, because you see it is not only England. We don't compete with English agricultural commodities, but with Australia and Canada and the Argentine. They all follow.

Foley:

It is a relatively simple matter, Mr. Secretary, that in ordinary times would be settled without any difficulty and the thing has been mishandled over in the State Department and they have attached to it all kinds of significance. Bull said if we decide this right now it may force Italy in on the side with the dictators. What the dickens that has got to do with it I don't understand at all.

H.M.Jr:

Well, I know enough now.

White:

I would like to make two observations on this which might throw a little light on it.



- 8 -

H.K.Jr: Just wait until this call goes through to Hull.

The President is perfectly frank about it and the State Department wasn't, that is all.

Foley: I can understand everything up to the point of - the exposing of the extension of the trade agreements down in the Senate. I can realize that it might not be good politics to disturb the situation down there and lose a couple of votes and lose the whole program, but that is out of the way now and it seems to me that a cause for further delay no longer exists. We have got to have a clarification of this question.

H.K.Jr: Have we any precedent in any other countries on these two rates?

Johnson: We have no precedent of decision.

White: We have a precedent of the other side. When they were confronted with the German situation, that is why we have to proceed carefully. We said we couldn't select more than one rate and the Germans have, I understand, made inquiry or indicated that they are interested in seeing what we are going to do with the British situation, which they claim is akin to theirs, to see whether we were going to take the same position with them, with sterling, that we took with the mark, which means that we have to proceed a little more carefully on the selection of one rate as against the two rates, than if the two rates were legal and feasible. I mean there is a policy question involved.

H.K.Jr: Well, in the German case they had all kinds of marks, aski marks and rubber marks and tin marks.

White: But the principle --

Cairns: That is really important only in the point of view of countervailing duties which we are far from here, although there is a superficial resemblance. We will have to dispose of the countervailing duty situation, but it will take a lot of study.

Foley: Whether we take the official rate or a composite rate or the unofficial rate.

Cairns: You still have countervailing duties.

Foley: You still have countervailing duties. And this has no bearing on that and you haven't got any anti-dumping programs here yet.

H.M.Jr: It seems to me the German thing - on account of that we have got to be absolutely careful and I personally can't see anything but this one rate and I think if we are not careful, we may have trouble with competition in third countries. There is always such a thing as being sympathetic, but there is also such a thing as carrying out the law.

White: It is an interesting thing, Mr. Secretary, that in this communication to us they stated that there were very few transactions being conducted at the free rate and they expected those to narrow. That is not in accord with our information. So far we already have just analyzed 10 million dollars worth, so - in small amounts.

H.M.Jr: And what has happened to it?

White: Seventy percent are at the free rate. Moreover, there were other things misleading with that notification, but there is no - we have no knowledge of how many more transactions will be conducted. The way the regulations are worded now, it is possible for a large percentage of transactions to be conducted at the free rate and what is more to the point, from Hull's point of view, are these two facts, one, if the British are correct in their statement that there are few commercial transactions taking place and that they expect those to be narrowed, then it shouldn't make any difference to them whatsoever what we do, because there are no transactions at the low rate.

Cairns: That is what Summerscale said. He said, "We don't care what rate you take." Certainty is the important thing.

White: The State Department should have no position that we are in any way affecting adversely

- 10 -

British trade by adopting the official rate, because according to the British's own statement they are not conducting much of their trade or any of their trade at the sterling rate. That is one point. The second point is this, if we were to select a free rate, it would seem to me that it becomes almost incumbent upon this Government to do something about the trade agreement, because you have got a decline from 4.64 to 3.50. I mean, under those circumstances, how can the State Department do other than raise the question of the concessions which are received and granted under the trade agreement?

Cairns: At 6.85.

Johnson: 4.64.

White: Therefore, it seems Hull should be eager not to recognize the free rate if he is interested in this trade agreement.

(Telephone conversation with Welles follows:)



April 8, 1940  
3:19 p.m.

HMJr: Hello.  
Operator: Secretary Hull is out of the city until Wednesday.  
HMJr: Ah.....  
O: Mr. Welles is Acting.  
HMJr: Let me have Mr. Welles then.  
O: All right.

3:22 p.m.

HMJr: Hello.  
O: Mr. Welles will call you back in two or three minutes.  
HMJr: Thank you.  
O: Right.

3:25 p.m.

HMJr: Hello.  
O: Mr. Welles.  
HMJr: Thank you. Hello.  
Sumner Welles: Hello, Henry. How are you?  
HMJr: Fine, how are you?  
W: It's good to hear your voice again. Thanks a lot for your message once more.  
HMJr: Well, I did wish you -- want to wish you success and I realize what a most difficult mission you had.

- 2 -

W: Well, I'm awfully grateful to you. How are you feeling, Henry?

EMJr: I'm fine.

W: Well, that's grand. Did you go out to New Mexico -- to Arizona again?

EMJr: So, this time it was Sea Island.

W: I see.

EMJr: And you? You must be pretty tired.

W: Well, one of my difficulties was the fact I couldn't shake off flu and sinus.....

EMJr: Oh, goodness.

W: .....but on the way back I got better and I'm all right again now, thanks.

EMJr: Well, that's good.

Summer, I understand that you're Acting Secretary.

W: Yeah.

EMJr: And in that capacity, I have a letter from Mr. Hull dated April 5th enclosing a copy of a letter from the British Ambassador April 4th in regard to their official rate on sterling and the unofficial rate.

W: Oh, yes.

EMJr: In this letter the British Ambassador says that they will have an answer, telegraphing us an answer as soon as possible.....

W: Yes.

EMJr: .....from his Government and he asked us to stall until they received it.

W: Yes.

- 3 -

HMJr: Well, last week a number of times we were in an embarrassing position on these two rates and -- but in my conversation with the President the President very frankly asked me to stall until the Trade Treaty passed, which I did.

W: Yes.

HMJr: Now, that's out of the way successfully and this thing is before us and our Customs People really are on the spot.

W: Yeah.

HMJr: Now, I wondered whether you couldn't ask Lord Lothian, inasmuch as he wrote this on April 4th to Mr. Hull, couldn't we have an answer very, very promptly.

W: Why certainly I can.

HMJr: And you can say that I'm pressing for it.

W: Yeah.

HMJr: And then there's no sense in my answering Mr. Hull's letter until I see what Lord Lothian says.

W: Of course.

HMJr: And then as soon as we have that I'd like to get together with the State Department.

W: Right.

HMJr: Now here's the thing, our Customs people and our Legal people have ruled that we must use the official rate.

W: Yes.

HMJr: In order to stall we submitted that to the Attorney General and he has an opinion which he can sign in five minutes' notice upholding our hand.

W: Yes.



- 4 -

HMJr: So that's what the situation is. But I don't want to ask him to do that until the State Department and ourselves come to an understanding.

W: Well, I'll be very glad to do that, Henry.

HMJr: And so if you could put a little pressure on Lord Lothian so we could get it in a day or two I'd appreciate it.

W: Certainly. He's coming in to see me tomorrow morning and I'll do it then.

HMJr: Fine.

W: I might tell you that we had a -- an off-the-record meeting at the White House at which he was present on Friday.

HMJr: Yes.

W: No, I guess it was Thursday evening.

HMJr: Yes.

W: And Mr. Hull, who was there, brought this matter up and he said that he was pressing his Government for an immediate reply so it will be easy for me to follow that up.

HMJr: I see.

W: So I'll do that tomorrow morning and just as soon as I get any word I'll get in touch with you immediately.

HMJr: And so far it's -- I wouldn't put too much stress, but we have analyzed 10 million dollars' worth of goods which have come in recently and 70 per cent of it is about -- on the free rate.

W: I see.

HMJr: The low rate.

W: I see.

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HMJr: So that gives you some idea of how important it is.

W: You bet. All right, I'll do the best I can tomorrow.

HMJr: Well, I hope to see you soon.

W: I certainly hope so, Henry. There are a lot of things I want to talk to you about.

HMJr: I'd love to have you have lunch with me.

W: I'd be awfully glad to have the opportunity.

HMJr: Are you free Thursday?

W: No, Thursday is the one day that I'm tied up.

HMJr: How about.....

W: Either Wednesday or Friday would be all right.

HMJr: How about Wednesday?

W: Wednesday, fine.

HMJr: That'll be fine. One o'clock?

W: Yes. Shall I be over at your office at one?

HMJr: Yeah, we eat -- I eat here, you see.

W: Yes, indeed. I'll be over about one o'clock.

HMJr: That will be swell.

W: Thanks a lot, Henry.

HMJr: Goodbye.

W: That's Wednesday. Goodbye.

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- White: Those were February imports.
- H.M.Jr: To show you how careful you have got to be - and I don't want this to go out of the office - they had an unofficial meeting at the White House Thursday night at which Lord Lothian was present and this question was brought up at that time and Welles says that it is very easy for him to follow up and he is seeing Lord Lothian for an answer and he agrees that he should press for one, so that I don't see there is much more we can do. When the time comes, if somebody holds a gun to our head and God damn it, what is the rate, come and see papa and I will go across the street and see if I have better luck than Darry Bell had.
- Johnson: There is a certain danger of Customs officers going ahead without asking.
- H.M.Jr: Which way would they go?
- Gaston: Both ways.
- Johnson: In the Michigan district, I found they were working both ways on the Canadian line and that is bad. It didn't amount to anything, it was just a few little incidental cases.
- H.M.Jr: Well, you can see where we would be if they had had some understanding there Thursday night with Lord Lothian and --
- Sullivan: Well, this is a stop-gap decision, as I understand it, Mr. Secretary, and protects the importer, because if a subsequent decision is issued changing this, he can then recover the loss he suffered because of the prior rate being enforced.
- H.M.Jr: They got the trade treaties through and most likely everybody feels happy now. Should we try to do anything with Wallace on this thing?
- Foley: No --
- White: I think if he raises the question, might it be



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appropriate to say that you are giving this matter every consideration and it would be helpful if he would submit a memorandum for the boys to go over from the agricultural point of view. Let him put his reasons down in writing and see what they look like.

H.M.Jr: Why not?

White: If he would do that without telling what we think we want to consider then. If he has got good reasons we will consider them and if he hasn't, it will be easy to find them out.

Foley: I thought it would just inject another element.

White: Why wouldn't it be a good thing to do, anyway?

H.M.Jr: No, the President said he was going to have Wallace at the meeting.

White: Why wouldn't it be a good thing to do before he comes to the meeting?

H.M.Jr: That is what I am trying to do now. I am trying to iron this thing out and smoke these fellows out of it before I go in to see the President.

White: Do you think it might be appropriate if you were to call him and say you are considering it now, either that or send somebody over?

Johnson: From the Customs point of view, I think the time that is slipping along makes the possibility of a stop-gap decision much less of an answer as long as we are getting up against the gun where the goods will be held up pretty soon.

White: Let them squeal.

H.M.Jr: Well, by calling up we have found out a little something and he is seeing Lothian tomorrow and I am doing everything I can. If I get in hot water, I can just do what I always do. I can just say it is not my fault, I am just carrying out the President's orders. Put down that I smiled when I say that. I can blame it on Henry Wallace. No, but Welles has got it and

- 13 -

he realizes that we have got a favorable decision, because I am more vulnerable when I am sure that they are watching to see what I am going to do.

Cochran: Did you notice that criticism in the New York Times on Sunday?

H.M.Jr: I didn't see the Sunday Times.

Cochran: I think I have it here.

H.M.Jr: What are they criticizing me for now?

Cochran: The Customs policy as it holds to Mr. Hull's trade agreement.

Johnson: A continuation of a series that was in the papers last summer.

H.M.Jr: All we are doing is carrying out the law.

(Telephone conversation with Henry Wallace follows:)

April 8, 1940  
3:34 p.m.

HMJr: Hello.

Operator: Secretary Wallace.

HMJr: Hello.

Henry A. Wallace: Hello.

HMJr: How are you, Henry?

W: Fine.

HMJr: Henry, we've had a little meeting here on the official and unofficial sterling rate, which -- I don't know whether you're familiar with it or not. Hello?

W: Yes, it was discussed in Cabinet last time.

HMJr: Yes. Now, we're rapidly coming to a place where we've got to do something and I wondered if, from the standpoint of your export commodities, that you were particularly interested.

W: Of course, we're very much interested.

HMJr: You are?

W: Yes.

HMJr: Well, would you care to either put down your position or have somebody come over to tell me what your position is?

W: I don't know whether we have any position or not except that we know that the sterling rate will effect the demand for export commodities. That's all.

HMJr: The sterling rate?

W: Yeah.

HMJr: Well, which -- which one of these two rates do you feel would be helpful?



- 2 -

- W: Well, obviously the -- obviously the higher rate would enable the British to pay a higher price for our -- for our cotton, wouldn't it?
- HMJr: I think so. I -- we feel here, purely from the legal standpoint and as being the policemen in the matter, that it's the higher rate. You see?
- W: There's no question but what it gives them greater purchasing power at a price that is satisfactory to our people.
- HMJr: And we can't understand -- we couldn't -- I got the impression, and I guess wrong, that your folks over there wanted the lower rate and we couldn't understand it.
- W: It's all news to me. I assume of course we'd want the high rate.
- HMJr: Uh-huh. Well, that -- that's why I was calling because it would seem to me that you'd want the higher rate.
- W: Of course, there are no two ways about it.
- HMJr: Yeah. Well, then there really isn't much to say unless I felt that they were trying to make us "bend the law" so to speak and go to the lower rate.
- W: The -- we've heard -- what I was interested in really is what percentage of the transactions are going on the basis of the official higher rate and to what extent on the basis of the commercial lower rate.
- HMJr: Well, I can give you that very confidentially for the month of February.
- W: Uh-huh.
- HMJr: For the month of February 70 per cent of our imports were on the lower rate.
- W: 70 per cent of the imports.

- 3 -

HMJr: Of our imports.

W: Uh-huh.

HMJr: Were at the three and a half dollar rate, or thereabouts.

W: Yeah.

HMJr: And those figures are very rough and subject to correction but that's what -- we have people up there analyzing every invoice.

W: Well now, what percentage of our exports goes on the basis of the two rates?

HMJr: That we don't know yet, but as soon as I have it I'll be glad to give it to you.

W: What determines whether it comes one way or the other?

HMJr: Well, we feel under the law -- as to our imports we feel that we should rule 402 and that we have no choice in the matter, and the Attorney General is ready to sign an opinion the minute the President asks him for an opinion upholding the Treasury on this.

W: Yeah.

HMJr: Of course, I -- the President was very frank with me and the State Department, unfortunately, were not as frank. But the State Department said to me -- the President said, "Henry, for God's sakes stall this thing until we get the Trade Treaty through." Well, we've done that now.

W: Yeah.

HMJr: Now we have -- our duty is the policeman to carry out and everybody in the Treasury feels we should take the official rate.....

W: Well, do you have any power to handle it with regard to the export commodities?

- 4 -

HMJr: Well, I don't know.

W: Oh. You do have the power on the imports but not....

HMJr: On the imports, yes. I don't know whether we have any power on -- on what we sell to England?

W: Yeah.

HMJr: I don't think we have. That rests with them.

W: Uh-huh.

HMJr: Well, if I find that there's any pressure on us for economical reasons or agricultural commodity reasons to go the lower rate, I'm going to ask to have you sit in.

W: Well, that would be fine.

HMJr: So if -- if there's anything along those lines I'll let you know.

W: All right. Thanks, Henry.

HMJr: Goodbye.

W: Goodbye.



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Gaston: I don't think he understands that what we are dealing with here is purely a question of the duty on an import.

H.M.Jr: He can't understand it.

White: I think he does. He probably feels --

H.M.Jr: If he doesn't, he will write me a letter about it. But he was certainly --

White: If you like, I can get in touch and make sure if he does.

H.M.Jr: Yes. I mean, you get away for a couple of weeks and get some fresh air, and this is Washington, and with all this finagling that is going on, sure. But that is that. We will take up something else. O. K.?

White: With respect to those things we analyzed, we only got up to 10 million.

H.M.Jr: You keep changing it every minute. Somebody said for the month of February.

White: I said it was the first ten million in the month of February, at least I meant to say that.

H.M.Jr: All right.

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DEPARTMENT OF STATE  
WASHINGTON

April 5, 1940

My dear Mr. Secretary:

I enclose a copy of an informal note received on April 4, 1940 from the British Ambassador, in which he requests that final consideration of the question of the sterling rate of exchange for the purposes of Section 522 of the United States Tariff Act be postponed until the Ambassador is in receipt of the views of his Government, which they are telegraphing as soon as possible.

I should be glad to be informed of the reply which I may make to the Ambassador.

Sincerely yours,

/s/ Cordell Hull

Enclosure:

From the British  
Ambassador  
April 4, 1940

The Honorable

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

COPY

BRITISH EMBASSY,  
WASHINGTON.

April 4, 1940.

My dear Mr. Secretary:

Under an Order in Council which took effect on March 25th last, the control of the foreign exchange proceeds of specified exports from the United Kingdom and certain Empire countries (rubber, tin, jute and jute manufacturers, whisky and furs) results in payment for these goods, when exported to the U.S.A., being made at the official rate of exchange.

I understand that in consequence of this Order the question of the sterling rate of exchange for the purposes of Section 522 of the United States Tariff Act is at present under the consideration of the Treasury Department.

I have received a telegram from my government stating that a large proportion of United Kingdom exports to the U.S.A. is subject to ad valorem duties and would be affected by the decision which the Treasury Department may take in this matter and requesting an opportunity for presenting their views on this subject before the Treasury Department make their ruling.

I should

The Honourable  
Cordell Hull,  
Secretary of State of the United States,  
Washington, D. C.



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I should therefore be grateful if it could be arranged that final consideration of this matter might be postponed until I am in receipt of the views of my government, which they inform me that they are telegraphing as soon as possible.

In the meantime I suggest that the Treasury Department might be informed that I should be glad to telegraph to London for any specific information which that Department might desire to receive from my government.

Believe me,

my dear Mr. Secretary,

Yours very sincerely,

LOTHIAN.

✓  
NBC broadcast on Art work in the  
Government

April 8, 1940.

MEMORANDUM

TO: Mr. McHugh  
FROM: Mr. Schwarz ↻

In response to your request, I am quoting to you the text of the telegram of April 3 from the Secretary, as follows:

"Please notify EDWARD BRUCE I will be delighted to join him on radio broadcast on April 25 provided he furnishes me with snappy talk. Notify BOB MCHUGH also.

H. Morgenthau, Jr."

Mr. Bruce says that the program will be on the NBC network from 10 to 10:30 P.M. on the twenty-fifth. Professor John Dewey, the Columbia University philosopher, is scheduled to be master of ceremonies and Washington participants other than the Secretary will be Senators La Follette and McNary and Administrator Carmody of the Federal Works Agency. Carleton Smith, the local NBC announcer, has been assigned to handle the arrangements for the program.

Note: Mr. McHugh checked with Mr. Schwarz on this today - Mr. Schwarz is handling the writing of the speech. - mss 4/17/40



DEPARTMENT OF STATE  
WASHINGTON

April 8, 1940.

In reply refer to  
A 841.24/231

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, referring to the Department of State's telegram no. 3, dated March 1, 1940, to the American Consul at Birmingham, England, a copy of which was forwarded to the Treasury on March 2, encloses copies of the Consul's despatch no. 383, dated March 13, 1940, entitled "Production at British Shadow Factories (Birmingham consular district)", and of the Consul's despatch no. 384, dated March 14, entitled "The War and Consequent Plant Expansion Among Private Birmingham Industrial Enterprises".

Enclosures:

1. 3 copies of no. 383 from Birmingham, March 13, 1940.
2. 3 copies of no. 384 from Birmingham, March 14, 1940.



No. 383.

American Consulate,  
Birmingham, England, March 13, 1940.

CONFIDENTIAL

Subject: **Production at British Shadow Factories  
(Birmingham consular district).**

THE HONORABLE  
THE SECRETARY OF STATE,  
WASHINGTON.

SIR:

I have the honor, with respect to the Department's cablegram no. 3 dated March 1, 1940, herewith respectfully to transmit a memorandum treating of production at British shadow factories in the Birmingham district.

Memoranda dealing with the remaining subjects mentioned in the cablegram will be prepared as the necessary information is obtained.

The enclosed memorandum is not based exclusively upon information obtained by the Consulate since the receipt of the Department's cablegram above mentioned. However, information on hand was supplemented by data obtained during the course of conversations with several local people who have, through experience, a familiarity with working conditions prevailing in local shadow factory plants.

The person who was most helpful in this connection has, during recent months, constantly come into contact

-2-

with shadow factory engineers who have been confronted  
with dislocations occasioned by labor trouble.

Respectfully yours,

James R. Wilkinson  
American Consul

Enclosure: Memorandum, as stated.

824.2

JRW:mec

A true copy of  
the signed origi-  
nal. (1)

American Consulate,  
Birmingham, England;  
March 13, 1940.

CONFIDENTIAL

PRODUCTION AT BRITISH SHADOW FACTORIES  
(Birmingham consular district)

Shadow Factories Defined and Described.

British shadow factories are plants erected and owned by the British Government and by it controlled through Government appointed civilians who operate them with civilian labor. Most of these factories are engaged in assembling fighting aircraft and aircraft motors and in the manufacture of fuselage and motor components. However, some of them are engaged in assembling guns and in manufacturing certain gun components.

Shadow Factory Plant and Production Machinery.

The general aim of the British Government was efficiently to build and equip shadow factory plant for production as indicated in the preceding paragraph. To carry out this aim, the Government obtained the services of what it considered the most competent planning engineers. Pursuant to the advice given by these, plant was erected and equipped in a manner consistent with the most advanced ideas of building and engineering practice.

It is, among members of the British engineering fraternity, almost universally conceded that the carrying out of the advice above mentioned resulted in a splendid accomplishment.

Production



Production Technique.

Ahead with plant erection and equipment work was production planning. When a shadow factory, from the physical point of view, was completed, it could, given the necessary materials and labor, do what it was expected to do.

Materials.

There has been some, but relatively speaking, little trouble about the supply of materials and, therefore, the factor of supply of materials has in only a small way been responsible for the highly unsatisfactory results of shadow factory plant operation.

Labor.

Shadow factory operations have fallen about forty per cent short of doing what they were expected to. For this, trouble with supplying materials has been about five per cent responsible, and trouble with labor problems about ninety-five per cent.

Attitude of Organized British Labor.

Organized British labor's general attitude is that such progress as has been made in the matter of obtaining fair treatment for British working people has been made in the face of a deep seated and unreasoning hostility on the part of the British employing classes and that organized British labor is deter- mined neither to permit those classes to use the war as an excuse for impairing the results of that progress nor to relax efforts to further the legitimate interests of British working people during the war.

Effects of this Attitude in Shadow Factories.

Organized British labor does not overtly refuse to make concessions theoretically in derogation of its rights as now established when it is clear that if such concessions are not made, the country's war effort will be substantially hampered in an important field. But the extreme sympathy with which it examines each and every move in the direction of breaking down any labor union rule engenders in the working people directly affected a strong disposition to believe that their safest course is to stick to the rule, whatever the consequences.

Practical Examples.

(1) There is a long row of machine tools in a shadow factory. The row represents a production line planned by expert engineers. Under the plan, each machine tool is to run at a given speed to complete a pre-determined number of operations in a predetermined time. Under union rules, the operator in this row who runs machine no.10 at the planned speed must be a skilled workman who cannot receive less than <sup>a</sup> stated amount of wage money for a stated number of hours or labor. However, the shadow factory has not been able to obtain the services of such an operator and, therefore, places an unskilled man at machine no.10. This is where the trouble begins. The foreman tells the unskilled man that, as he is unskilled, the following questions arise: Whether he can take a skilled worker's pay, even if he runs the machine at the planned speed and turns out work according to plan; whether,



If the answer to the first question is in the negative, he must run the machine slower than called for by the plans and whether, if he is allowed to run the machine, he may receive pay at a rate higher than that prescribed for unskilled workmen of his category.

At this juncture a planning engineer appears on the scene and explains that the shadow factory tried its best to get a skilled man for the job but failed and that the factory is willing to pay the skilled rate to anybody who can operate the machine at the planned speed and make it turn out work as planned. While this is going on, the machine is idle and the whole production line thrown out of gear. The matter is referred to the labor union authorities and a decision reached. But points not covered by the decision arise and there is more delay. Meanwhile, other unskilled men whose cases have been settled by previous negotiations come into the picture, and when the man originally at machine no.10 returns to it, there are consultations between him and them. A case is then unsuccessfully put that the man at no.10 did not get a fair deal and a strike is called. As a result of the strike, the whole shadow organization is dislocated for several days.

(2) It is decided that another row of machine tools can be operated by women workers and they are hired. That they can do the work is admitted. But again questions relating to pay rates, the dilution of labor, and so forth arise. The results are that the



row of machines is idle and that the whole production schedule of shadow factory is disrupted.

Attitude of Shadow Factory Employers.

Shadow factory employers would more than gladly put at each job a man, woman, or child who, under labor union rules, is the proper person for that job. Moreover, they would be more than glad to pay labor union rates to each employee. But the stern fact is that the labor market simply cannot supply shadow factory labor needs in such a way as to enable shadow factory employers to meet labor union rules. Furthermore, even if labor unions entirely suspended the rules which are causing the trouble, shadow factory employers still could not, because of an under-supply of suitable labor, man their machines so as to turn out work on planned schedules.

The Government Attitude.

The Government's attitude is that if for any reason whatever shadow factories do not produce what they were planned to, then the deficiency must, in so far as is possible, be made up. At the moment, the deficiency is great and in efforts to make it up, the Government is purchasing numerous fighting aircraft abroad.

The Attitude of the Public.

The attitude of the public is not uniform. In the working classes there is a disposition to believe that the aims of British labor are quite as if not more important than Great Britain's war aims. There is also a disposition among them to suspect that

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British industrialists design to use the war as an excuse for putting the British labor movement back a good many years.

That part of the British public which belongs to neither the working nor the industrialist class, while tolerant of labor's determination to preserve such rights as it has obtained through the struggle it has put up during the last century or so, inclines to the view that a situation may arise in which the Government will have to step in and force labor to do the job it is assigned to do without regard to labor union rules.

The industrialists are, as a class, not directly concerned about the matter as shadow factories are operated by the Government which, they hold, can, when it is considered expedient, tell labor what it is to do and make labor do it. They have, however, pointed to the fact that, as a result of the attitude labor has adopted regarding shadow factory problems, the United Kingdom is spending millions upon millions of pounds sterling in the United States and Canada for aircraft, and add that, though shadow factory plans looked well on paper, they warned the Government that they could, if left to their own devices, more satisfactorily from all points of view do the work shadow factories were expected to.

James R. Wilkinson  
American Consul

JRW:mec  
824.2

American Consulate,  
Birmingham, England, March 14, 1940.

Subject: **The War and Consequent Plant Expansion  
Among Private Birmingham Industrial  
Enterprises.**

THE HONORABLE  
THE SECRETARY OF STATE,  
WASHINGTON.

SIR:

I have the honor, with respect to the Department's cablegram no.3 dated March 1, 1940, herewith to transmit a memorandum treating of war and consequent plant expansion among private Birmingham industrial enterprises.

A memorandum dealing with the remaining subject mentioned in the cablegram is in course of preparation and as soon as it is completed will be forwarded to the Department.

The enclosed memorandum is based more on general information obtained in connection with the preparation of despatches and reports previously forwarded to the Department than upon information obtained since receipt of the cablegram referred to. However, before the actual work on the memorandum was commenced, its author had several interviews with three local businessmen who have much knowledge of the local labor problem



-2-

as that problem has affected operations at shadow factories in this vicinity, and as a result obtained considerable information which has been incorporated in the memorandum.

Respectfully yours,

James R. Wilkinson  
American Consul

Enclosure: Memorandum, as stated.

JRW:mec

824.2

A true copy of  
the signed original.  
10.

American Consulate,  
Birmingham, England,  
March 14, 1940.

CONFIDENTIAL.

THE WAR AND CONSEQUENT PLANT EXPANSION  
AMONG PRIVATE BIRMINGHAM INDUSTRIAL ENTERPRISES

On Balance.

Birmingham area industrial plant rendered idle by the war is far more extensive and important than industrial plant in the same area privately built to meet war needs. In some cases plant was rendered idle because the demand for products produced thereat sharply dropped or virtually disappeared. In others, plant was rendered idle because its place was taken by new and more efficient plant. Much plant producing novelty articles and household hardware has ceased functioning and the erection of efficient plant for manufacturing a single category of metal products for war purposes resulted in the closure of numerous, inefficient, scattered factories which, before the war, were engaged in manufacturing products of the same category.

Making Cost of Plant Expansion.

Ordinarily, the entire cost of expanding private plant to meet war needs is a private matter with which the British Government does not concern itself. However, it is understood that in cases where plant expansion is advisable or necessary specifically to meet such needs, the Government may, in one way or another, undertake to save the affected private enterprise

harmless/

harmless against any loss later ascertained to have been occasioned by the expansion.

Private Enterprise Preference.

By and large, private enterprise much prefers to carry out Government contracts in exactly the same manner in which it carries out non-Governmental contracts. This is the case because private enterprise is extremely jealous of its independence and fears that, in exchange for the very slightest Government favor or consideration, it will either be expected or required to sacrifice some of that independence.

Adaptation in Lieu of Expansion the Rule.

The strength of the preference dealt with in the preceding paragraph is such that, save when doing so is more or less out of the question, private enterprise meets war needs by plant adaptation. For example: If plant has been manufacturing automobile components or parts and is called upon to manufacture fire engine components or parts, its owner will, rather than expand plant, go to great lengths to effect the adaptations, modifications and changes required to enable him to begin producing fire engine parts, especially if plant expansion would mean a relinquishment by him of the slightest degree of the control which he, as a private individual with no obligations, expressed or implied, towards the Government, exercises over his enterprise.

Redundant Plant Problem a Factor.

In the Birmingham area much redundant plant has for long been inoperative because its owners are, under



association rules, compensated for keeping it so. Naturally, association members who have been contributing on a pro rata basis towards paying this compensation are hostile to the erection of plant which for any reason whatever may later become redundant. Take the metal bed industry, for instance. In 1938, there was much redundant plant in this industry which, under an association plan, was kept inoperative. If any member of this association should presently contemplate expanding plant to meet a war need, his fellow members would certainly object on the grounds that it would be better for redundant plant now being kept inoperative by association compensation to come into production than it would be to erect new plant to meet a purely temporary need.

The question of the advisability of using redundant or inefficient plant rather than erecting new plant has already been raised. Regarding the instance, cited in the first paragraph of this memorandum, in which numerous factories were rendered idle by the erection of new plant, there has been a veritable outcry. The workmen formerly employed at those factories could not, save in a few cases, obtain employment at the new plant. Moreover, the owners of the closed factories will naturally seek a way to cover their losses. But, most serious of all, if the new plant is permitted to operate after the war, a consequent redundancy of so much plant in this one industry will constitute a problem for any organization

charged with the regulation of inter-enterprise relationships in this particular field.

Labor an Even More Important Factor.

In any fair sized long established Birmingham industrial enterprise, each job has a history in the capital-labor relationship realm. This history has developed, in part, as a result of numerous consultations among the employer, labor union officials, and all of the workmen who have ever done the job and, in part, as a result of numerous examinations of the nature of the job in comparison with the nature of similar jobs in the same enterprise. In this situation, when a job holder relinquishes his employment, the employer knows exactly what he is up against when he goes to fill the vacant place and so do the labor union officials and old employees. When adaptations, modifications, or changes in manufacturing processes become advisable or necessary, such can usually be effected without much labor trouble, because first, the employer, labor union officials, and frequently the people whose positions will be affected know and have confidence in each other and because, second, factory tradition and precedent usually cover all important questions which will arise as to time, pay, job classification, and so forth.

However, so important are the day-to-day labor questions which arise in every Birmingham industrial enterprise that as soon as a firm can afford to, it employs a full time labor relation expert. It is the duty of this expert to nip labor trouble in the bud



and if he is successfully to perform this duty, he must be ready and willing not only to listen with patience to each and every complaint but, when fairness demands, also to insist that the matter complained of be adjusted.

The purpose of the two foregoing paragraphs is to show that maintenance of satisfactory employer-employee relationships, even under normal conditions, constitutes a very difficult problem in the Birmingham area. But when a Birmingham area industrial enterprise expands its plant, its labor problem is much more difficult, for not only does the question of obtaining, from the labor union point of view, the right person for the right job arise, but also the question of obtaining anybody for any job arises. The latter question comes up for the simple reasons that the supply of industrial labor in the Birmingham area seldom equals the demand, and that there is never at any one time an excess of supply of a kind from which the needs of a plant expansion of any importance can be filled.

The criticism which has been leveled at those officials and engineers who conceived and attempted to give effect to the shadow factory idea is that they pinned their faith on the theory that efficient production in the Birmingham area was largely a problem of having suitable buildings and equipment and an adequate supply of materials, leaving out of reckoning the vital importance of the labor factor. As one observer put it, they dreamed of splendid

buildings/



buildings, splendidly equipped, in which machine after machine, humming in synchronisation and tended by almost anybody, would each contribute towards the accomplishment of an ultimate aim, for example, fighting aircraft at short intervals taking off from the end of production lines. But despite such buildings so equipped, and almost entirely because of labor troubles, shadow factories have fallen far short of doing what they were expected to.

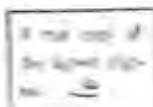
SUMMARY.

The war has seen more private industrial plant in the Birmingham area become idle than new plant built. Private industrialists, for several reasons, rather adapt old plant to war purposes than expand. If the Government has a hand in expansion, the industrialist fears loss of independence. Expansion gives rise to two serious labor problems: (1) That of finding workpeople at all and (2) that of finding the kind of workpeople who, under labor union rules, are eligible for the jobs made available through expansion.

James R. Wilkinson  
American Consul

JRW:mec

824.2



ADDRESS OFFICIAL COMMUNICATIONS TO  
THE SECRETARY OF STATE  
WASHINGTON, D. C.



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
EA 641.1117/69

April 1, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his confidential information three copies of despatch no. 381 of March 7, 1940, from the American Consulate, Birmingham, England, reporting on British shadow factory organization and control, in response to telegram no. 3 of March 1, 1940 sent to the American Consulate at Birmingham by the Department of State at the request of the Treasury Department.

Enclosure:

3 copies, no. 381  
of March 7 from  
Birmingham.

no 381.

American Consulate,  
Birmingham, England, March 7, 1940.

CONFIDENTIAL

Subject: **British Shadow Factories.**

THE HONORABLE

THE SECRETARY OF STATE,  
WASHINGTON.

SIR:

I have the honor, with reference to the Department's cablegram no. 3 dated March 1, 1940, herewith respectfully to transmit a memorandum treating of British shadow factory organization and control.

Memoranda dealing with the other subjects mentioned in the cablegram will be prepared as the necessary information is obtained.

The enclosed memorandum is based exclusively upon statements made to me subsequent to the receipt of the cablegram by the chief accountant of a private enterprise with which is identified one of the largest shadow factories in the United Kingdom; an engineer in the planning division of another large shadow factory; the expert manager of a well known British automobile manufacturing firm; a director of a local company now engaged almost exclusively on important Government war contracts; an expert who has had a great deal to do with the supply

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-2-

of machine tools for shadow factory installations;  
and the manager of the Birmingham branch of a nationally  
known imported machine tool distributing agency.

It was gratifying to learn that the Department  
considered that the despatch to which it referred  
contained information of a timely and helpful nature  
and that the Secretary of the Treasury had read it with  
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
Respectfully yours,

James R. Wilkinson  
American Consul

Enclosure: Memorandum, as stated.

894.2

JRW:mec

A true copy of  
the signed origi-  
nal. 

American Consulate,  
Birmingham, England,  
March 7, 1940.

CONFIDENTIAL

BRITISH SHADOW FACTORY ORGANIZATION  
AND CONTROL

Background.

At that stage of the British armament program when it was decided by the Government that preparations had to be on a scale consistent with a virtual certainty that a European war would break out, the idea that private industry was incapable of meeting the necessities of the situation, especially in the aircraft and gun fields, took hold. As a result, the Government determined to step in, and, with some relatively inconsequential modifications, its original plan was carried out.

The Plan.

The plan was for the Government to bring into existence what have become known as shadow factories. These factories were built and equipped by the Government to carry out specific operations under the direction of Government appointees. The appointees are known as comptrollers and take their orders from the Government. The Government pays for everything, that is to say, plant, installation, labor, materials, and so forth.

Management.

Comptrollers operate very largely as if they were company managers. For example, they employ and dismiss labor, they procure materials, enter into contracts with suppliers, fix work shifts, draw up output schedules, and keep accounts.

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The Government is the sole source of income and accounting consists, as far as comptrollers are concerned, of proving and justifying outgo and having on hand the difference between income and outgo. There is no question either of profit or loss and, in consequence, no question of net income for taxation or other purposes.

Labor.

Persons, no matter what their positions may be, who are on the pay rolls of shadow factories, are not on account of that fact civil servants. Their status, for taxation as well as for all other practical purposes, is exactly the same as the status of persons in the employ of private enterprises. Even comptrollers have no special status by virtue of the nature of their government appointments and, if they receive compensation from the Government for their services, that compensation is taxable in the same way in which it would be if it represented salary paid by a private company. Shadow factory workers may be members of labor unions; they may strike for higher pay or improved working conditions. They are employed and dismissed in exactly the same manner that workers in private businesses are. They are not pensionable as civil servants, and the fact that the source of their incomes is the Government operates neither to their advantage nor to their disadvantage.

Control by Government.

A department of the appropriate Ministry controls shadow factories exclusively through comptrollers thereof.

Practical/



Practical Features.

No local exceptions are known to what appears to be the general rule that shadow factories are under the direction of active industrialists familiar with and privately engaged in the kind of work performed in such factories. It may or may not be the case, however, that shadow factories are physically near the plants operated privately by shadow factory comptrollers.

At the outset, at least, the nucleus of workers and experts in shadow factories was drawn from the plants privately operated by comptrollers. For example, if, upon appointment, a comptroller happened to be the head of a firm manufacturing automobiles, he might have drawn from that firm labor, foremen, and engineers to help staff the shadow factory, but he would pay them for services rendered the shadow factory out of funds supplied by the Government. However, so separate and distinct is shadow factory organization from businesses privately operated by comptrollers that a comptroller is not permitted in any singular way to obtain directly from a business he privately operates any necessary supplies or equipment for shadow factory use, the procedure being in such case the same as the procedure which would be followed if the supplies and equipment were obtained from some other source. However, there is no objection whatever to a plant privately operated by a comptroller furnishing a shadow factory he controls with supplies and equipment as long as the regular procedure is followed. This procedure is for the shadow factory to order supplies and equipment as if it were a private

concern and to pay therefor at trade rates less discounts, if any, customarily allowed the Government. If, for instance, an Austin shadow factory needs an Austin automobile, it sends the Austin Motor Company, Limited, the necessary order and, at the opportune time, pays that company for the automobile with funds which the Government has advanced the shadow factory.

The advantages which derive from shadow factories being very closely identified with private enterprise and being controlled by the men who operate the latter are held to be numerous and great. Obviously, however, there are possible disadvantages, if not dangers. Yet, thus far, at least, nothing is known to have transpired tending to persuade either the public or the Government that an arrangement involving the identity in question is not, in itself and on the whole, a satisfactory one.

Shadow Factory Organization Distinct.

There are thousands of purely private enterprises in the United Kingdom which, as such, are contributing to the national effort to provide war goods, but, by and large, the contractual relationship between these enterprises and the British Government is comparable with and similar to the ordinary contractual relationship between buyer and seller in the domestic commercial field. This does not mean, however, that the enterprises in question do not of their own accord or under war measures give priority to Government orders or that they never in one way or another accept Government aid. But they are in no sense whatever shadow factories, despite the fact that there still exists some confusion

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Private Enterprises and War Work.

The willingness of private enterprises to do their utmost to help with the war is notorious. However, their anxiety over the possibility of the Government depriving them of their independence manifests itself in many ways. In numerous instances, such enterprises, rather than run the risks involved in accepting Government aid, have foregone opportunities to obtain large orders for war products, and it is not uncommon to hear individuals prominently connected with such enterprises boast that they have succeeded in preserving their firms' independence by carrying out Government contracts in the same way that they carry out private ones.

James R. Wilkinson  
American Consul

824.2

JRW:mec

A true copy of  
the original.  
to

TO THE DIRECTOR  
TECHNOLOGY DEVELOPMENT  
DIVISION OF THE

1370 VBS 1 6/11 50

TECHNOLOGY DEVELOPMENT  
RECEIVED





DEPARTMENT OF STATE  
WASHINGTON

April 8, 1940.

Refer to  
231

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, referring to the Department of State's telegram no. 5, dated March 1, 1940, to the American Consul at Birmingham, England, a copy of which was forwarded to the Treasury on March 2, encloses copies of the Consul's despatch no. 383, dated March 13, 1940, entitled "Production at British Shadow Factories (Birmingham consular district)", and of the Consul's despatch no. 384, dated March 14, entitled "The War and Consequent Plant Expansion Among Private Birmingham Industrial Enterprises".

Enclosures:

1. 3 copies of no. 383 from Birmingham, March 13, 1940.
2. 3 copies of no. 384 from Birmingham, March 14, 1940.

American Consulate,  
Birmingham, England, March 13, 1940.

CONFIDENTIAL

Subject: Production at British Shadow Factories  
(Birmingham consular district).

THE HONORABLE  
THE SECRETARY OF STATE,  
WASHINGTON.

SIR:

I have the honor, with respect to the Department's cablegram no.3 dated March 1, 1940, herewith respectfully to transmit a memorandum treating of production at British shadow factories in the Birmingham district.

Memoranda dealing with the remaining subjects mentioned in the cablegram will be prepared as the necessary information is obtained.

The enclosed memorandum is not based exclusively upon information obtained by the Consulate since the receipt of the Department's cablegram above mentioned. However, information on hand was supplemented by data obtained during the course of conversations with several local people who have, through experience, a familiarity with working conditions prevailing in local shadow factory plants.

The person who was most helpful in this connection has, during recent months, constantly come into contact

with/

-2-

with shadow factory engineers who have been confronted  
with dislocations occasioned by labor trouble.

Respectfully yours,

James R. Wilkinson  
American Consul

Enclosure: Memorandum, as stated.

JRW:ms

JRW:ms

A true copy of  
the signed original.  
①



American Consulate,  
Birmingham, England,  
March 13, 1940.

CONFIDENTIAL

PRODUCTION AT BRITISH SHADOW FACTORIES  
(Birmingham consular district)

Shadow Factories Defined and Described.

British shadow factories are plants erected and owned by the British Government and by it controlled through Government appointed civilians who operate them with civilian labor. Most of these factories are engaged in assembling fighting aircraft and aircraft motors and in the manufacture of fuselage and motor components. However, some of them are engaged in assembling guns and in manufacturing certain gun components.

Shadow Factory Plant and Production Machinery.

The general aim of the British Government was efficiently to build and equip shadow factory plant for production as indicated in the preceding paragraph. To carry out this aim, the Government obtained the services of what it considered the most competent planning engineers. Pursuant to the advice given by these, plant was erected and equipped in a manner consistent with the most advanced ideas of building and engineering practice.

It is, among members of the British engineering fraternity, almost universally conceded that the carrying out of the advice above mentioned resulted in a splendid accomplishment.

Production

### Production Technique.

Abreast with plant erection and equipment work was production planning. When a shadow factory, from the physical point of view, was completed, it could, given the necessary materials and labor, do what it was expected to do.

### Materials.

There has been some, but relatively speaking, little trouble about the supply of materials and, therefore, the factor of supply of materials has in only a small way been responsible for the highly unsatisfactory results of shadow factory plant operation.

### Labor.

Shadow factory operations have fallen about forty per cent short of doing what they were expected to. For this, trouble with supplying materials has been about five per cent responsible, and trouble with labor problems about ninety-five per cent.

### Attitude of Organized British Labor.

Organized British labor's general attitude is that such progress as has been made in the matter of obtaining fair treatment for British working people has been made in the face of a deep seated and un-reasoning hostility on the part of the British employing classes and that organized British labor is determined neither to permit those classes to use the war as an excuse for impairing the results of that progress nor to relax efforts to further the legitimate interests of British working people during the war.

Effects/

### Effects of this Attitude in Shadow Factories.

Organized British labor does not overtly refuse to make concessions theoretically in derogation of its rights as now established when it is clear that if such concessions are not made, the country's war effort will be substantially hampered in an important field. But the extreme sympathy with which it examines each and every move in the direction of breaking down any labor union rule engenders in the working people directly affected a strong disposition to believe that their safest course is to stick to the rule, whatever the consequences.

### Practical Examples.

(1) There is a long row of machine tools in a shadow factory. The row represents a production line planned by expert engineers. Under the plan, each machine tool is to run at a given speed to complete a pre-determined number of operations in a predetermined time. Under union rules, the operator in this row who runs machine no.10 at the planned speed must be a skilled workman who cannot receive less than a stated amount of wage money for a stated number of hours or labor. However, the shadow factory had not been able to obtain the services of such an operator and, therefore, places an unskilled man at machine no.10. This is where the trouble begins. The foreman tells the unskilled man that, as he is unskilled, the following questions arise: Whether he can take a skilled worker's pay, even if he runs the machine at the planned speed and turns out work according to plan; whether,

if/



if the answer to the first question is in the negative, he must run the machine slower than called for by the plan; and whether, if he is allowed to run the machine, he may receive pay at a rate higher than that prescribed for unskilled workmen of his category. At this juncture a planning engineer appears on the scene and explains that the shadow factory tried its best to get a skilled man for the job but failed and that the factory is willing to pay the skilled rate to anybody who can operate the machine at the planned speed and make it turn out work as planned. While this is going on, the machine is idle and the whole production line thrown out of gear. The matter is referred to the labor union authorities and a decision reached. But points not covered by the decision arise and there is more delay. Meanwhile, other unskilled men whose cases have been settled by previous negotiations come into the picture, and when the man originally at machine no.10 returns to it, there are consultations between him and them. A case is then unsuccessfully put that the man at no.10 did not get a fair deal and a strike is called. As a result of the strike, the whole shadow organization is dislocated for several days.

(2) It is decided that another row of machine tools can be operated by women workers and they are hired. That they can do the work is admitted. But again questions relating to pay rates, the dilution of labor, and so forth arise. The results are that the row/  
row/

row of machines is idle and that the whole production schedule of shadow factory is disrupted.

#### Attitude of Shadow Factory Employers.

Shadow factory employers would more than gladly put at each job a man, woman, or child who, under labor union rules, is the proper person for that job. Moreover, they would be more than glad to pay labor union rates to each employee. But the stern fact is that the labor market simply cannot supply shadow factory labor needs in such a way as to enable shadow factory employers to meet labor union rules. Furthermore, even if labor unions entirely suspended the rules which are causing the trouble, shadow factory employers still could not, because of an under-supply of suitable labor, man their machines so as to turn out work on planned schedules.

#### The Government Attitude.

The Government's attitude is that if for any reason whatever shadow factories do not produce what they were planned to, then the deficiency must, in so far as is possible, be made up. At the moment, the deficiency is great and in efforts to make it up, the Government is purchasing numerous fighting aircraft abroad.

#### The Attitude of the Public.

The attitude of the public is not uniform. In the working classes there is a disposition to believe that the needs of British labor are quite as if not more important than Great Britain's war aims. There is also a disposition among them to suspect that  
British/

British industrialists design to use the war as an excuse for putting the British labor movement back a good many years.

That part of the British public which belongs to neither the working nor the industrialist class, while tolerant of labor's determination to preserve such rights as it has obtained through the struggle it has put up during the last century or so, inclines to the view that a situation may arise in which the Government will have to step in and force labor to do the job it is assigned to do without regard to labor union rules.

The industrialists are, as a class, not directly concerned about the matter as shadow factories are operated by the Government which, they hold, can, when it is considered expedient, tell labor what it is to do and make labor do it. They have, however, pointed to the fact that, as a result of the attitude labor has adopted regarding shadow factory problems, the United Kingdom is spending millions upon millions of pounds sterling in the United States and Canada for aircraft, and add that, though shadow factory plans looked well on paper, they warned the Government that they could, if left to their own devices, more satisfactorily from all points of view do the work shadow factories were expected to.

James R. Wilkinson  
American Consul



American Consulate,

Birmingham, England, March 14, 1940.

Subject: The War and Consequent Plant Expansion  
Among Private Birmingham Industrial  
Enterprises.

THE HONORABLE  
THE SECRETARY OF STATE,  
WASHINGTON.

SIR:

I have the honor, with respect to the Department's cablegram no.3 dated March 1, 1940, herewith to transmit a memorandum treating of war and consequent plant expansion among private Birmingham industrial enterprises.

A memorandum dealing with the remaining subject mentioned in the cablegram is in course of preparation and as soon as it is completed will be forwarded to the Department.

The enclosed memorandum is based more on general information obtained in connection with the preparation of despatches and reports previously forwarded to the Department than upon information obtained since receipt of the cablegram referred to. However, before the actual work on the memorandum was commenced, its author had several interviews with three local businessmen who have much knowledge of the local labor problem

as/

as that problem has affected operations at shadow factories in this vicinity, and as a result obtained considerable information which has been incorporated in the memorandum.

Respectfully yours,

James R. Wilkinson  
American Consul

Enclosure: Memorandum, as stated.

JRW:mec

824.2

A copy of this  
document is being  
sent to [unclear]

American Consulate,  
Birmingham, England,  
March 14, 1940.

CONFIDENTIAL.

THE WAR AND CONSEQUENT PLANT EXPANSION  
AMONG PRIVATE BIRMINGHAM INDUSTRIAL ENTERPRISES

On Balance.

Birmingham area industrial plant rendered idle by the war is far more extensive and important than industrial plant in the same area privately built to meet war needs. In some cases plant was rendered idle because the demand for products produced thereat sharply dropped or virtually disappeared. In others, plant was rendered idle because its place was taken by new and more efficient plant. Much plant producing novelty articles and household hardware has ceased functioning and the erection of efficient plant for manufacturing a single category of metal products for war purposes resulted in the closure of numerous, inefficient, scattered factories which, before the war, were engaged in manufacturing products of the same category.

Masking Cost of Plant Expansion.

Ordinarily, the entire cost of expanding private plant to meet war needs is a private matter with which the British Government does not concern itself. However, it is understood that in cases where plant expansion is advisable or necessary specifically to meet such needs, the Government may, in one way or another, undertake to save the affected private enterprise

harmless/

Regraded Unclassified



harmless against any loss later ascertained to have been occasioned by the expansion.

#### Private Enterprise Preference.

By and large, private enterprise much prefers to carry out Government contracts in exactly the same manner in which it carries out non-Governmental contracts. This is the case because private enterprise is extremely jealous of its independence and fears that, in exchange for the very slightest Government favor or consideration, it will either be expected or required to sacrifice some of that independence.

#### Adaptation in Lieu of Expansion the Rule.

The strength of the preference dealt with in the preceding paragraph is such that, save when doing so is more or less out of the question, private enterprise meets war needs by plant adaptation. For example: If plant has been manufacturing automobile components or parts and is called upon to manufacture fire engine components or parts, its owner will, rather than expand plant, go to great lengths to effect the adaptations, modifications and changes required to enable him to begin producing fire engine parts, especially if plant expansion would mean a relinquishment by him of the slightest degree of the control which he, as a private individual with no obligations, expressed or implied, towards the Government, exercises over his enterprise.

#### Redundant Plant Problem a Factor.

In the Birmingham area much redundant plant has for long been inoperative because its owners are, under

association/

association rules, compensated for keeping it so. Naturally, association members who have been contributing on a pro rata basis towards paying this compensation are hostile to the erection of plant which for any reason whatever may later become redundant. Take the metal bed industry, for instance. In 1938, there was much redundant plant in this industry which, under an association plan, was kept inoperative. If any member of this association should presently contemplate expanding plant to meet a war need, his fellow members would certainly object on the grounds that it would be better for redundant plant now being kept inoperative by association compensation to come into production than it would be to erect new plant to meet a purely temporary need.

The question of the advisability of using redundant or inefficient plant rather than erecting new plant has already been raised. Regarding the instance, cited in the first paragraph of this memorandum, in which numerous factories were rendered idle by the erection of new plant, there has been a veritable outcry. The workmen formerly employed at those factories could not, save in a few cases, obtain employment at the new plant. Moreover, the owners of the closed factories will naturally seek a way to cover their losses. But, most serious of all, if the new plant is permitted to operate after the war, a consequent redundancy of so much plant in this one industry will constitute a problem for any organization

charged with the regulation of inter-enterprise relationships in this particular field.

Labor as Even More Important Factor.

In any fair sized long established Birmingham industrial enterprise, each job has a history in the capital-labor relationship realm. This history has developed, in part, as a result of numerous consultations among the employer, labor union officials, and all of the workmen who have ever done the job and, in part, as a result of numerous examinations of the nature of the job in comparison with the nature of similar jobs in the same enterprise. In this situation, when a job holder relinquishes his employment, the employer knows exactly what he is up against when he goes to fill the vacant place and so do the labor union officials and old employees. When adaptations, modifications, or changes in manufacturing processes become advisable or necessary, such can usually be effected without much labor trouble, because first, the employer, labor union officials, and frequently the people whose positions will be affected know and have confidence in each other and because, second, factory tradition and precedent usually cover all important questions which will arise as to time, pay, job classification, and so forth.

However, so important are the day-to-day labor questions which arise in every Birmingham industrial enterprise that as soon as a firm can afford to, it employs a full time labor relation expert. It is the duty of this expert to nip labor trouble in the bud



and if he is successfully to perform this duty, he must be ready and willing not only to listen with patience to each and every complaint but, when fairness demands, also to insist that the matter complained of be adjusted.

The purpose of the two foregoing paragraphs is to show that maintenance of satisfactory employer-employee relationships, even under normal conditions, constitutes a very difficult problem in the Birmingham area. But when a Birmingham area industrial enterprise expands its plant, its labor problem is much more difficult, for not only does the question of obtaining, from the labor union point of view, the right person for the right job arise, but also the question of obtaining anybody for any job arises. The latter question comes up for the simple reasons that the supply of industrial labor in the Birmingham area seldom equals the demand, and that there is never at any one time an excess of supply of a kind from which the needs of a plant expansion of any importance can be filled.

The criticism which has been leveled at those officials and engineers who conceived and attempted to give effect to the shadow factory idea is that they pinned their faith on the theory that efficient production in the Birmingham area was largely a problem of having suitable buildings and equipment and an adequate supply of materials, leaving out of reckoning the vital importance of the labor factor. As one observer put it, they dreamed of splendid

buildings/

buildings, splendidly equipped, in which machine after machine, humming in synchronization and tended by almost anybody, would each contribute towards the accomplishment of an ultimate aim, for example, fighting aircraft at short intervals taking off from the end of production lines. But despite such buildings so equipped, and almost entirely because of labor troubles, shadow factories have fallen far short of doing what they were expected to.

Summary.

The war has seen more private industrial plant in the Birmingham area become idle than new plant built. Private industrialists, for several reasons, rather adapt old plant to war purposes than expand. If the Government has a hand in expansion, the industrialist fears loss of independence. Expansion gives rise to two serious labor problems: (1) That of finding workpeople at all and (2) that of finding the kind of workpeople who, under labor union rules, are eligible for the jobs made available through expansion.

James R. Wilkinson  
American Consul

JRW:mec

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WASHINGTON

Reply refer to  
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Enclosure:

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General TUCKER,  
Birmingham, England, March 7, 1940.

CONFIDENTIAL

Subject: British Shadow Factories.

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and the manager of the Birmingham branch of a nationally  
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JRW:mec



OFFICE OF THE DIRECTOR

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## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 9, 1940

### MEMORANDUM FOR THE SECRETARY

General Brett, accompanied by Major Lyons, called upon me this morning concerning the policy covering the release and production of restricted planes. Briefly, he stated that under the policy presently being pursued the Army had delayed deliveries of planes in order that earlier deliveries might be made to the Allies. He specifically asked the answer to the following three points:

- A - Should the present procedure be continued concerning deliveries to the Allies?
- B - Should steps be taken to accelerate deliveries to the Allies?
- C - Should steps be taken to accelerate deliveries to the Army Air Corps?

These three points appear to have been raised as a result of the incidents in Europe last night. To me it appears that the answer to B is one of policy which will have to be determined.

In addition, it occurs to me that there will sooner or later be raised the question of the status of contracts recently made in this country by Sweden and Norway. There is attached hereto a memorandum concerning these, based on information obtained from representatives of Sweden and Norway, as well as manufacturers with whom they have made contracts.

*H. J. Folger*



OFFICE OF THE DIRECTOR

## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 9, 1940

## MEMORANDUM FOR THE SECRETARY

There is given below a statement concerning contracts recently concluded in this country by representatives of Sweden and Norway which is self-explanatory.

	Sweden	Norway
Airplanes, Engines & Accessories	8,856,000	7,735,742
Equipment	350,316	
Ammunition	349,900	
Toluol	87,500	
Motor Benzol	187,500	
Gas Masks	670,000	
<b>TOTAL</b>	<b>10,501,216</b>	<b>7,735,742</b>



April 9, 1940

I called Assistant Secretary Louis Johnson about a quarter to seven. I opened the conversation by saying to him that in view of the fact that the Allies were coming to my office at 10:15 tomorrow morning could he drop in and see me. He said he was having a meeting in his office at 8 o'clock tomorrow morning at which time he hoped to get the whole thing straightened out and could he come to my office at 9:30. I said I would be delighted to see him at that time.

I told him that Mr. Purvis was coming to my office at 10:15 tomorrow and were they ready to let the Allies have what they wanted. He said, "No". He said he was having all kinds of trouble with Woodring; that he had not yet been able to get Woodring to agree to release the General Electric supercharger. He said he had been misled by the Air Corps in regard to the supercharger and that, after great difficulty, he had secured a letter from the General Electric which stated that if this supercharger got into the possession of an enemy it would take them at least two years to reproduce it. Therefore, he (Johnson) saw no reason why we shouldn't release it. I asked him if there were any other troubles and he said yes, that Woodring wanted to get out a five page letter as to procedure and he (Johnson) thought this was all damn nonsense.

Johnson said that he expected to go down and see the President when he came in on the train and, while he had never done anything to undermine his superior (Ha Ha Ha), did I think he should tell the President about his difficulties.

I told him that when the President gave me a job to do if anybody put any obstacles in my way I told the President about it.

Johnson said, "Well you are putting me on the spot" and I said, No, I am just trying to find out where we stand and I should think by now you know that I am simply carrying out the President's wishes". So he said that was what he was trying to do.

April 9, 1940.  
12:12 p.m.

Operator: Go ahead.

H.M.Jr: Harry?

Captain

Collins: Yes sir.

H.M.Jr: Have you got your dope?

C: Well now, I haven't it up to the moment. The situation is this, I've put so much heat on those people over there this morning, it isn't even funny. Those two pieces of paper that I spoke of this morning are in Louis Johnson's office and as late as seven minutes ago why I talked with Colonel Hines of the Clearance Committee and Colonel Burns is personally down there in Johnson's office now trying to wrench these pieces of paper loose.

H.M.Jr: Oh!

C: And George Brett, General Brett is going to call me. He also has gone up there and I'm expecting to hear from him momentarily and the moment I get any word from him I'll let you know. Now if Johnson has got to go to lunch and let them go why we might have to put some - heat somewhere else on him.

H.M.Jr: Yes.

C: That's the way it stands right now.

H.M.Jr: Well, if you could let me know after two o'clock it'll be time enough.

C: Aye aye sir, I've got two memorandums for you.

H.M.Jr: On this?

C: No, on another matter that Brett discussed this morning, and very briefly this is, he brings up three points.

H.M.Jr: Yes.

C: Whether they are to continue the present schedule which of course as you remember, permitted delays in their program whether they should take any action to expedite the deliveries to the Allies or whether,

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in view of what happened last night, there should be a new policy determined as to whether maybe Arnold ought not to build up his own air force in a hurry, and he left those things with me, said those are matters that concern to Arnold this morning. He told me they had a discussion there for some hour and a half.

- H.M.Jr: Well, I think nobody can answer that but the President.
- C: That's right.
- H.M.Jr: But I know what the answer will be.
- C: Yes.
- H.M.Jr: I mean I'm sure the answer will be to let the Allies have what we said we were going to have, I wouldn't change it one bit.
- C: In other words maintain a status qua on that.
- H.M.Jr: I - I wouldn't change the program one bit.
- C: Yes.
- H.M.Jr: Hell, we haven't even gone through with that.
- C: That's perfectly true.
- H.M.Jr: My answer would be just to let the thing go through as is. Now, if the President wants to accelerate it, that's something else, but I - if for instance, as I understand now, the Curtis P-40, the Army has five hundred odd on order.
- C: Five thirty four.
- H.M.Jr: They were going to take two hundred themselves, give the rest to the English.
- C: That's right, three thirty-four.
- H.M.Jr: Well, I don't think they ought to do any more than that.
- C: Yes. Well, then of course comes the P-46 into it, too.
- H.M.Jr: Well -



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- C: Which is under discussion.
- H.M.Jr: That's good. I don't know what capacity the Curtis plant is, I mean - did they expand any with French money?
- C: Yes indeed. Well you didn't see that plant did you? No, there's a foreign extension on there, on the north side of that plant where the foreign ships are being built.
- H.M.Jr: I see. Well this may interest you, you may know. I had a very nice talk with Bob Hinckley this morning, who's just back from the West coast.
- C: Yes sir.
- H.M.Jr: And he saw Douglas, and Douglas told him that if he gets this order, he's going to divide it up, I mean the order that he gets between Bowingand -
- C: Yes, that's  
That's what Douglas thought when Bob was out there, but in the meantime why the Army exercised their option on the Bowings and in the meantime the English have become interested in the B-24 which is a fleet - the roof fleet consolidated bomber.
- H.M.Jr: I see. Is that two engine or four engine?
- C: Four engine.
- H.M.Jr: I see.
- C: And I've just - I've been driven frantic by these manufacturers this morning because they're just at a - they're at a stop gap.
- H.M.Jr: Well are they - have you - are they up to the point that they're waiting on the Army?
- C: Practically. Practically up to that point. Now I would suggest that we let this ride 'til two, because maybe by that time I've had Brett and I've had Hines and Burns is working on him, and I've been on top of McMorland.
- H.M.Jr: Where the hell is Woodring?

C: Oh I don't know sir.

H.M.Jr: He's out of town.

C: I don't even know whether he's in Washington, but he isn't figuring in this at all. This is a - this whole argument now is swinging around in legal status of two pieces of paper which were simply informal memoranda leading up to the execution of a change order which of course is another contract.

H.M.Jr: Well my own horseback opinion is to let the program go through as is and get the damned thing started.

C: That's what I think. And of course - now wait a minute - this, those three points I gave you are Hap Arnold's idea, that doesn't come out of the War Department. Incidentally he's been taken out of circulation on this foreign deal.

H.M.Jr: Has he?

C: Practically, because Brett is handling the whole thing.

H.M.Jr: How did that happen?

C: I don't know but Brett told me this morning that he's consulting with them and Hap is in the position of consultant now but that's very complimentary.

H.M.Jr: Well I told the President twice that I got wonderful cooperation from Brett.

C: That's right.

H.M.Jr: I told him that two different times.

C: Now in that connection, I spoke to him also about going out. He said he had planned a trip to the West coast but if you desire to go about the 16th, 17th or 18th, he'd be very happy to change his plans and go along with you.

H.M.Jr: Well, that is fairly definite now.

C: For the 18th.

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H.M.Jr: No, I'll tell you in a minute.

C: All right.

H.M.Jr: The 18th is a Thursday.

C: Yes.

H.M.Jr: And I would plan, of course, this is only if the President goes away.

C: Yes.

H.M.Jr: If the President stays here I won't, but if the President should go to Warm Springs as he planned on the 18th, that I'd like to go to Indianapolis on the 19th.

C: I see. Well I'll tell him that.

H.M.Jr: See. But it isn't important enough for him to postpone his trip.

C: He said he'd be very happy to do it because he'd love to be there when you're in his territory out there. That day particularly. And he'd be very happy, he said, to postpone his trip for a few days. He was going to the coast and it might be just as well to keep him here until we get this thing tied up tight anyhow. I told him that this morning.

H.M.Jr: I'd be going on the 19th.

C: Well I'll tell him that, and he can make his plans.

H.M.Jr: That'd be - I'd leave in the morning.

C: Yes sir.

H.M.Jr: Thank you. I'll hear from you after two.

C: Aye aye sir, I'll phone you then.



April 9, 1940.  
2:18 p.m.

H.M.Jr: Hello.

Operator: Captain Collins.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello.

Captain  
Collins: Mr. Secretary?

H.M.Jr: Yes.

C: That matter is supposed to be O.K'd by Louis and be all washed up by three p.m., in Brett's hands.

H.M.Jr: Yes.

C: So I guess we're off to a fair start on it, and I'm right behind him, he's to phone me the moment that it is received by him and if he doesn't get it by three, then I'll get in touch with you.

H.M.Jr: If he doesn't get it.

C: If he doesn't get it by three.

H.M.Jr: Did you talk to Purvis today?

C: No sir, I have not.

H.M.Jr: Do you know when he's coming?

C: Oh, I talked with him last night.

H.M.Jr: Yes.

C: For ten-fifteen tomorrow.

H.M.Jr: What's that?

C: Ten-fifteen tomorrow.

H.M.Jr: Well I want to talk to him, but I'm going to talk to him then. O.K.

C: All right. Now I sent you two memos, because I didn't

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know I'd be tied up here.

H.M.Jr: Right.

C: One of them was the one I read, the other was concerned with the orders with Sweden and Denmark.

H.M.Jr: O.K.

C: Sweden and Norway.

H.M.Jr: Thank you.

C: You're welcome sir.

H.M.Jr: Hello.

C: Yes sir.

H.M.Jr: What's doing in Sweden and Norway?

C: Well I just showed what contracts they had made here.

H.M.Jr: I see.

C: Just for information only, that's the best information I have on it. Of course I don't know what they did - they'd done outside of our Mission here.

H.M.Jr: Thank you.

C: You're welcome sir.

April 9, 1940.  
2:51 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis. Go ahead.

H.M.Jr: Hello.  
Arthur  
Purvis: Good afternoon, Mr. Secretary.

H.M.Jr: How are you?

P: Very well thank you. Have you had a good holiday?

H.M.Jr: Yes I have.

P: I was very glad to hear that.

H.M.Jr: Mr. Purvis, the reason I'm calling is, I thought I would tell you a few of the things that I had in mind.

P: Yes.

H.M.Jr: Which you might be prepared to answer tomorrow.

P: Yes.

H.M.Jr: Now what I'm principally interested in is to know how far along you are with one or any of the manufacturers of planes or engines up to the point of signing the contract, you see?

P: I will come posted with that and I might in this way that I - we are a little, we are genuinely anxious and a little worried and delighted that you are back in order to keep something on the rail that we just have a little feeling might be getting off the rail. I think I can explain that to better advantage tomorrow.

H.M.Jr: Well -

P: When I can get a few minutes with you particularly.

H.M.Jr: Yes. Well what I am wondering is this, are you up to the point of signing, are you waiting on the War Department or aren't you ready yet?

P: At every point we are awaiting action on releases in connection with those things. We are in the period



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of real delay. We've moved up on everything that we can move up. We have sent letters of commitment to Curtis-Wright for engines, to General Motors for engines and are now, I think, in the closing stages of a similar letter of commitment. I'm speaking about capital expansion things to the - Pratt and Whitney, with the idea that we pledge ourselves to pay them certain sums whatever happens to the program, in order to get progress. Those letters have been signed to Curtis-Wright and to Allison Motors.

H.M.Jr: Well that is both for motors.

P: Yes. Now that is only engines. On the planes, our -

H.M.Jr: May I interrupt please?

P: What I wanted to talk to you about.

H.M.Jr: May I interrupt a moment?

P: Yes.

H.M.Jr: Please. Well, in connection with Curtis-Wright and Allison, are you waiting on the War Department for anything on that?

P: We don't have to there, so we've gone right ahead. There is nothing in that which requires War Department action.

H.M.Jr: Right. Now, I mean, so in that case you're not waiting on the War Department.

P: We are in regard to our plane negotiations.

H.M.Jr: So.

P: We are finding a reluctance on the part of manufacturers to talk with us and we of course are absolutely without knowledge as to what the War Department wants in the matter. They are only communicating with industrial companies as to their wishes. We are, therefore, only hearing in regard to their wishes, through a third party which makes it extremely difficult and which has brought us into the situation of concrete delays in the last few days.

H.M.Jr: Only the last few days.

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P: Well I think the last week.

H.M.Jr: Well, now, could you do this for me. When you come down give me a summary on what you propose to do with each of the engine people.

P: Yes.

H.M.Jr: I mean a piece of paper on Allison, one on Curtis-Wright and a separate piece of paper on Pratt and Whitney.

P: Yes.

H.M.Jr: And if you could give me a piece of paper saying, "Well now, we want to buy so many planes from such and such a company of such and such a type."

P: Yes.

H.M.Jr: You see?

P: Yes.

H.M.Jr: And we are prepared to buy so many planes made by "X" manufacturers and somebody but - I mean, in other words, get it down so I know where it is, so that I could, if necessary, take it from that point.

P: Yes.

H.M.Jr: You see?

P: There will be only one minor difficulty and that is that in connection with the program we are certain questions as to proportion of types will depend upon what can be done with individual manufacturers, and we have been, as I say, we can't get to grips with them until we know a little more, until the War Department declare their hand a little more definitely. But I will do my best along that line to give you everything we can give it as of this date.

H.M.Jr: Well, let me ask you this. Would it be helpful at the talk if somebody from the War Department was present or not?

P: I think it might be very helpful.

H.M.Jr: Huhhuh.

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P: It's really a question as to whether it might also be helpful to have Self and Plevin there.

H.M.Jr: Well why don't we do this. I think it would be good to have Self and Plevin.

P: Yes.

H.M.Jr: We could meet in the morning.

P: Yes.

H.M.Jr: You tell me what your story is.

P: Yes.

H.M.Jr: And after I see it let me give you my best diagnosis of how to go forward.

P: Exactly.

H.M.Jr: See?

P: I think that would be extremely helpful because really we're looking to guidance from you, and as I say, are really worried for the time being.

H.M.Jr: What about

P: Joaquin is, well he's just been working along with them. Would you like him to come along?

H.M.Jr: I mean -

P: Would you leave that to our judgment?

H.M.Jr: Entirely.

P: Exactly.

H.M.Jr: Now another question. When you come down tomorrow, will you be prepared. You remember when you spoke to me at Sea Island you said that you'd be hearing as to the different types.

P: Yes.

H.M.Jr: Which you might want, due to the fact of new developments during the last three or four weeks of fighting.



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P: Yes.

H.M.Jr: Have you received that information.

P: We have in general the distribution that they would like subject to the usual negotiations. We will have information of that regard when we get there.

H.M.Jr: I see. Well then with that on hand I'll listen to your story and then after I hear it, I'll give you the best advice that I have.

P: Thank you ever so much. We really need it.

H.M.Jr: And I - I don't look, personally if I know what you want.

P: Yes.

H.M.Jr: I don't look for any trouble.

P: No.

H.M.Jr: But you people will have to tell me what you want.

P: Yes. Our difficulty, as I see, in the main, at the minute is that we read in the papers that the Army had certain things in mind in regard to this matter. They are not telling us what they have in their mind, they are telling manufacturers. We are getting the usual varied and rather disquieting reaction that you get when you're dealing through third parties on a policy which in a way I think, we would, we had hoped to get from them direct. I mean if we know what they want it's much easier for us to formulate our views than hearing different versions of it with some rather highly colored details from different people.

H.M.Jr: Well I think it's a little bit also what you people want to really buy.

P: Pardon?

H.M.Jr: What you really want to purchase.

P: Well that we know.

H.M.Jr: You do.

- P: Yes we do. I mean since I spoke with you we received a list of what we would like to buy as an ideal but naturally if one manufacturer, for instance, in actual negotiations, which we haven't been able to have because of this difficulty, but if we find that there are some restrictions on what he can do in such and such a line. We can change a program if it is fluid to the extent that we can change it between types to some extent in order to take care of the maximum output capacity desirability of handling things. That is really the point. We know what we would like to get.
- H.M.Jr: But Collins hasn't been able to get to you what the War Department is willing to release.
- P: And he has not been able to give us any official release and he has not been able to acquaint us directly with what the Army really have in the back of their minds. We have had to rely upon press notices, notices in the press. And what we feel is that the letter he did write us was rather obviously a letter, I mean this is speaking rather between you and me, but it was rather obviously a letter that had been written for him to sign and we couldn't, it didn't get us very far. I asked him whether, when we received that letter, it meant that we were free to go ahead or whether we still had to wait for official statements from him and he said, "You still have to wait".
- H.M.Jr: I see. Well, I hope that tomorrow we can clean it up because it's been dragging along much too long.
- P: Yes, and frankly, I think that for that very reason, our people are getting a little nervous especially in view of developments which really make prompt action more than ever necessary.
- H.M.Jr: Well that's what it seems to me to be the case.
- P: Yes. Well now we feel in<sup>a</sup> way, I can't tell you, there was a feeling of definite relief yesterday, when we knew you were back.
- H.M.Jr: Thank you.
- P: It's a feeling that the guiding hand will be there again. It really meant something to Self, Plevin and myself.

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H.M.Jr: Good. Thank you.

P: Thank you sir.

H.M.Jr: Goodbye.

P: Goodbye.



April 9, 1940  
4:12 p.m.

H.M.Jr: Hello.

Harry  
Collins: Listen, Johnson didn't get back this afternoon  
and that's to be signed tomorrow morning.

H.M.Jr: Oh. He did not get back?

C: No. He's on some conference presumably all day  
and they didn't expect him back.

H.M.Jr: I see.

C: So I -- I had that click about three-thirty and I  
told Brett why there was nothing more he could do  
about it and nothing more anyone could do.

H.M.Jr: Yeah.

C: So these people that represented the manufacturers  
are staying in town over night.

H.M.Jr: Why can't he clear that?

C: Oh, I don't know, sir. To me it's all a mystery.  
It doesn't amount to anything one way or the other  
and I think tomorrow if -- if he doesn't sign it  
by nine-thirty I'm going to give you a kick and  
let's see if you can't put some.....

H.M.Jr: Do you suppose he's waiting to see the President  
tonight?

C: He might be at that.

H.M.Jr: What?

C: He's been running away all day today.

H.M.Jr: I -- you know, the President gets in at eight.

C: Yes, sir.

H.M.Jr: I think that he may be waiting.

C: That might be it.

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H.M.Jr: Well, what has he told his men?

C: Who, he?

H.M.Jr: Yes.

C: Well, he didn't tell them anything. They don't even know where he is. They said he went out on a conference this morning and apparently this must be rather important. They didn't expect him back this afternoon.

H.M.Jr: I wonder if I should call him up or not?

C: I don't think I'd do it, sir. It's too late now. It's after four o'clock, you see, and until half past nine is a short time and these boys have got to stay in town anyhow now.

H.M.Jr: Well, why does -- what are they waiting for?

C: Well, they want to -- they want to sign these -- sign these two agreements so they can get over and talk and actually talk terms, with the British and the French.

H.M.Jr: I see. They have to sign -- he has to sign what?

C: He has to approve, or he is holding up for approval on his own part these two memorandums I spoke of this morning.

H.M.Jr: Yeah. Giving the manufacturers permission?

C: Well, giving them permission to actually negotiate, yes, sir. It isn't giving them permission. In those they agree to -- first of all to negotiate for a changed order and then they agree to accept a changed order after negotiation and bring the contract in, you see, before they finally execute it.

H.M.Jr: I see.

C: It doesn't -- it doesn't amount to a great deal except we've lost so darn much time with it.

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H.M.Jr: I see. Well, I think maybe he's waiting to see the President tonight.

C: Well, that -- that might be it.

H.M.Jr: He always goes down to the train.

C: Yes, sir.

H.M.Jr: I think I'll wait until in the morning.

C: Aye, aye, sir. Well then I'll be in touch with you by phone before I come over in the morning because I'm going to get hot on their necks tomorrow morning early.

H.M.Jr: All right.

C: All right, sir. Goodbye.



GROUP MEETING  
(Discussion confined to  
European situation)

April 9, 1940.  
9:00 a.m.

Present: Mr. Foley  
Mr. White  
Mr. Graves  
Mr. Harris  
Mr. Sullivan  
Mr. Gaston  
Mr. Cotton  
Mr. Thompson  
Mr. Schwarz  
Mr. Cochran  
Mr. Haas  
Mr. Cairns  
Captain Puleston  
Mrs. Klotz

H.M.Jr: Just for the record, at 7:30 I talked to Sumner Welles. I left word when he woke up to call me and he said he talked to the President last night and at that time they were figuring on trying to keep a channel open for our steamers to go through to Scandinavia, but that of course the situation had changed entirely as of this morning. I then asked him that whatever they - I pointed out to him that this question, once they decided what was combat - I don't know what the legal term is, but Huntington can tell us.

Cairns: Combat zone.

H.M.Jr: And would he please hand it to me direct, and he said he would. Then I got Basil Harris at 25 minutes of 8:00 and asked him to find out whether there were any steamers sailing today for Scandinavia, with the idea of holding them up. Now, what have you been able to do about it?

Harris: Well, we have sent wires to every port that might possibly have a boat. At that hour it was a little difficult to get any information, but I can't find that there is any boat scheduled to sail before Thursday. Naturally, we will hold it up and we have

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got plenty of time on it, but I will have my answers in from the ports in a very few minutes now, but I don't think there is anything scheduled to sail in the next 48 hours.

Now, I am also trying to find out what might have sailed on Saturday. I don't know whether perhaps you might want to recall any ship by wireless.

H.M.Jr: You don't mind if I ask Huntington, do you?

Foley: Certainly not.

H.M.Jr: Huntington, did we do that in September?

Cairns: No, the Act contained an exception for any boats that had already sailed.

H.M.Jr: Meaning that --

Cairns: They could continue.

H.M.Jr: Well now, Huntington, what else is there that we can do until the State Department advises us?

Cairns: I think that is the whole story.

H.M.Jr: Because Mr. Welles said he had talked with the Maritime Commission and it is not up to the Maritime Commission.

Cairns: The principal item would be the combat zone, which I suppose they will redefine.

H.M.Jr: If it is correct that - I wasn't well last night so I was up all night anyway and I listened to the radio. I didn't get to bed all night. There is no question, according to the radio, that Denmark, who has a nonaggression pact with Germany, has been taken over by Germany, but it isn't clear what has happened in Norway, except it seems as though Norway declared war on Germany, but it isn't clear, the remarks, statements aren't clear. I have heard both United Press and Associated Press.

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- Cairns: There will have to be a series of Presidential proclamations which we will communicate to Customs offices as soon as they are issued.
- H.M.Jr: Who draws those up?
- Cairns: In September they were drawn up by Treasury, State, Justice, Navy and Commerce.
- H.M.Jr: There is a committee?
- Cairns: Yes.
- H.M.Jr: Headed by who?
- Cairns: Berle. The new proclamations will be quite simple.
- H.M.Jr: If Norway has declared war on Germany, then Bergen is out, isn't it?
- Gaston: When we get a proclamation.
- H.M.Jr: No, but I mean from the standpoint recommendation, my position, if anybody asks me.
- Cairns: Asks you --
- H.M.Jr: Well, what do I think?
- Cairns: Oh, I should certainly think so. The test is danger. Is there any danger there? It seems you have got to say yes.
- Harris: That might have been true the moment the mine fields were sown.
- Gaston: The test heretofore has been a country at war. We have automatically included within the combat zones all the areas of the countries at war, so I suppose following the President's --
- Cairns: Well, not entirely, because we left the South Coast of France open because we thought there was no danger. Boats going to Marseilles, for example. The combat zone does not extend into the Mediterranean.



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White: Who has determined whether there is danger or not?

Cairns: We took the advice of the Navy in September.

White: Who did the decision rest with?

Cairns: The State Department and Treasury. At least, the Treasury didn't make the decision, we participated in it. It is really the responsibility of the State Department.

H.M.Jr: Well, does anybody know whether the port of Bergen is mined, outside of Bergen?

Cairns: I couldn't tell from the New York papers.

Puleston: No, sir, I don't think that was.

H.M.Jr: Have you got that map showing the area of the war zone?

Puleston: Yes, I have got that down in my office.

H.M.Jr: Send for it, will you?

Gaston: I understand Bergen is actually occupied by the Germans.

Puleston: Bergen is occupied, according to the paper.

White: We are having prepared a memorandum on the consequences of the invasion of Norway on the United States and they are very important consequences on us.

H.M.Jr: How?

White: On our economic situation here. It will shift a lot of the sources of imports of goods - Great Britain will have to turn in large part to us. Norway has been very important and that has consequences in England's armament program that will affect us very directly and the indirect defense in the Balkans, and so on. There are a whole chain of circumstances. It will be

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ready in about two hours, but I think they are very important.

H.M.Jr: But that --

White: Oh no, no responsibility.

H.M.Jr: Well, I am just trying to get - the first thing was whether any ships were sailing.

Harris: I think you have got a further problem.

H.M.Jr: Go ahead, Basil.

Harris: If, as somebody says, Bergen is occupied, then you have got to find any ships that are well on the way and divert them. They can't walk right in to Bergen if she is occupied by Germany.

White: Did you find out why the ship turned around?

Harris: No, I have sent a wire to that one. That was on the West Coast.

Cotton: Won't the British stop all the ships going to Scandinavia?

Gaston: The general manager announced that they got word of the seizure of these other ships, the Mayakovsky and the other one, and they decided they wouldn't take a chance and he ordered the ship home.

H.M.Jr: Am I not correct that our responsibility, the Treasury proper - doesn't our responsibility cease once we give a clearance of papers to a ship and she sails? We don't have any responsibility once a ship under the American flag goes on the high seas. Would that be the Maritime Commission?

Cairns: It would be Commerce. We don't give clearance. Commerce gives that.

H.M.Jr: Don't we act on that?

Cairns: No, our Collectors act for them.

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- H.M.Jr: Yes, but you fellows acted around here as though you were running the show.
- Cairns: With Commerce, you see.
- H.M.Jr: You certainly gave me the impression you were acting. But I mean, once - answer my question. Once the ship has left the New York harbor and is on the high seas, do I, as Secretary of the Treasury, or Harris, as Commissioner of Customs, have any responsibility?
- Cairns: No.
- H.M.Jr: And on the clearance we simply act for Commerce?
- Cairns: Yes.
- Harris: You have only this responsibility if through your State Department or some other source of information, you know of danger, naturally it is certainly up to the Government to tip that ship off not to proceed.
- H.M.Jr: True, but I am talking about the Treasury. I am just trying to clear myself.
- Harris: I don't think you have any.
- Gaston: I don't think there is any specific Treasury Department responsibility. It is more the State Department. It is a general Governmental responsibility if the ship should be seized.
- H.M.Jr: I am just trying to find out what there is for me to do as of today, that is all.
- Cairns: I don't think there is any more than the lines you have initiated, to find out what vessels plan to go.
- H.M.Jr: Do you think of anything, Eddie?
- Foley: No.
- Cotton: Shouldn't you reconstitute that committee so as to be ready to define a new combat zone?



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Cairns: That committee has never been disbanded. It meets regularly every month on general neutrality questions.

H.M.Jr: Well then, the main thing, Basil, is to get to these as fast as you can and if there are any ships which are contemplating sailing --

Harris: I have gone even further. I have given them instructions not to clear any ship for Bergen or one of those ports without getting confirmation from us.

H.M.Jr: For Bergen?

Harris: Yes.

Cairns: We will have to get out new instructions to the Collectors if the President says Norway is at war with Germany.

Harris: That is right.

Cairns: We will have to telegraph instructions, because the neutrality act will automatically apply to those countries as being at war.

H.M.Jr: What map did you bring up?

Puleston: They are bringing it up now.

H.M.Jr: What is that map you have?

Puleston: I can show you approximately what it is on this.

H.M.Jr: We have got a thousand dollars worth of maps for Puleston. Let's see if he can produce them. I would like to get a little dividend.

Puleston: Here are the mined areas (indicating), the mines laid day before yesterday. Whether the Germans have laid any or not - but those are the ones announced by the British.

H.M.Jr: Who represented the Treasury on the so-called neutrality committee?

Cairns: I did.

White: Did you get any advance notice on this, Captain?

H.M.Jr: Yes, he got it to me before lunch.

Puleston: That will give you the best picture of the whole situation. I think that came from....

H.M.Jr: Herbert, got anything else?

Gaston: I don't see that there is anything except this powwow of this committee. It is mainly outside of our jurisdiction, except that we are asked for information.

White: Is there anything possibly in the balance of Norway's dollar balances that they may have which the Germans may - is there anything we have to do there?

Cochran: The balances of both Norway - well, Norway, Sweden and Denmark are all fairly high, considering their resources.

H.M.Jr: Let's have Denmark first.

Cochran: It is with the Federal Reserve Bank in New York, four million dollars in balance, 22 million in gold.

H.M.Jr: Four million in cash and 22 million in gold? .

Cochran: That is a good part of the gold reserve.

H.M.Jr: Now, what do we do about that, freeze it?

Cochran: No, do nothing for the present. We have been talking to Federal already this morning and they would certainly hesitate to do anything if a demand came in for payment.

H.M.Jr: Why don't I tell George Harrison not to do anything today? Supposing the Germans work fast and send in a check for 22 million dollars. We had one that time for Czechoslovakia.

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Foley: He won't pay it.

H.M.Jr: Well, I might go on record.

Cochran: I think it might be well to talk to him, because they have occupied the wireless and everything else in Copenhagen.

Gaston: Somebody ought to talk to the Danish Minister on this problem.

H.M.Jr: I could freeze this for today. Denmark, now how about Sweden?

Cochran: Sweden has 80 million in cash.

H.M.Jr: Eighty million?

Cochran: Yes, sir. Forty-eight in gold. Norway, 24 million in cash and 14 in gold and there is quite a bit on the water from Sweden.

H.M.Jr: How much on the water?

Cochran: I haven't checked that figure.

H.M.Jr: Finland? Have you told your boys, Basil, to see if that stuff comes in to bring it right in to you?

Harris: Yes, they will let me know immediately.

Cochran: Finland has 8 $\frac{1}{2}$  in gold and 17 in dollars.

White: Does that include the credits?

Cochran: No. That, I haven't checked this morning. The others I checked this morning.

H.M.Jr: I think I will get hold of George Harrison and just tell him not to do anything on the Danish gold until we can turn around.

Cotton: If they were stopping boats going there, who would actually send the wire? Would we send them or the Navy?



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Cairns: It depends where the vessel is.

Cotton: I should think there is a governmental responsibility there. It probably isn't the Treasury's, but it is somebody's.

H.M.Jr: Maritime Commission.

Cairns: It would be either Treasury or Commerce.

H.M.Jr: Would it be Maritime, though?

Cairns: They might know where the vessel is, but they wouldn't have the authority to stop it.

Gaston: Wouldn't it be the State Department, if it is a non-Maritime Commission vessel?

H.M.Jr: Isn't it easy to find out what ships have sailed in the last ten days?

Harris: That, I haven't started on. I only took things that are about to sail.

H.M.Jr: Use the phone outside. What ships have sailed for Bergen, or let's say Scandinavia, during the last ten days?

Cairns: Bergen is the only port.

H.M.Jr: They might go to Narvik.

White: Why do you confine your suggestions to Denmark? It seems to me that Norway should be included until you have more information, because there is more apt to be some activity in anticipation. You might even push it further and take Sweden until you hear from the Swedish Government as to how you can best cooperate with them, because there might be all kinds of --

H.M.Jr: I hope this isn't a signal for an understanding that Russia will move into Finland.

Cochran: I don't believe it was in the papers, but it was on the ticker that Germany has demanded

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that Yugoslavia, Hungary, Bulgaria and Rumania accept German river police along the entire length of the Danube. That probably follows that report about the British dynamite ship.

H.M.Jr: You sent me yesterday, but I didn't try to memorize the figure, what proportion of that Swedish iron ore goes through Bothnia, and then they have a Swedish iron ore mine in southern Sweden. Have you got that?

Puleston: Yes. Most of that comes via Narvik and not on the inside and the railroad line isn't sufficient to divert it so that they will have to depend on what they get inside through the Gulf of Bothnia, but the big point was that at the rate the war was going then, they really were not dependent on that ore. They could get enough ore without that. Of course, if they really start a war, they will need all of it and then the pinch will commence at once.

H.M.Jr: But I remember the figure that the total production of Swedish iron ore is 12 million tons.

Puleston: I think that is just about right.

H.M.Jr: Aren't there two iron ore districts?

Puleston: Yes.

H.M.Jr: There is one up north --

Puleston: One up north that comes out by the Atlantic.

Gaston: That northern region is the high-grade ore that is pretty essential to them.

Puleston: That is the largest volume, too.

H.M.Jr: Just to switch a minute, I had Collins at the house this morning and I told him to find out just where this order is. You see, the Army hasn't yet signed the order definitely making it impossible to release the planes and he is going to let me know later on. The order is all ready to sign and Louis Johnson left town.

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- White: With reference to Harrison, do you have in mind possibly you and he getting together with that committee he has? This should affect the other banks even more than the Reserve banks.
- H.M.Jr: I will talk to him and see what he says. He is on his way down there.
- Cochran: I don't believe I should include Sweden unless we get some further word, just Denmark and Norway.
- White: I was thinking only of helping Sweden, possibly, to conserve some transfers. There must be a good deal of concern and worry there. There may be private balances. In other words, it seems to me at a time like this we ought to cooperate with the Government authority as much as we legitimately can. I don't know if they want us to do it.
- H.M.Jr: What is that head of the western division's name?
- Foley: Pierrepont Moffat.
- White: Has the Exchange reacted this morning?
- Cochran: Yes, it has reacted. It went down to 3.50 for a while. It closed at 3.55 last night and it is back to 3.52 $\frac{1}{2}$ . But shares are down all over in Amsterdam, Paris, and the new British loan is discounted  $1\frac{1}{4}$  percent this morning. Both the British and French Cabinets are meeting at 10:00 o'clock.
- H.M.Jr: It would be nice to have an issue of a Government bond today.
- Cochran: Do you remember Dr. Somary, who was in last fall? He came to see me last night and he has just come from Italy 11 days ago and he heard there was quite a concentration of troops along the French line and that France had sent down troops opposing this. There is worry in Switzerland lest this might be for the purpose of diverting the attention of France to the south for something along the center.



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H.M.Jr: I had a report last night, but it didn't mention that. It was a lot of other stuff. Well, I think I was very kind. I only got you people here at 9:00 when I couldn't sleep all night.

Harris: There are about six American ships involved - that is what we have at the moment.

H.M.Jr: Six?

Harris: Two are in Norwegian waters at the moment. I will have their position in an hour or so, exact position. One is due to arrive at Bergen --

H.M.Jr: Wait a minute.

Harris: Two in Norwegian waters. One is due to arrive April 12 and the fourth sailed from New York April 7.

H.M.Jr: Evidently somebody had been working.

Harris: Yes. Now, in addition to that there is a man named Stockard who is a charterer and who has one American boat chartered and it is now in Norwegian waters.

(Telephone conversation with Pierrepont Moffat follows:)

April 9, 1940  
9:28 a.m.

HMJr: Hello.

Operator: Mr. Moffat.

HMJr: Hello.

Jay P. Moffat: Yes, Mr. Secretary.

HMJr: How are you?

M: Well, I'm not awfully cheerful, but.....

HMJr: No, well, I didn't think you would be.

Mr. Moffat, I've already talked to Mr. Welles this morning.

M: Yes, about the ships.

HMJr: Yes. Are you with him now?

M: No, no, I've just come upstairs.

HMJr: Oh. What I wanted to ask you was this. We're thinking now in terms of these balances that these countries have on hand.

M: Yes.

HMJr: What is the status, as far as you know, of Norway right now?

M: As far as we know, we have the telegram from Mrs. Harriman in which she quotes the foreign minister as saying that Norway is at war with Germany.

HMJr: I see.

M: But it was a telegram that was obviously sent off in a terrific hurry in the middle of the night.

HMJr: Yes.

M: And before acting on it, even to the degree of -- of working out neutrality proclamations and

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extending laws and all, we want to confirm their legal status.

HMJr: I see.

M: We are trying to find out if the Norwegian Minister has heard through the wireless, which is still working; if not we are going to try and get in touch with them via Stockholm because the telephone connections still seem to be open there.

HMJr: I see.

M: But we -- we want confirmation before we act.

HMJr: Is there any truth that the German troops have landed on -- in Norway?

M: Apparently there is.

HMJr: I see.

M: But it's a little vague as to just where. They still -- the Germans are claiming to have occupied Bergen, and the Oslo people seem to believe that they have landed at Christiansand and various places down that southwest coast.

HMJr: I see.

M: We've just had a telegram in from Ray Atherton, the first we have been able to get through.

HMJr: Yes.

M: And he says, "Conditions quiet. Center of city patrolled by German soldiers. Understand German troops advancing north in Jutland."

HMJr: Where -- Atherton.....

M: Atherton is in Copenhagen.

HMJr: And what did he say?

M: "Conditions quiet. Center of city patrolled by German soldiers. Understand German troops advancing north in Jutland."



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HMJr: I see.

M: And Mrs. Harriman herself has followed the Norwegian Government, which has moved to a place called -- I think it's Hamar , which is 30 or some miles north of Norway.....

HMJr: I see.

M: ..... -- north of Oslo.

HMJr: Yes.

M: But -- and she has evacuated all the wives and children of our people inland, that is leaving the rest of the staff in Oslo. Apparently the German planes are overhead but they have not done any bombing as yet.

HMJr: Is -- and as to the status of Sweden?

M: I talked to them at 5:15 our time this morning and they said that while there was naturally intense excitement that no move that they knew of had been made towards Sweden.

HMJr: I see.

M: And we did have a sort of an unconfirmed report a day and a half ago that if a move such as has taken place did materialize, the present German plans were not to attack Sweden. Now, I -- don't take that for more than what it is, a rumor, but it was interesting.

HMJr: And is anything happening in any other part of Europe.

M: Not that -- not that we are aware of.

HMJr: Not that we -- Italy isn't moving?

M: No, apparently not.

HMJr: I see. Are you worried about Italy moving at this time?

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- M: I would be inclined to think that they would wait and see who is definitely coming out on top before moving.
- HMJr: In other words, they are going to be Italian.
- M: (Laughs) Well, if we -- if we get anything would you like me to call you up through Mrs. Klotz? Off and on through the day?
- HMJr: Call me direct.
- M: All right. Thanks.
- HMJr: Thank you very much.

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H.M.Jr: I am just going to get Knoke until this fellow comes.

Cochran: Knoke is out of town. Sproul is in charge.

H.M.Jr: Now, what more on these boats? One sailed from New York April 7.

Harris: Then a man named Stockard has an American ship under charter, which is now in Norwegian waters. He has another one that is due to depart in a few days.

H.M.Jr: That isn't the one - two ships. How do you spell that?

Harris: I am not sure, but I think it is Stockard.

H.M.Jr: He has one in Norwegian waters?

Harris: Yes, and one loading now to sail in a few days.

White: These include ships to Denmark, don't they?

Harris: I haven't touched Denmark, but I don't think any American ships have been going to Denmark, so you have nothing to worry about on that.

Cairns: They can't go to Denmark.

H.M.Jr: Six ships in all?

Harris: Six ships in all.

(Telephone conversation with Allan Sproul follows:)



April 9, 1940  
9:34 a.m.

HMJr: Hello.

Allan  
Sproul: Good morning, Mr. Secretary.

HMJr: Hello, Allan. Allan, I tried to get ahold of  
S: George Harrison and he's between the bank and his house.

Yeah.

HMJr: Now, until he gets down there I'm going to ask you  
to freeze the Norwegian and Danish accounts.

S: All right.

HMJr: What? Hello?

S: Yeah.

HMJr: Will you do that?

S: Yeah.

HMJr: Just freeze them.

S: Yeah.

HMJr: They've got -- our figures are Denmark has 4 million  
in cash and 22 million in gold, and Norway 24 in  
cash and 14 in gold.

S: Yeah.

HMJr: And you might think about talking to the other  
banks and -- through this committee of yours.  
You see?

S: I think we ought to do that.

HMJr: I think you ought to get ahold of that and I think  
you ought to work very fast.

S: Yeah.

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HMJr: So that somebody doesn't pull a fast one on you.

S: Right.

HMJr: See?

S: All right.

HMJr: I mean, so that you can freeze them all over town and that's just for 24 hours and of course on a voluntary basis, you understand.

S: Sure.

HMJr: See?

S: All right.

HMJr: But will you go to work on that pending George's getting down.

S: Right away.

HMJr: Because George may stop at a beauty shop or something on the way down.

S: (Laughs) He's a married man now.

HMJr: That's what I mean.

S: Well, we'll get right to work on it.

HM<sup>J</sup>r: Well, I guess he'd stop on his way home, wouldn't he?

S: Yeah. (Laughter)

HMJr: O. K.

S: All right.

HMJr: All right.

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Puleston: (Indicating on map) These are just the British mines. That is the southern part of Norway, Christiansand, and this is the furtherest north, right up here by Norway.

H.M.Jr: Let's just leave this here.

(Telephone conversation with Sumner Welles follows:)



April 9, 1940.  
9:36 a.m.

H.M.Jr: - I have my crowd here.  
Sumner  
Welles: Yes.

H.M.Jr: And I want to tell you what we've done to date.

W: Yes.

H.M.Jr: No ship will sail for Bergen until we get word from the State Department.

W: Right.

H.M.Jr: That's number one. Number two, I've asked the Federal Reserve to get the various banks and themselves on a voluntary basis to freeze for twenty-four hours all the Danish and Norwegian accounts.

W: Yes.

H.M.Jr: You get it on the volunteer basis because I have no legal right to do it.

W: I understand.

H.M.Jr: And, you'll have to have a pencil, Denmark has four million in cash and twenty-two million in gold here, and Norway has twenty-four million in cash and fourteen million in gold.

W: Give me that again, Denmark four million cash and twenty-four in gold.

H.M.Jr: Twenty-two in gold.

W: Twenty-two in gold.

H.M.Jr: And Norway has twenty-four in cash and fourteen in gold.

W: I see.

H.M.Jr: Now I've asked them, that's the Central Bank you see?

W: Yes.

H.M.Jr: And as to the private banks we've gotten out word to ask them to freeze all accounts in private banks for twenty-four hours.

W: I see.

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H.M.Jr: That gives you a time to turn around, you see?

W: Exactly.

H.M.Jr: Now there are six ships. There are two U. S. ships in Norwegian waters.

W: Yes.

H.M.Jr: Did you know this?

W: Yes. I went into that last night.

H.M.Jr: And one due to arrive April 12th.

W: Yes.

H.M.Jr: You know that?

W: Yes. The McCormick people apparently have already sent instructions to the ships that are still on the high seas.

H.M.Jr: Now the other thing, in September, you most likely know, there was a so-called neutrality committee, of which I think Berle was chairman.

W: Well I technically was and then he took on that work.

H.M.Jr: Well anyway, our people are ready and - to sit in on that any time you want them to.

W: All right, if it's agreeable to you I'll ask him to take that on with your people then.

H.M.Jr: Fine. And then he can as before, if you happen to tell him, work with Gaston.

W: I will.

H.M.Jr: See?

W: Well that's tremendously helpful Henry, thanks. Let me tell you this. We have a telegram here stating that the Foreign Minister informed our Legation, early this morning, Foreign Minister to Norway, that Norway is at war with Germany.

H.M.Jr: I see.

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W: I'm trying to clarify that because I'm not sure that the words used were exactly correct.

H.M.Jr: Right.

W: And I assume that we will get an official statement today to the effect that a state of war exists. In that event of course, the President tonight, will have to invoke the neutrality law.

H.M.Jr: Yes.

W: And obviously the combat area will have to include the whole of Norway.

H.M.Jr: I see.

W: So I think that clarifies the situation far beyond last night.

H.M.Jr: Right.

W: As soon as I get this of course, I'll let you know.

H.M.Jr: Now there'll be no ship sail from any American port for Norway or Denmark pending our hearing from you.

W: All right.

H.M.Jr: I mean I've just stopped it.

W: All right.

H.M.Jr: I mean there'll be no ships sail for Norway or Denmark or Bergen.

W: I understand.

H.M.Jr: Until we hear from you.

W: All right Henry. I'm very much obliged and I'll ask Berle to get in touch with Gaston and have the meeting when it's necessary.

H.M.Jr: Have you got anything else? Can you think of anything else?

W: I don't think of another thing.



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H.M.Jr: As far as the Treasury goes.

W: I don't think of another thing. During the course of the day we'll get the necessary proclamation prepared for the President's signature tonight.

H.M.Jr: O.K.

W: Thanks a lot Henry.

H.M.Jr: You're welcome.

W: Goodbye.

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Harris: Now, Mr. Secretary, you realize that we have usurped the power of the Commerce Department in taking such action.

Gaston: I suppose we had better speak to Commerce.

Harris: I can clarify that with Johnson, all right.

H.M.Jr: You do it and tell Commerce you have done it. They will be very glad you have done it, because they most likely haven't come to their office yet. That is all right. In times like this I don't mind - I would rather be right and I think the thing to do is to call up whoever you call up.

Cairns: Johnson.

H.M.Jr: But Herbert is going to represent me in this thing now. If you let anybody else call you up at 2:00 in the morning, I am going to strangle you. Who do you call up in Commerce?

Gaston: Colonel Johnson, Assistant Secretary.

H.M.Jr: Is that who you call up?

Gaston: Yes. He refers us to someone else, but he is offended if we don't call him.

Harris: We have already talked with some others because Johnson hadn't arrived there yet.

Cotton: I take it from what Mr. Welles said they have done something about the boats already in Norwegian waters.

Schwarz: The owners have.

H.M.Jr: If not, the insurance company has.

Harris: We are checking in the Gulf. There might be a couple of cotton ships down there that might have gone, too. We will have word in a very few minutes.

Gaston: That man Stockard works for Moore and McCormick, doesn't he?

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Harris: He used to be.

H.M.Jr: I have installed upstairs a teletype machine and that is supposed to - you can use that in direct connection with any of your others. It doesn't have to go from Customs to teletype. I don't know how it gets over here, but there is a machine upstairs now which does that.

Harris: I have got them coming to Customs, because I was afraid it might come in and I would be in here. They get it over to me two seconds after it comes.

H.M.Jr: How do they get it over, by phone?

Harris: Yes.

H.M.Jr: Who has got any ideas?

Cochran: Just to report on sterling, it closed in Amsterdam at 3.52 $\frac{1}{2}$  and went to 3.52. In New York, it went to 3.44 $\frac{1}{2}$ .

H.M.Jr: I am available. Let's cut out that budget meeting today, although I might as well do it, because we can interrupt it. It is in half an hour. It won't take very long to tell me how big the deficit is. Puleston, do you think this is good or bad for the Allies?

Puleston: I think it is on the whole - I would say it was good.

H.M.Jr: Why?

Puleston: But it brings on a war and they have got to fight that war somewhere and if they can land troops in those - around Bergen and check the Germans and make bridge heads there, they can support the fighting comparatively easier than the Germans. I think that you have got to get Germany to fighting to win this war, make her spend both men and material. If I were running the British war, I would have started some kind of an attack on the western front just to bring on the fight there. You have got to bring on



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some fighting to win the war. You are not going to win it with pounds and francs.

(Telephone conversation with George Harrison follows:)

April 9, 1940.  
9:45 a.m.

H.M.Jr: Hello.

Operator: Mr. Harrison.

H.M.Jr: Hello.

George Harrison: Good morning Henry.

H.M.Jr: Hello George?

H: I'm glad to hear you're back.

H.M.Jr: I am too. You married fellows don't get down to work as early -

H: As a matter of fact, I had an engagement up town and I started to go for that until I saw what things were doing here, and I decided to come straight on down.

H.M.Jr: We old married men get down here at eight o'clock.

H: (laughs) Yes, different schedule entirely.

H.M.Jr: I know, I know. George?

H: Yes sir. It doesn't look too good this morning.

H.M.Jr: No. I talked to Alan Sproul and what I'd like you to do, if it's agreeable to you, and if you think well of it, is what we'd like to - on a voluntary basis, freeze the accounts of Denmark and Sweden that you have, you see.

H: Yes.

H.M.Jr: And two, have your committee get busy and do the same of any private accounts in any of the banks on a twenty-four hour basis, see?

H: Oh, you said Denmark and Sweden. Do you mean Norway?

H.M.Jr: I mean Norway and Sweden. I mean Denmark and Norway.

H: Yes.

H.M.Jr: I mean Denmark and Norway.

H: Yes.

H.M.Jr: Now the State Department has advised me one, that there are definitely German troops in Denmark, and two, that definitely, that Norway has declared war.

H: Yes.

H.M.Jr: And if we could do it, handle it the way you handled the thing in Chechoslovakia, you remember?

H: Yes.

H.M.Jr: On the same basis.

H: Yes.

H.M.Jr: But this will just be on a day to day basis, I'm only asking you to do it now for twenty-four hours.

H: Yes. I understand.

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

H: Yes. What I thought I would do Henry would be to call my committee together right away.

H.M.Jr: Right.

H: And - that's my foreign exchange committee.

H.M.Jr: Right.

H: And talk to them, because now that's just the kind of thing they'd be most useful in.

H.M.Jr: Correct.

H: First rate.

H.M.Jr: And would you - I mean but you agree with me as to the necessity of doing this for twenty-four hours.

H: Well I think it would be very wise to do it. I don't think it'll amount to awfully much anyway. I doubt if there'd be much going on with any of those funds, but I think it'd be a good procedure to do it.

H.M.Jr: Well now for instance, I see that London, the British banks suspended all dealings in Danish and Norwegian currencies.



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H: Yes.

H.M.Jr: I mean that's what the London banks did.

H: Yes. Well that'll be virtually what'll happen here.

H.M.Jr: Well -

H: And your suggestion goes not only to the national banks of those two countries but to all funds.

H.M.Jr: All funds for twenty-four hours.

H: Yes. Except, I should think, if there are commitments for Americans that will need funds for pre-existing contracts we will have to let them go through with those.

H.M.Jr: Well I'd take a look at them first.

H: Yes. Oh sure.

H.M.Jr: Right.

H: Oh sure.

H.M.Jr: Right.

H: All right, we'll get right at it.

H.M.Jr: Will you keep me advised George?

H: I'll be very glad to.

H.M.Jr: Thank you.

H: I was sorry to miss you Sunday. I stopped by to see you.

H.M.Jr: Well -

H: I called you up but they tell me you didn't get back until the next day.

H.M.Jr: That's right. And any time that we can get together, I'd like to. I'm at your disposal.

H: All right. Thank you very much. Well I wanted to

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tell you, I'm probably pretty well committed on that thing as of sometime in the summer.

H.M.Jr: Oh really.

H: Yes I had to go ahead with it, but I want to talk to you about it anyway.

H.M.Jr: Well I'd like to George.

H: All right.

H.M.Jr: I'm available any time.

H: Thank you very much.

H.M.Jr: Goodbye.

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H.M.Jr: What else, gentlemen?

Cochran: Those are just the central bank balances and not the Federal. I didn't give you the balances of the Federal.

H.M.Jr: We can get the rest of them.

Cochran: Yes, I have them.

H.M.Jr: O. K., I am available on this.



April 9, 1940.  
10:35 a.m.

Operator: Go ahead.  
George  
Harrison: Hello Henry.

H.M.Jr: Yes.

H: I have the foreign exchange committee in the next room.

H.M.Jr: Good.

H: And they are very agreeable to doing what we had in mind, what you suggested.

H.M.Jr: Fine.

H: And they want to go a little further.

H.M.Jr: So.

H: They would like to include Sweden and Finland and I think it's better because the tickers say that Sweden has been invaded, there's rumors about it, that they are mobilizing and one thing or another, and they think that if they just say the Scandinavian currencies it might be a more orderly stabilizing thing. Now all they mean by it is to cut out all future trading and to permit only such spot as is necessary to take care of bona fide demands of customers who have preexisting commitments.

H.M.Jr: Yes.

H: But I told them that I had a <sup>little</sup> hesitation about the Swedish and Finnish myself and that I'd find out whether you saw any objection to their going that far.

H.M.Jr: Well now, to the best of our information Sweden has not been invaded.

H: What's that?

H.M.Jr: It has not been invaded.

H: It has not.

H.M.Jr: No. Now, I just think this, if they'd do that, it's sort of, well it's kind of wishful thinking.

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- H: Well that was my argument.
- H.M.Jr: And if during the day. I mean I'm in constant touch with the State Department and they have direct communication with Sweden. They have no trouble hearing from Sweden.
- H: Yes.
- H.M.Jr: If they hear, then we could do something, but it seems to me that we're throwing unnecessary scare into the picture.
- H: Yes, well that was my reaction, and I'll tell them sir.
- H.M.Jr: Now what's your idea about publicity?
- H: Well what they would announce merely was that the committee had met and that for the moment, on a temporary basis, they had agreed among themselves that they would suspend trading in Danish and Norwegian currency, except of course the necessary demand of customers for preexisting commitments, or words somewhat to that effect.
- H.M.Jr: Would you think well of this, be perfectly frank, in order that we get off to a good start, I'm thinking out loud myself, to say that they'd done this after consultation with the Treasury.
- H: No, I think that would be very wise. After the consultation with the Treasury and the Federal Reserve Bank.
- H.M.Jr: You mean the Federal Reserve Bank of New York.
- H: Yes.
- H.M.Jr: What?
- H: Yes.
- H.M.Jr: What would you think of that?
- H: I think that's all right.
- H.M.Jr: After consultation with the Treasury and the Federal Reserve Bank of New York, the committee has decided to do so and so.

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H: Yes, I think that's right.

H.M.Jr: What?

H: Yes, I think that's better.

H.M.Jr: You think so.

H: Yes, I think it's all right.

H.M.Jr: It's all right with me. Now another thing -

H: If they have any objection to it I won't push it.

H.M.Jr: I should think that they'd like it.

H: I think they'd prefer to.

H.M.Jr: Now the other thing, I can't remember - did I last time or didn't I tell the Federal Reserve Board of Washington anything?

H: I don't know. I tried to get them all this morning. The only one I could find was Mr. Draper.

H.M.Jr: Oh!

H: They're <sup>there</sup>/~~now~~ I think. I think that you might or if you want I'll call them and say that at your suggestion I've called this committee together and this is what they've done.

H.M.Jr: Why not.

H: Yes.

H.M.Jr: Why not.

H: I'll do it that way.

H.M.Jr: All right.

H: Unless you'd rather do it, I don't care.

H.M.Jr: No, it would, better if they want to call me. Dan isn't here, it just means another telephone call.

H: All right, well I'll do it that way.



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H.M.Jr: Right.

H: And if you hear anything about the Swedish or Finnish thing, I'll tell them that you'll let us know at once.

H.M.Jr: Well both Welles and the man in charge of the Western Division, I can't think of his name, Pierrepont Moffatt. I'm in touch with both of them.

H: Yes.

H.M.Jr: So if either of them hear anything they'd let me know.

H: All right. Thank you.

H.M.Jr: Goodbye.

H: All right. Goodbye.

April 9, 1940.  
12:04 p.m.

H.M.Jr: Hello.

George Harrison: Henry, this is the announcement they're going to put on the ticker.

H.M.Jr: Please.

H: After a consultation with the Treasury Department and the Federal Reserve Bank of New York, the foreign exchange committee announced the suspension of exchange trading in Danish and Norwegian currency except for the ascertained legitimate needs of customers.

H.M.Jr: Good.

H: And I think that's all right.

H.M.Jr: Fine. That's fast work.

H: And it'll go out on the ticker .....

H.M.Jr: O.K. George. Well we all learn by experience.

H: (laughs) All right, and I'll call the Federal Reserve Board and let them know.

H.M.Jr: Righto.

H: Thank you.

H.M.Jr: Goodbye.

H: Sorry to bother you, but I thought at this time I'd like to check back with you.

H.M.Jr: Oh no, no. George listen, I'm sitting here, I haven't got anything that's nearly as important as this.

H: All right sir. Goodbye.

April 9, 1940.  
12:05 p.m.

H.M.Jr: Hello.

Operator: Mr. Harrison. Go ahead.

H.M.Jr: Hello.

George Harrison: Yes sir.

H.M.Jr: George?

H: Yes.

H.M.Jr: I've been sort of trying to follow the bond markets at this end, and I understand that there are institutions in the market who are buying.

H: That's right.

H.M.Jr: Now I'd like to leave it this way with you. If at any time there's a vacuum there or air pocket I wish you'd have it so that you could call me direct and let me know.

H: Well, I'll be glad to do that.

H.M.Jr: Will you George?

H: Yes, and I would expect to do it. Of course the first half hour or really the first hour was just so much confusion that you couldn't formulate any opinion at all.

H.M.Jr: Yes.

H: But when it got off half to three-quarters a great many buyers that came in, in fact even before they took effect on the market, there were a great many inquiries from the bigger savings banks and insurance companies for big blocks which couldn't be found.

H.M.Jr: Right.

H: The only offerings were small blocks scattered around and the quotations were fairly nominal. On the whole I think it's very extraordinary the way it's behaved.

H.M.Jr: George, the President is calling me.



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H: Yes.

H.M.Jr: And let's leave it this way. If anything happens, disturbs you, call me will you?

H: I'll do it directly.

H.M.Jr: All right if I hang up?

H: Yes. First rate.

April 9, 1940.  
12:55 p.m.

H.M.Jr: Hello.

Operator: Mr. Ransom. Go ahead.

H.M.Jr: Hello Ronald?

Ronald  
Ransom: How are you today?

H.M.Jr: I'm pretty well, and you?

R: I'm well thank you. The news is bad today, isn't it?

H.M.Jr: Yes.

R: I wanted to tell you that Marriner was sick at home, he's had a little upset, sort of kidney and bladder thing that seems to be under the general head of this sort of so-called intestinal flu that's been attacking the community, so that he is at home but can talk over the phone. I'll be here.

H.M.Jr: Yes.

R: Until Thursday night when we have a scheduled meeting with the chairman of our Boards in Sea Island.

H.M.Jr: So I heard.

R: But we, of course, if this situation is as cloudy as it gives promise of being, there will be the members of the executive committee of the open market committee here.

H.M.Jr: Yes.

R: But I thought I would like to establish a contact with you so that if you wanted to call us you knew you could reach me up to that time, and as Marriner probably can't go, although we don't want to say anything about that at the present time, he and some other members of the Board would be here and would be available.

H.M.Jr: We're watching the bond market, they tell me, up to now, there's nothing to do, there's good support from the outside.

R: It isn't disorderly, obviously.

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H.M.Jr: So I sincerely hope that you people won't go into it without first talking to me.

R: Yes.

H.M.Jr: And I'll do the same to you.

R: Yes. Well, I think in these situations as they develop, the important thing is to keep the contact between the two agencies.

H.M.Jr: Yes, before we do something.

R: Yes.

H.M.Jr: Well I'm glad you called and I'm available at any time.

R: Thank you.

H.M.Jr: If I have anything that bothers me I'll call you.

R: Thank you very much.

H.M.Jr: All right. Thank you.



April 9, 1940.  
2:15 p.m.

H.M.Jr: Hello.

Operator: Mr. Sproul. Go ahead.

H.M.Jr: Hello.

Alan  
Sproul: Hello Mr. Secretary.

H.M.Jr: Yes Alan.

S: I thought you might like to know about Government security markets that have been acting beautifully today.

H.M.Jr: Good.

S: Right now it's improving a little. It's up - the longer ones are up five or six-thirty seconds from their lows. They were off a point about at the lows, and the market tells us there's plenty of buying power around. The dealers have substantial unsold orders but they're not reaching for them, they're not trying to avoid pushing prices. Insurance companies and the big banks have been on the buy-side. The selling has come from scattered small institutions over the middle west and far west particularly. The only - there hasn't - there's been very little doing in the shorter bonds and in the notes except for the new three quarters which are for sale but there most of the sales are against swaps, they want to sell the notes and buy some of the longer issues and they're doing their selling first and going to do their buying when they've completed some of the selling. But even there the market has taken care of it and handling itself very well.

H.M.Jr: Thank you very much.

S: On the exchanges there's nothing doing in Danish and Norwegian, pretty well closed down. The other exchanges have been under some pressure but nothing serious or alarming.

H.M.Jr: Any comment on my statement on the British pound?

S: At your conference yesterday?

H.M.Jr: Yes.

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S: Yes. And that it was favorably received and shows that no great concern or worry at the moment about what's happened to the pound.

H.M.Jr: I can't find any.

S: No.

H.M.Jr: I can't find any.

S: Well I think that was what the market felt beforehand and they felt your statement confirmed it.

H.M.Jr: O.K. Let me know if anything happens.

S: All right.

H.M.Jr: Thank you.

April 9, 1940.  
2:34 p.m.

H.M.Jr: Hello.

Operator: Mr. Ransom. Go ahead.  
Ronald

Ransom: All right.

H.M.Jr: Ronald?

R: Yes.

H.M.Jr: If for any reason you can't reach me while, during the next two weeks, while Bell is away.

R: Yes.

H.M.Jr: On the Government bond market.

R: Yes.

H.M.Jr: Do you know Eddie Bartelt?

R: No. I know who he is.

H.M.Jr: Well, I'll send him over to shake hands and say hello.

R: Will you do that?

H.M.Jr: When could you see him?

R: Right now.

H.M.Jr: He'll come right over.

R: All right, thank you.

H.M.Jr: And - well, supposing he's there at three, I want -

R: That's all right.

H.M.Jr: He'll be there at three o'clock.

R: That's fine.

H.M.Jr: And if any time you can't reach me -

R: Communicate with him.

H.M.Jr: He's the boy to reach.



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R: I'll do that.

H.M.Jr: Please.

R: Fine.

April 9, 1940.  
2:35 p.m.

H.M.Jr: Hello.

Operator: Mr. Sproul. Go ahead.

H.M.Jr: Hello.

Alan  
Sproul: Hello.

H.M.Jr: Alan?

S: Yes.

H.M.Jr: If for any reason you can't reach me during the next two weeks, while Bell is away, Eddie Bartelt is going to look after the Government bond market for me.

S: Eddie who?

H.M.Jr: Bartelt.

S: Bartelt.

H.M.Jr: Yes.

S: How do you spell that?

H.M.Jr: B-a-r-t-e-l-t.

S: B-a-r-t-e-l-t.

H.M.Jr: (aside: What's your title Eddie?)

S: All right, if I can get you I'll get in touch with him.

H.M.Jr: He's Commissioner of Accounts and Deposits, the same position that Bell held.

S: Yes.

H.M.Jr: You see?

S: Yes.

H.M.Jr: I mean he's Commissioner of Accounts and Deposits, he's taken Bell's place.

S: Right.

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H.M.Jr: And if for any reason you can't reach me, talk to him.

S: I'll do that.

H.M.Jr: Please.

S: I was talking to Rouse at Dallas about noon, and Dan was evidently in the room, so I said hello to him too.

H.M.Jr: Yes.

S: He asked how things were going and he said that you knew where he was and where he could be reached and he was at your service, but he said you knew that.

H.M.Jr: Dan has earned his two weeks and I want him to stay away.

S: Well -

H.M.Jr: He can't run the bond market from Dallas.

S: No. Well he just, as you would expect, felt some concern, but he knew that you knew where he was and if you wanted him you'd call him.

H.M.Jr: That's true.

S: O.K. All right. Thank you.



April 9, 1940.  
3:00 p.m.

H.M.Jr: Yes.

Operator: Go ahead.

H.M.Jr: Hello.

Daniel W. Bell: Hello.

H.M.Jr: How's the climate down there?

B: Sir?

H.M.Jr: How's the climate down there?

B: The climate is pretty good. It isn't real hot. It's kind of cool, but it's very nice.

H.M.Jr: Uh-huh.

B: It looks like this fellow Hitler is cutting up a little.

H.M.Jr: He sure is.

B: Anything you want of me? Do you want me to come back?

H.M.Jr: No, I just -- I just want a little -- some of these understudies, I don't know where they are.

B: Well, I expect that Hadley would take care of that situation while I was away.

H.M.Jr: Yes, but who would he talk to? Supposing I was sick. I was sick all last night.

B: Uh-huh.

H.M.Jr: And if I hadn't showed up this morning, who would he have talked to?

B: Well, he'd have to talk to whoever is Acting Secretary.

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

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B: If you weren't there then it would have to be Gaston.

H.M.Jr: Well, and what the hell does Gaston know about Government bonds?

B: Well, I don't think we've got very many people around the Treasury that follow the Government bond market. It's too spasmodic for them.

H.M.Jr: Yeah. Well, I wasn't going to call you, but I just felt that -- a man by the name of -- he used to be Commissioner of Accounts and Deposits, always told me there should always be a Civil Service fellow around that knew everything that I was doing.

B: (Laughs) That knew about it.

H.M.Jr: Yeah.

B: Knew about it.

H.M.Jr: Knew about it.

B: Yeah.

H.M.Jr: And when I wanted somebody to know about it I was kind of high and dry. So.....

B: Well, you see the reason why I don't want to go away on a vacation.

H.M.Jr: Well, you -- you're all right. I'm going to use Eddie Bartelt. And.....

B: Yeah. Unfortunately Eddie doesn't follow the market.

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

B: Mostly he can probably keep you advised of what's going on through Hadley.

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

B: You see, he's out of touch with the market.

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H.M.Jr: No, but he'll be in touch. The point -- the point is I don't know Batchelder and I can't.....

B: .....three, four or five months. He can keep you advised what's going on.

H.M.Jr: Well, I can't -- I can't -- I haven't got time to get acquainted with Batchelder.

B: Well, he's new. I just brought him down. He'll be all right in a few months but.....

H.M.Jr: Well, I'll let you.....

B: .....he's been there a little over a month.

H.M.Jr: I don't mind breaking in a a pair of new shoes for my son, but I don't want to do it for you.

B: Well, I'm sorry that you had to contact him at this time.

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

B: At this early date.

H.M.Jr: Who?

B: Batchelder.

H.M.Jr: Well, Eddie Bartelt can take care of it for two weeks. I don't want you to come back. I want you to get a rest.

B: I'll come back any time you want me.

H.M.Jr: If I need you, Dan, I'll send for you, and don't hang on the telephone. And if I need you I'll let you know.

B: Well, O.K. You do that, will you?

H.M.Jr: I won't hesitate to send for you, but.....

B: And my secretary there knows where she can get me.

H.M.Jr: But nobody around here seems to know anything about Government bonds, and we had a bad day, and then



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things recovered, and after they recovered I sent for Norman Thompson and said, "Well, who would look after it if I wasn't here?"

B: Uh-huh. Did he say Batchelder?

H.M.Jr: Yeah.

B: He did?

H.M.Jr: Yeah.

B: Well, I would rely on Hadley for that, and the other fellows around there at the present time can't do much more than report to you what Hadley finds out.

H.M.Jr: Well, if you don't mind, while you're gone I'm going to use Eddie Bartelt, who I know.

B: That's perfectly all right.

H.M.Jr: And then when you come back you can continue to break in Batchelder, but I don't want to break him in.

B: Well, I -- I, of course, wouldn't want you to. That's quite a task to ask of you.

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

B: Well, the market seems to be pretty good.

H.M.Jr: Well, she snapped back on her own and she's all right.

B: Yeah.

H.M.Jr: And I've -- I've fixed it up, but.....

B: Bob Rouse, you know, is here with me.

H.M.Jr: He is?

B: And he's been -- we've talked to -- he's talked to Allan Sproul this morning several times.

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H.M.Jr: And you said hello to Allan.

B: And I said hello to Allan. And.....

H.M.Jr: I know.

B: .....when he talked to you that I was available to come back. I intended to call you tonight.

H.M.Jr: Now if I want you, Dan, I won't hesitate to call you, but now don't worry and if I give some of the boys around here hell after the crisis is over, that's my privilege.

B: That's right.

H.M.Jr: And they shouldn't run and call you up and tell you right away.

B: Well, I was going to call you this evening to see whether or not you wanted me to take this night plane out of here. There's one leaving at twelve o'clock.

H.M.Jr: No, I don't.

B: It gets me in there tomorrow morning.

H.M.Jr: No. We're all right so far.

B: Um-hm. Well, we're certainly enjoying these conferences and I think everybody is getting a lot of good out of them.

H.M.Jr: All right. Now, don't drink too much grapefruit juice.

B: .....different way of doing business.

H.M.Jr: Don't drink.....

B: .....very helpful.

H.M.Jr: All right.

B: All right.

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H.M.Jr: Don't get into any crap games.  
B: Well, I don't shoot very good crap.  
H.M.Jr: O. K.  
B: All right.  
H.M.Jr: Goodbye.



April 9, 1940  
3:14 p.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

George  
Harrison: Henry?

H.M.Jr: Yes.

H: On the whole we've had a pretty good market most  
of the day.

H.M.Jr: So I heard from Allan Sproul.

H: Prices have drifted off.....

H.M.Jr: Yeah.

H: .....a little in the last fifteen or twenty minutes.

H.M.Jr: Yeah.

H: And they're down again now to about the lows of the  
day.

H.M.Jr: I see.

H: They had gone up, oh, as much as six-thirty-seconds  
above the low. But the market is still orderly  
even though it looks as though it might drift a  
little lower between now and four o'clock. It  
has been, on the whole, a moderately heavy day.

H.M.Jr: Yeah.

H: But there are no big blocks of anything hanging  
over the market.

H.M.Jr: Good.

H: Except a few notes where somebody is ready to sell  
at a price.

- 2 -

H.M.Jr: Uh-huh.

H: And I don't think they're to worry about anyway.

H.M.Jr: Well, nobody's getting the itch to buy anything, are they, the Board or.....

H: Oh, it has been pretty heavy and there have been pretty active purchases most of the day by savings banks and insurance companies.

H.M.Jr: No, I mean -- I mean your friends down here in Washington on the Federal Reserve Board.

H: Oh, lord no. No, on the contrary they've been very well satisfied with it.

H.M.Jr: Good. Good.

H: No, I haven't heard anybody suggest it and I haven't certainly.

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

H: Well, I just wanted you to know how it is and, as I say, it may go lower between now and four, although the dealers will close down at four.

H.M.Jr: All right. And everything all right on those two countries on the foreign exchange?

H: Well, you saw the announcement.

H.M.Jr: Yes, it read very well.

H: And I thought it read all right.

H.M.Jr: Fine.

H: I let your Reserve Board people know about it.

H.M.Jr: Good.

H: So I think we covered everything.

H.M.Jr: All right.

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H: All right, Henry.  
H.M.Jr: Thank you for calling.  
H: Goodbye.



April 9, 1940  
3:30 p.m.

Operator: He's over in Mr. Cochran's office.

H.M.Jr: What office?

O: Mr. -- wait a minute. (Pause)  
Mr. Cochran's office. I'll get him.

H.M.Jr: Which Cochran?

O: Here in Wash -- in our building. Merle Cochran.

H.M.Jr: Oh.

O: (Laughs) I thought it was Tom Corcoran, too.

H.M.Jr: Merle?

O: Yes, just a minute.  
(Pause)  
Mr. Foley.

Ed  
Foley: Yes, Mr. Secretary.

H.M.Jr: Have you heard from Cahill how he's getting along  
with the Schenk case?

F: No, I haven't. I'll check up and give you a  
report.

H.M.Jr: Could you not only do that but check up on the  
whole Twentieth Century Fox business?

F: Yeah, I'll give you a report on the whole thing.

H.M.Jr: On the whole business. I mean, just where it  
stands. I think there were four divisions of it  
as I remember.

F: That's right.

H.M.Jr: And I -- I'd like a report on it.

- 2 -

F: All right.

H.M.Jr: Reasonably soon.

F: Yeah, I'll do it right away.

H.M.Jr: And then a little later I want to see you.

F: O. K. Goodbye.

April 9, 1940  
4:05 p.m.

Operator: I'm getting Mr. Gaston or for you. (Pause)

H.M.Jr: Hello.

O: I have Mr. Gaston for you.

H.M.Jr: Thanks. Hello.

Herbert  
Gaston: Yes.

H.M.Jr: Herbert.....

G: Yes.

H.M.Jr: .....I wish you'd hold yourself responsible to have the people ready tonight in case the President does get out another proclamation and we have to get word to the Customs people.

G: Yes. Yes.

H.M.Jr: I wish you'd notify the various people.

G: Yes. Yes.

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

G: Yeah, Feidler -- Feidler is at work drafting a telegram now to go to Customs and I'll see that the people stand by, both Coast Guard and Customs, to transmit it.

H.M.Jr: And -- and let Basil Harris do a little -- I mean, there's no reason why he shouldn't hold up his own end.

G: Yeah. Yeah.

H.M.Jr: If there's something to do tonight why shouldn't he be around.

G: Yeah. All right, I'll -- I'll handle it through Basil.



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- H.W.Jr: Yes. I mean, this idea that -- I mean, he says to me four days a week, you know.
- G: Yes. Did you know that Huntington Cairns had gone to the hospital for an appendicitis operation this afternoon?
- H.W.Jr: No, I didn't know that.
- G: 5:30 this afternoon.
- H.W.Jr: I'm sorry.
- G: On that -- on that financial matter, do you want to make any decision this afternoon about getting anybody together?
- H.W.Jr: No. I mean, it's all taken care of. All the things are blocked. They have all been taken care of. There was an announcement on the ticker. I did it through George Harrison.
- G: Uh-huh. Well, they're blocked, but as to -- as to the mechanics for what is -- what transfers are going to be permitted, and so on, in the future, or is it just a temporary arrangement?
- H.W.Jr: This is simply a 24-hour arrangement.
- G: Yeah. Uh-huh.
- H.W.Jr: And I don't want to do anything for a day or so. But I -- I'm going to handle it myself and you can tell that to Berle.
- G: Yeah.
- H.W.Jr: It's all taken care of, early this morning.
- G: Yes, I told him that. I told him that you had temporarily stopped the thing and that -- and that I thought that you would want to handle it directly yourself.
- H.W.Jr: And -- there was an announcement on the ticker on it, you see, that after consultation with the Treasury, the Federal Reserve of New York.....

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G: Uh-huh.

H.M.Jr: .....the foreign exchange committee -- Mr. -- whatever his name is, announced, and so forth and so on.

G: The foreign exchange committee?

H.M.Jr: Yes.

G: In New York?

H.M.Jr: Yeah.

G: Uh-huh.

H.M.Jr: So that's taken care of.

G: Yeah.

H.M.Jr: But if Berle wants to talk to me about it tell him to come over and see me.

G: Yeah, yeah. But as far as any other steps are concerned, why you'll -- You'll call any meetings on your own initiative.

H.M.Jr: It's -- there are no meetings to call, Herbert.

G: Well, I thought you would want to work out a method as to just -- as to what payments you would authorize, and.....

H.M.Jr: We have authorized those which were made before this. We're paying those now.

G: Well then there's the question of the continuing expenses of the legations and the consulates, and I suppose there may be some other transactions come up that -- that you would want to pass on.

H.M.Jr: Well, I think that when we get that I think I'll just handle it between Harrison and myself.

G: Yeah. Uh-huh.

H.M.Jr: And Werle Cochran. I don't seem to need anything, and if I'm in doubt about anything why I'd -- it

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affects the legation or consulate, I can ask the State Department.

G: Yeah, yeah.

H.M.Jr: I think we'll just let the thing.....

G: Just let it.....

H.M.Jr: I don't need any committee.

G: Well, they'll come to you anyway.

H.M.Jr: Well, it should.

G: Yeah. I mean to say when if their -- when their fingers get pinched they'll -- the.....

H.M.Jr: If they can't get some money they'll come to me.

G: They'll come to you, yes. Yeah.

H.M.Jr: It's not -- it's not very complicated.

G: Yeah. Um-hm.

H.M.Jr: I'm not much of a fellow on committees, as you know.

G: Yeah, yeah.

H.M.Jr: But let's see, huh?

G: Yeah, yeah.

H.M.Jr: All right?

G: All right.

H.M.Jr: I'll be home tonight.

G: Uh-huh. How are you feeling?

H.M.Jr: I feel a little better, thanks.

G: Uh-huh. That's good.

H.M.Jr: But you -- you tell Basil Harris to be available and let him handle some of this stuff, Herbert.



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G: Yes. Well, he will.

H.M.Jr: I mean, there's no reason why you should have to do it all.

G: Yes, yes. The things, as far as clearances are concerned, they're all held up for the minute, so I suppose we could get out the telegrams tomorrow morning, but if it's cleared tonight it would be better to get it out tonight and have it on their desks the first thing in the morning.

H.M.Jr: I think so.

G: Yeah, yeah.

H.M.Jr: I think so.

G: Right.

Pres. called at  
9.45 - Tues. P. M. (approx)

I called ~~gaston~~  
told him <sup>to</sup>  
regulations in Hemlock  
at Murray ready  
by mine.

Called Harris  
no transactions  
without my seeing them

\*COPY

15 Broad Street  
New York

9th April 1940.

Dear Mr. Cochran,

Your message from the Secretary has been moving a good deal in my mind since you gave it to me.

What I have arrived at since the inevitable publicity of 17th February when the first vesting order was issued, is that my operations should retreat into quietude and even obscurity, so that if possible, people interested in the market might rather forget about me or at least lose interest in me. That aim has, I think, been pretty well attained, as it is only rarely that there is any reference in the Press to British selling,—despite the figures. We are doing what we can to have the second vesting regarded as a piece of routine, so as to lessen interest in it.

Now on the same line of thought, I am rather nervous lest an announcement—it would have to be followed by successive announcements—that we had completed the sale of certain investments, would act as a stimulus to interest in what I was doing, and to undesirable inferences as to the other securities of which I am in charge. My own inclination is very strongly towards letting sleeping dogs lie, seeing that the market is in no present need of reassurance about what I am doing.

I should be grateful if you could find an opportunity to submit this point of view to Mr. Morgenthau. He has been so kind and helpful to me personally, and so wise in the advice he has given me, that I dislike not accepting his views at once. But I feel rather strongly that it may be dangerous to stimulate interest in my doings by periodical announcements of what has been accomplished.

Yours sincerely,

/s/ T. Carlyle Gifford



## RE PUBLIC DEBT

April 9, 1940.  
10:15 a.m.

Present: Mr. Sullivan  
Mr. Foley  
Mr. Bartelt  
Mr. Thompson  
Mr. Broughton

H.M.Jr: Sorry to keep you waiting. I am still waiting for a call from the President. If I can get it, I will ask you gentlemen to step out.

Sullivan: I made certain changes in that statement this morning in view of what happened.

H.M.Jr: I am not going to read it, so --

Sullivan: I understand, sir. I will take that copy and mark the deletions.

H.M.Jr: Please. Well, how are you debt boys getting along?

Broughton: All right.

H.M.Jr: Who is going to talk, who knows what the debt is?

Foley: Eddie.

Bartelt: I could make a general statement, Mr. Secretary.

H.M.Jr: Go ahead, Eddie.

Bartelt: On the basis of the figures in 1941 budget, the deficit on June 30 would have been within 62 millions of the 45 billion dollar limitation.

H.M.Jr: Say that again, slowly.

Bartelt: On the basis of the 1941 budget, the debt at the end of 1941 would have been within 62 millions of the 45 billion dollar limitation. This was predicated on the assumption that there would be additional taxes of 460 million and the balance would run down to about 874 million.

On the basis of the improved tax collections in March, it now appears that the increased

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revenue, plus reductions in expenditures, will just about equal the 460 million dollar tax as recommended in the 1941 budget. The balance of the debt limitation on March 31, 1940, was 2 billion 257 million. On the basis of the cash position figures, that will be reduced by one billion 631 million by December 31, next, bringing the balance of the debt limitation to December 31, 1940, down to 636 millions of dollars.

Now, that is also predicated on the assumption that there will be about 200 million dollars of financing between this time and December 31. In other words, the picture looks a whole lot better now than it did.

E.M.Jr: Now look, what I would like you to do is this, and I would like to have it this afternoon. Never mind about the financing or anything else. I would like to write the President a letter along these lines, simply saying that based on your budget, counting on taxes and counting on the 700 million dollars, you see, the picture looks now as of December 31, 1940, as follows, and as of April 1, 1941, as follows, and December 31, 1941, as follows, and then have them under the line, see.

Bartelt: Yes.

E.M.Jr: And then - because we have no reason to believe that he isn't going to - I say this goes on the assumption we are going to get 460 million new taxes and the 700 million dollars for the other thing, see. That doesn't - and then I wouldn't say anything about the working balance. Now, if you want to say something about the working balance in the same letter, which I don't think is up, you can say that as to the Treasury balance, figuring on refunding the June 15 notes, the 3 and 3/8ths - is that what they are?

Bartelt: Yes.

H.M.Jr: Refunding those into a note or a bond and not counting on asking for any additional money,

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our balance on December 31 would be how much?

(At this point a telephone conversation was held with Mr. George Harrison concerning Norwegian and Danish accounts in this country).

They wanted to include Sweden and Finland and I said no, because it just throws a scare into the people.

Go ahead, Eddie.

Bartelt: Mr. Secretary, I think your balance on December 31 would be pretty low if you eliminate all financing between now and the end of the year.

H.M.Jr: How low?

Bartelt: It will be down to 500 - well, it would be down to 556 millions.

H.M.Jr: All right, then I would add, "Therefore, it seems to me good business that between now and the 31st we borrow in the neighborhood of another 500 million dollars."

Bartelt: That would be 400 and 500?

H.M.Jr: I would say that between now and the first of the year we would borrow in the neighborhood of, or approximately, 500 million, depending on how fast the money is spent between now and the 31st of December, but that gives him a picture.

Bartelt: Do you want to say anything about the improved taxes, improved tax collections?

H.M.Jr: Yes. That comes in the first part, doesn't it?

Bartelt: Yes.

H.M.Jr: That affects the debt limit.

Bartelt: Yes.

H.M.Jr: That due to the improved tax revenue - and mention how much - we find that the debt limit will be on December 31 so much, and then underneath that



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on April 1, so much, and on June 30, so much.

Bartelt: That is of next year?

H.M.Jr: Yes.

Bartelt: 1941?

H.M.Jr: Yes, December 31, 1940, April 1, 1941, and June 30, 1941, and that is predicated on the two bases, one, that we get the 700 million from the Director of the Budget - and I would add in, "And to date we have not heard from the Director of the Budget."

Bartelt: I understand they are holding conferences right now and they do have some hopes of getting something.

H.M.Jr: I don't know what is the matter with that fellow. I would put it in, "And to date we have not been advised, although we met with him --" You can look up the date. It is over a month ago. Or is that rubbing it in a little bit too much?

Bartelt: I talked to the Budget yesterday on the telephone about it.

H.M.Jr: Well, anyway, you draft it. If you don't want it, don't put it in. And then go on and say that is one, that as to the cash balance, the picture is so and so between now and the 31st. But that affects the debt limit, doesn't it?

Bartelt: Well, it has a bearing on it.

H.M.Jr: Then you had better work it all in and say that without borrowing any money, our debt limit on December 31 will be so much and therefore it seems the part of caution or good business to figure --

Sullivan: Prudent.

H.M.Jr: Prudent is a good word. "It seems to me prudent to figure that we have to borrow a maximum of 500 million dollars between now and the 31st." That will change the picture of the debt limit, because that certainly would take care of us, wouldn't it?

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- Bartelt: Yes, I am quite sure it would.
- H.M.Jr: Then don't you think we ought to say something if we don't get the taxes, where it leaves us?
- Foley: Yes.
- H.M.Jr: If, on the other hand --
- Foley: There are no new taxes --
- H.M.Jr: ...there are no new taxes, the picture would look so and so.
- Bartelt: In case you don't get the 460?
- H.M.Jr: Now, if you could do it - the President doesn't like to have too long letters. I would like to have two columns. One, on the top you say 700 million and 460 million dollars taxes, then the next column, 700 million dollars, no taxes. And then the third column, if we don't get the 700 million dollars, but all on those three periods, December 31, April 1, June 30. Then he would have it right there before him. Is that a good idea?
- Foley: Yes, so he could draw the three conclusions.
- H.M.Jr: You could say, based on column one, the thing is so and so and based on column two, so and so, and on column three, so and so. I think he ought to have that. If it gets in tonight, I think I would like to have that on his desk tomorrow morning. I think we have done everything, haven't we?
- Broughton: I think so.
- H.M.Jr: It gives him the three things. Now, before we send it, how about having Harold Smith's fellow who does debt over there, Lawton, take a look at it, the letter?
- Bartelt: Yes.
- H.M.Jr: Let Lawton take a look at it. Let him come over here. Do you know him well enough?

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Thompson: Oh yes, he is all right.

H.M.Jr: Let Lawton come over and take a look at the letter. That gives him the whole picture, doesn't it?

Sullivan: I should think so.

Foley: Where is the 700 million coming from?

Bartelt: That is the capital of these various corporations, credit agencies, to reduce their capital.

H.M.Jr: Farm Credit and Jesse Jones.

Thompson: There was a resolution passed in the Senate yesterday, calling on the Budget to reduce those.

H.M.Jr: I will read it to you.

"The Senate, after a short but spirited debate, passed a resolution demanding that the Budget Bureau submit information on the lists of Federal credit corporations whose capital funds are to be reduced.

"President Roosevelt said in his 1941 budget message that 700 million dollars in excess of various Government corporations would be turned back into the Treasury as part of the program to avoid an increase in the statutory 45 billion dollar debt limit.

"Senator Byrd, sponsor of the resolution, revealed that on January 12 he wrote Budget Director Smith asking for detailed information concerning this move and Smith replied he was unable to supply it.

"Byrd said on the floor that Smith offered to give him the information later, in confidence, and the Senator rejected such a plan. He argued with majority leader Barkley, who sought in vain to soften the terms of the resolution.

"Does the Senator from Kentucky mean to say that the Congress is not entitled to this information?' Byrd asked at one point.



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"No, I didn't say that and the Senator from Virginia has no basis for such a statement," Barkley exploded."

How about attaching this to the letter, the resolution?

Foley: No.

H.M.Jr: Don't you think that covers the thing, the draft? It gives it to me, too.

Sullivan: As of April 4, the appropriations, according to the Senate measures, were 81 million dollars under the budget and according to the House votes, 290 million below the budget. That is as of April 4.

H.M.Jr: Well, do you think we ought to tell that to the President?

Sullivan: Well, I don't know. I don't know how much we want to complicate the general picture.

H.M.Jr: No, I think that is information he ought to have.

Sullivan: Well, I think it is significant because certainly he would be influential in the conferences which are going to determine whether the net result will be nearer the 290 million dollars or the 81 million.

H.M.Jr: I would put that in.

Bartelt: Would you like to tell him that this improvement in the tax revenue, plus these reductions in expenditures, will about equal the 460 million?

Sullivan: No, I wouldn't want to tell him that because there hasn't been any reduction.

H.M.Jr: No, but I would say, "For your information, I would like to draw your attention, as of April 4, the following was the situation, as in the Senate and the House," but I wouldn't - I would just put that in as a sentence - "For your additional information --" just for a sentence at the bottom, you see.

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Sullivan: Have you got those, Eddie? 290 in the House and 81 in the Senate.

H.M. Jr: O. K. Anybody got any other ideas? Can I sell you a few Norwegian bonds?

Treasury Department  
Division of Monetary Research

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16 April 1940

Date.....1939

To: Mr White

From: Hanson

Subject: The Inter-American Bank.

The American Ambassador in Brazil has been instructed to inform the Minister of Foreign Relations that Brazilian participation in the Bank is essential and vital.

*Uruguay has answered*



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 9, 1940

TO Mr. White

FROM Mr. Hanson

Subject: Status of the Inter-American Bank

1. Ten countries approved in principle, of which six are sure to join and four hesitated because they found the down-payment excessive. Since the down-payment has been reduced from 50 percent to 25 percent by revision of by-laws, these four are likely to participate. In addition, Haiti and Panama which have not answered formally are likely to join.

Four countries indicated they will not participate and five by not answering may be presumed to be non-participants.

<u>Approved and will participate</u>	<u>Likely to Participate</u>	<u>Indicated Non-Participation</u>	<u>No Answer</u>
Brasil	Bolivia	Guatemala	Argentina
Mexico	Salvador	Venezuela	Uruguay
Colombia	Costa Rica	Honduras	Peru
Ecuador	Dominican	Chile	Cuba
Nicaragua	Haiti		Paraguay
U. S.	Panama		

2. The capital structure of the Bank will be as follows:

	<u>Minimum shares</u>	<u>Par Value</u>	<u>% down</u>	<u>Down Payment</u>
Brasil	50	\$ 5,000,000	50%	\$ 2,500,000
Mexico	35	3,500,000	50%	1,750,000
Colombia	30	3,000,000	50%	1,500,000
Ecuador	5	500,000	25%	125,000
Nicaragua	5	500,000	25%	125,000
United States	<u>50</u>	<u>5,000,000</u>	50%	<u>2,500,000</u>
Sure	175	\$17,500,000		\$ 8,500,000
Likely additions:				
Bolivia	15	\$ 1,500,000	25%	\$ 375,000
Salvador	5	500,000	25%	125,000
Costa Rica	5	500,000	25%	125,000
Dominican	10	1,000,000	25%	250,000
Haiti	5	500,000	25%	125,000
Panama	<u>10</u>	<u>1,000,000</u>	25%	<u>250,000</u>
	50	\$ 5,000,000		\$ 1,250,000
Probable total capital:		\$22,500,000		\$ 9,750,000

## 3. Chief alterations in the By-Laws since submission to the governments:

## a. Reduction in down-payment on subscription:

Instead of requiring 50 percent of issue price to be paid up at time of subscription, it was decided that countries in Groups A, B, and C (smaller countries) will be allowed to pay 25 percent down in first year and 25 percent in second year; balance to be callable at discretion of Board.

An alternative revision provides that larger countries (Groups D, E, F, G, H) would pay 50 percent first year, 25 percent second year, 25 percent third year, while Groups A, B, and C would pay 25 percent annually for four years. This may be presented to the plenary session if Mr. Berle, when he sounds out the smaller countries not present at the meeting of April 8, finds that they prefer it.

## b. Operations under two year maturity:

"Any such loan or credit having a maturity exceeding two years to any such fiscal agency, central bank, political subdivision, or national shall be guaranteed by the government thereof. And ... any such loan or credit having a maturity not exceeding two years shall not be made or granted to any such fiscal agency, central bank, political subdivision or national if the government makes a timely objection."

This type of clause requiring government guarantee on maturities exceeding two years and forbidding operations under two years if the government makes a timely objection has been added to clauses dealing with dealings in obligations and securities, guarantees of credits and loans made from any source to government, etc., rediscounting and discounting.

## c. Extension of actions requiring 4/5 majority vote:

Extended to include selection and removal of president and department heads, determination of departmental organization, creation and discontinuance of branches and agencies, guaranteeing availability and rates of exchange of currencies of participating governments, payments of interest on deposits of governments, etc.

## 4. Various other changes were made:

a. In the charter: a unanimous vote of representatives of all the participating governments (and not merely unanimity of votes cast) shall be required to increase or decrease minimum holdings of participating governments, or to amend provisions of by-laws relating to manner and effect of making of timely objection.

b. Shall be at least one branch or agency in every participating country.



Response to the question submitted to the American Republics:

Do you have a fundamental objection in principle to the documents relating to the Inter-American Bank which might prevent you from adhering to the proposed convention?

- Brazil - No fundamental objection. Cabled its concern over having to meet the subscription on the date fixed for signing the convention (April 14), but the State Department clarified the point satisfactorily.
- Mexico - No fundamental objection. Anxious to make speed with it.
- Colombia - No fundamental objection.
- Ecuador - No fundamental objection. Presented suggestions for modifications of details.
- Nicaragua - No fundamental objection. Presented suggestions for modifications of details.
- United States - No fundamental objection.
- Bolivia - Although had no fundamental objection, Bolivia was concerned over the size of the down payment on initial subscription. Presented suggestions for modifications of detail.
- Salvador - Although had no fundamental objection, Salvador was concerned over the size of the down payment on initial subscription.
- Costa Rica - Although had no fundamental objection, Costa Rica indicated that initial payment would be too much for it while coffee was so low. When the President of Costa Rica was here, he suggested lowering the down payment for small countries to 25 percent and the implication is that they will join at the lower requirement.
- Dominican - Although had no fundamental objection, indicated they would have to buy shares as their capacity permitted.
- Haiti - Did not answer formally, but indicated that the size of the down-payment bothered them.
- Panama - Did not answer formally, but when sounded out informally implication was that it would join. Panama objected to being placed in the second rather than the lowest class, because much of its trade is re-exports.



Division of Monetary  
Research

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- Guatemala - Answered in the negative. Although the lowering of the initial down payment may affect decision, this is not considered likely.
- Venezuela - Answered in the negative. Not prepared to participate at this time. Venezuela objected also to the trade data basis because oil exports do not express capacity of Venezuela properly.
- Honduras - Lack the funds necessary for down payment. Unlikely to participate even at the revised scale of payments.
- Chile - Answered that it had some fundamental objections but did not submit the objections at that time.
- Argentina - No answer
- Uruguay - No answer
- Paraguay - No answer
- Peru - No answer
- Cuba - No answer

April 8, 1940

MEMORANDUM FOR THE SECRETARY:

Pacific Coast Shipping Situation.

The Pacific Coast freight and charter market was dull in all directions last week with the exception of the intercoastal trade, and this was active not so much because of the heavy offerings, but rather because of the acute shortage of space.

The intercoastal shortage was having a telling effect upon intercoastal shippers, who were getting together at all Pacific Coast ports for the purpose of coordinating a plan for relief. Lumber operators were particularly strapped and every available bottom, including coastwise carriers, was being used.

The offshore trades were without incident. In the Oriental range rates remained firm and the ships were not having a great deal of difficulty finding. Scrap continued to offer freely and rates were quoted on the berth at \$15.50 for rails as high as \$17 for No. 1 melting. Few lines were handling metal. The last scrap fixture was reported at \$17.50 gross. General cargo was better than fair, but lumber, grain, and other bulk commodities were inactive.

The European range was more or less dull, and the usual seasonal decline, despite the war, seemed to have fallen upon the trade. Because of the space shortage, however, the lines were getting all the cargo they could handle. The movement of canned goods and dried fruit has been severely curtailed by import restrictions. Lumber was moving to various European ranges at rates ranging between \$50 and \$60.

Baril Harris

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 9, 1940

TO Mr. Cochran  
FROM Mr. Dietrich

The Federal Reserve Bank of New York informed me this morning that it had instructions to make the following payments for the banks indicated.


BANK OF NORWAY

Cable dated April 6 instructs four payments totaling \$373,000 to New York City banks for account of various Norwegian banks. Value April 9.

Cable dated April 8 instructs eight payments totaling \$871,000 to various New York City banks. Value April 10.

NATIONAL BANK OF DENMARK

Cable dated April 8 instructs payment of \$900,000 to the Guaranty Trust Company for account of the National Bank of Denmark. VALUE April 10.





## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 9, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

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

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
April				
1	79,600	1,158,267	Nil	Nil
2	41,635	1,368,422	Nil	Nil
3	56,000	2,358,971	Nil	Nil
4	189,488	2,761,123	Nil	Nil
5	31,012	1,268,521	Nil	Nil
6	5,400	319,924	Nil	Nil
<b>TOTAL FOR WEEK</b>	<b>403,135</b>	<b>9,235,228</b>	<b>Nil</b>	<b>Nil</b>
Sales from February 22 to March 30, incl.	423,171	16,330,300	Nil	Nil
<b>TOTAL FEBRUARY 22 TO APRIL 6, INCL.</b>	<b>826,306</b>	<b>25,565,588</b>	<b>Nil</b>	<b>Nil</b>

There is attached a copy of an item which appeared in the New York Times of April 4 in regard to the sale of British securities. In a separate memorandum I am today reporting to the Secretary a conversation with Mr. Gifford in regard to the contemplated vesting on Saturday, April 13, of a second lot of British securities.

Mr. Opie telephoned on the afternoon of April 3 that a cablegram had been received by Mr. Gifford to the effect that sales of non-vested securities for last week (that is, the week ending March 30) totaled \$4,000,000.

## THE NEW YORK TIMES

April 4, 1940

FOREIGN SELLING

So far as trading on the New York Stock Exchange has been concerned, selling of United States corporate securities by foreign holders has been by no means heavy lately. On some days, it would appear that foreign interests were buyers on balance. However, what the British Sales Committee with its list of sixty stocks has done privately or over the counter is another matter. Presumably this committee is selling cautiously, but so far as the listed market is concerned, the day-to-day quotations on the sixty stocks seldom appear to be out of line from those of the stock market as a whole. Thus far, at least, British liquidation of our securities in order to strengthen dollar balances has caused a minimum of disturbance to the markets, if indeed there has been appreciable disturbance at all.

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 9, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

Mr. Josa Chavez, Commercial Counselor to the Peruvian Embassy, called on me this afternoon. He had read the press account of the hearings on the Townsend Bill, and was interested to know the arrangements under which we were reported to be continuing purchases of silver from China and Mexico. I explained to him the system of future contracts which are being made, and let him understand definitely that Peru would enjoy just as full privileges thereunder as would any other silver producing country. He was happy to hear this, since he said Peru is faced with economic difficulties, as a result of inability to market sugar and other products, and the loss of the United States silver market would be quite a blow.





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**TREASURY DEPARTMENT**

INTER OFFICE COMMUNICATION

DATE April 9, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The news this morning of the activities of Germany with regard to the Scandinavian countries had a depressing effect on most of the foreign exchanges. The rates for sterling and the French franc underwent wide fluctuations, and at one point during the morning, those currencies touched a new seven-year low. The Dutch guilder and the belga were both under pressure and the guilder rate held steady only as a result of active intervention on the part of the Dutch Control. No quotations were made in the New York market for the Norwegian or Danish kroner, and the Swedish krona was weak.

Sterling, which closed here last night at 3.55-1/2, opened in Amsterdam today at 3.50-3/8. Just before our opening, it was quoted abroad at 3.49-3/4. In New York, the initial rate was 3.49-3/4 and within a very short time the quotation dropped to a new low of 3.43-1/2. It then recovered to reach 3.48-1/2 by noontime. Quieter conditions prevailed during the afternoon. Sterling again became weak and closed at 3.46-1/4.

Substantial increases in both sales and purchases of sterling today produced one of the largest turnovers that has been reported so far. Of special interest were the sharply expanded purchases of sterling for account of commercial concerns. Included in the figure for commercial purchases were £300,000 which the Guaranty Trust Company bought for a single customer.

Sales of spot sterling by the six reporting banks totaled £943,000, from the following sources:

By commercial concerns.....	£ 259,000
By foreign banks (Far East, Europe and South America).....	£ 684,000
Total	£ 943,000

Purchases of spot sterling amounted to £1,234,000, as indicated below:

By commercial concerns.....	£ 947,000
By foreign banks (Europe, South America and Far East).....	£ 287,000
Total	£ 1,234,000

The following reporting banks sold cotton bills totaling £51,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 26,000 by the Guaranty Trust Company
16,000 by the Bankers Trust Company
5,000 by the National City Bank
4,000 by the Irving Trust Company
£ 51,000 Total

CONFIDENTIAL

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The Guaranty Trust Company reported that it had purchased \$22,000 for forward delivery from the British Control at 4.03-1/2. The sterling will be used by one of Guaranty's customers to pay for shipments of rubber.

The quotation for the French franc paralleled that of sterling and its low was .0194-3/4. It closed at .0196-1/2.

The guilder moved slightly lower during the morning to .5308. It remained steady at that level for the rest of the day and closed at that rate. In accordance with instructions received from the Netherlands Bank, the Federal Reserve Bank of New York purchased 1,010,000 guilders in New York in support of the Dutch currency. It was reported that very heavy pressure was exerted against the guilder in the Amsterdam foreign exchange market, and the Dutch Control was forced to intervene on an important scale.

The belga was quoted as low as .1698, after the closing last night in New York at .1709-1/2. The final quotation today was .1699.

The other important currencies closed as follows:

Swiss franc	.2242-1/2
Canadian dollars	16-3/8 <sup>1</sup> / <sub>2</sub> discount

As a result of German activities in Norway and Denmark, the Bank of England announced that until further notice, and until the situation becomes clearer, the British Treasury has ordered that all withdrawals from Danish and Norwegian accounts be suspended. It was also reported that British banks suspended all dealings in the currencies of those two countries. It must be remembered that the foreign exchange market in London is not a free market, but is officially controlled.

The Bank of France made the announcement in Paris that upon the request of the Minister of Finance, as a temporary measure, Danish and Norwegian accounts have been blocked until further notice.

In New York, it was announced by Mr. Loree, Chairman of the Foreign Exchange Committee, that after consultation with the Treasury Department and the Federal Reserve Bank of New York it has been decided to suspend trading in Danish and Norwegian currencies except for the ascertained legitimate needs of customers. As a result of this action, there were no quotations for the Norwegian and Danish currencies in New York.

The rate for the Swedish kronor, which has held steady for sometime at .2383, was quoted at .2282-1/2 today. It was reported that business was done at the latter rate.

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

**CONFIDENTIAL**



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

\$ 3,107,000 from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York for account of the Bank of Norway. The disposition of this shipment is unknown at the present time.  
 727,000 from Italy, shipped by the Bank of Italy for its own account to the Federal Reserve Bank of New York.  
 677,000 from the Netherlands, shipped by the Amsterdam Bank, Amsterdam, to the Guaranty Trust Company, New York.  
 564,000 from Switzerland, shipped by the B.I.S. to the J. Henry Schroder Banking Corporation, New York.  
\$ 5,075,000 Total

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

On the report of April 3 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 \$14,616,000, a decrease of \$808,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION	SHORT POSITION	DECREASE IN
	MARCH 27	APRIL 3	SHORT POSITION
England	\$3,992,000	\$4,087,000	\$ 95,000 (Increase)
Europe	7,729,000	6,665,000	1,064,000
Canada	595,000 (Long)	618,000 (Long)	27,000 (Decrease in Long Position)
Latin America	494,000	595,000	111,000 (Increase)
Japan	3,078,000	3,136,000	58,000 (Increase)
Other Asia	770,000	697,000	73,000
All Others	16,000	54,000	38,000 (Increase)
Total	\$ 15,424,000	\$14,616,000	\$ 808,000

The only appreciable change which occurred during the week ended April 3 was the decline of \$1,064,000 in the short position for European currencies. This decrease was largely the result of a reduction in Dutch guilder and Swiss franc commitments of the New York banks.

The Bombay spot silver quotation worked out to the equivalent of 40.87¢, up 15/16¢.

In London, a silver price of 20-1/2d was fixed for both spot and forward delivery, representing a gain of 3/8d in each case. The U. S. equivalents were 32.52¢ and 32.33¢.

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

**CONFIDENTIAL**



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We made four purchases of silver totaling 209,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.

We also purchased 200,000 ounces of silver from the Bank of Canada. So far this month, we have bought a total of 730,000 ounces from that source under our regular monthly agreement to purchase up to 1,200,000 ounces.

*A.M.S.*

**CONFIDENTIAL**

# STRICTLY CONFIDENTIAL

## TREASURY DEPARTMENT

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### INTER-OFFICE COMMUNICATION

DATE April 9, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

When I mentioned in the group meeting this morning that Dr. Felix Somary had called on me yesterday evening, the Secretary said that Captain Puleston had submitted a memorandum on this man yesterday afternoon. Upon talking with Captain Puleston after the meeting, I learned that the Captain himself had not seen Dr. Somary, so I am submitting the following report in some detail, even though there may possibly be some duplication of the Captain's report, with which I am not familiar.

It will be recalled that Dr. Somary is a Swiss banker, of Hungarian extraction, who came to the United States last fall in regard to making certain purchases on this market for the Swiss Government. My memorandum of December 12, 1939 gave an account of his visit at the Treasury in which he raised the question of our taking gold in Switzerland against Swiss wartime purchases in the United States.

When Dr. Somary called on me yesterday afternoon, he stated that he had returned to Switzerland the latter half of December, and arrived in the United States on a second visit only three days ago. He came by Italian ship.

On this occasion, Dr. Somary stated that his business concerns principally a mission from the Swiss Government to the Department of State. He was calling at the Treasury Department to bring me up to date on European affairs as he had observed them. The first point which he mentioned was what he described as a very important speculation against currency. He said this speculation was being carried out on a considerable scale at such centers as Amsterdam and Dublin. When I expressed surprise at Dublin as an exchange center, Somary said this was one of the war developments. He said that speculation was heavy against sterling, the Scandinavian countries, and even the Canadian dollar. When I asked whether there was not difficulty in finding counterparts to such transactions at present, he said that so far no serious difficulty evidently had been experienced.

Somary wanted us to know about this speculation because he insists that there is such a wave of pessimism along with speculation now in regard to the numerous currencies of Western Europe that he feels the result must be a whole series of devaluations, whether now or later. In this connection, he stated that the Swiss have lost some gold, but not to a serious extent, and will not devalue in present circumstances. They are obliged to make such important purchases abroad that they desire to maintain the high purchasing power of their currency if this is at all possible. On the other hand, the prices in Switzerland are so high in comparison with those in some other countries, particularly France, that they could not be maintained in peacetime, and currency devaluation might become imperative. He cited as an example that the cost of winter hotels at Megève in France, during the



winter sport season, was only one-third of the cost in comparable hotels just across the Swiss border. French visas are now underwriting Swiss visas and such other commodities as France can spare and transport are entering the Swiss market on an increased scale.

In regard to Swiss economy, Dr. Somary said that the expenses of between \$4,000,000 and \$5,000,000 a day for the Government in buying its way on a war-footing was very heavy, practically as much as if Switzerland were actually at war. Thanks to their important railways, the Swiss can carry on for many months. Switzerland is still obtaining about 60% of her coal supply from Germany, as before the war. While railway congestion was serious in Germany in winter, he said that there had been marked improvement the past two months and no difficulty is now being experienced in getting deliveries of German coal. Switzerland can no longer obtain any coal from Belgium or France. The remainder of her supplies come from England and even the United States, in spite of the heavy freight charges. From the United States, Switzerland is importing grain, cotton and the usual supplies, plus some wartime additions such as old railway steel to be cut up and struck in the ground for defense purposes. He stressed the expense of shipping such material in present circumstances.

Dr. Somary's chief worry seemed to be connected with the possibility of Italy entering the war on the side of Germany. He would not assert that such a step was probable, but he definitely excluded the possibility of Italy coming in on the side of the Allies. He was immediately worried because of the report that Italy had concentrated a large mass of troops on the French border, which had obliged France to send a force to the opposite on French soil. While he has no information that Italy may take the offensive along this frontier, he does believe that this move constitutes a serious embarrassment to France, obliging the transfer of troops to this front which might be sorely needed if Germany, taking advantage of this diversion, should launch a frontal attack on the Belgian line.

If Italy should get in the war against the Allies, the Mediterranean would be the scene of heavy conflict, and Switzerland presumably would be shut off from using either Genoa or Brindisles as a port. The only possibility than of obtaining American goods would be over France, probably from Marseaux or St. Nazaire. Both of these French ports have limited accommodations, and the rail connection between them and Switzerland is not good. The principal line would go through Lyon, which important industrial city might be one of the first objectives of an Italian attack.

In the export field, Switzerland is doing rather well. Her chemical and metal industries have an affluently in finding markets among the warring countries. Vetch factories are making bombs and instruments of precision for military purposes for which there is a good cash demand. There are not so many refugees in Switzerland as during the last war, partly because of the affluently of refugees getting out of their own countries with any funds, and partly because of the high cost of living in Switzerland. The hotels in Lausanne have a number of refugees and those living in Switzerland. The hotels in Lugano and Aigle have people. The families from Basle and other towns on the German border have in many instances moved into hotels in the mountainous interior. The hotel industry is hard hit by the absence of tourist trade, but relieved to a certain extent by the fact that so many of the male employees are in the army.



During the recent negotiations between Switzerland and England, which were held in Paris, Dr. Somary stated that he had participated. Sir. Frederick Leith-Boss was the principal British negotiator. The British wanted a clearing agreement with Switzerland. The Swiss did not desire this, lest it become a precedent which France and other countries might want to follow. The arrangement with Great Britain is that a Swiss banking syndicate will loan to the British Treasury for three years the amount in pounds sterling by which Swiss exports to Great Britain exceed Swiss imports from that country. There is a gold clause.

Dr. Somary had not traveled in Germany while in Europe this time, but gathered such information as he could about that country. He did not seem to expect any early internal political or social difficulties in Germany. He thought the greatest need might be for petroleum and its derivatives. He thought the Germans did not have more than five or six million tons in reserve. He said their supplies had been coming more importantly from Mexico, Colombia and Venezuela than from Russia and Rumania. When I asked how these supplies got into Germany, he said through various neutral channels on the north, as well as through Italy on the south. He deprecated the possibility of carrying on any long war with an important military offensive on Germany's part without the acquisition of oil reserves.

Dr. Somary is pessimistic in regard to the outlook for Europe. He is convinced that a war of considerable duration will be so costly and destructive that, irrespective of which side wins, much of the area will be inhabited by a people in such dire circumstances that autarchic form of Government and low standard of living will be obligatory. To assist in the recovery of this desolated area, Somary feels that the capitalist countries, particularly the United States with its gold holdings, will have a big responsibility. He lamented the fact that we have not yet acquired a creditor mentality in our country, such as Switzerland has already adopted. He thinks we will eventually have to make large loans at a low rate of interest, and he feels that Switzerland would be happy to participate with us, along with the Netherlands and Belgium, or any other capital countries which survive. Speaking of Belgium, he thought the belga was surely one of the currencies which would have to be devalued further if present tendencies continue. Reference is made in this connection to Despatch No. 36, dated February 15, 1940, from the American Embassy at Brussels, of which a copy is attached.

*B. M. S.*

Brussels, February 15, 1940.

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No. 36

Subject: Economic Outlook in Belgium;  
Conversation with Foreign Minister  
Paul Henri Spaak.

STRICTLY CONFIDENTIAL.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to report that on February 15, 1940, I had a conversation with Foreign Minister Spaak, in which he spoke in most gloomy terms of the future. He said he was not so much concerned with the military situation - although that was gloomy enough - but what kept him awake of nights was the specter of an inevitable economic collapse.

I consoled him by offering the reflection that the plight of Belgium was no worse than that of any other hapless neutral - in fact, probably better. But he found little comfort in this thought, emphasizing that over 800,000 men, one-tenth of the population, were now in the army, to which must be added nearly 200,000 unemployed. These great numbers were an element of unrest, he said, that must be reckoned with. The State was unable to pay the soldiers enough to support their families and as the war continued from month to month, discontent and disaffection would grow. Moreover, where was the money to come from? The present "Independence Loan" had, according to the latest figures available to him, been subscribed in the amount of 750,000,000 francs; and this amount was entirely inadequate. Three times such a sum was necessary for the vast expenditures now made.

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He asked me how anyone could intelligently be other than a pessimist in the face of such insurmountable pessimistic facts. He spoke about devaluation and expressed the opinion that it was unavoidable but was a matter which had to be handled with great delicacy - adding that devaluation at best was only a stopgap and temporary remedy. He found little consolation in the thought that the Treasury possessed gold reserves and foreign exchange valued at 20,000,000,000 francs to serve as a basis for currency issues, but concluded our conversation with the thought that another year would see Belgium in a desperate fiscal situation if present vast military expenditures were not abated.

Respectfully yours,

For the Ambassador,

Orme Wilson,  
Counselor of Embassy.

gn

JC:AFH

(Copy)



4-9-40

FROM: MR. GASTON'S OFFICE

TO: The Secretary

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At the conference in Berle's office at 2:30 it was decided to recommend to the President extension of the combat zone to include the Faroe islands and all the coast of Norway. There will probably be no immediate modification of the neutrality proclamation, as the situation is not yet clear.

Berle raised the question of the gold and balances of the two governments, the central banks and their nationals. I told him all transactions ~~xxxxxxx~~ are held up for the time being, which he thought very wise. He suggested we might for the present only wish to relax this to take care of legation and consulate expenses. I told him I thought you would want to handle this matter yourself and might suggest a meeting, perhaps for tomorrow and that you might yourself want to talk to the Norwegian and Danish ministers.

He agreed this would be a good thing. He is to ~~xxx~~ see the Danish minister this afternoon and the Norwegian minister was also in the building. He said he would keep in touch with me.



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 9, 1940

TO Secretary Morgenthau

FROM W. H. Hadley

10:30 A.M.

Government security market opened easier, with long bonds now off  $5/8$ ths of a point. Activity is not heavy, though, and most offerings are in small lots. Some buying interest is indicated at slightly lower levels.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 9, 1940

TO Secretary Morgenthau

FROM W. H. Hadley

11:00 A.M.

GOVERNMENT BONDS:

The market is firming, with insurance companies and savings banks buying in large blocks. Long bonds are now off about 5/8ths of a point, up 4/32nds from the lows of the morning.



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**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

**DATE April 9, 1940**

**TO Secretary Morgenthau**

**FROM W. H. Hadley**

**11:45 A.M.**

**GOVERNMENT BONDS:**

In the last fifteen minutes buying has dried up and prices again moved to the lows of the day, with losses of as much as 27/32nds in long bonds. Selling continues very light but buying interest on a scale-down is reported to be behind the market.

## RE MARKET REPORT

April 9, 1940.  
12:00 NoonPresent: Mr. Hadley  
Mrs Klotz

H.M.Jr: What is going on?

Hadley: The market opened somewhat easier this morning and a small amount of selling on the market, but it came mostly from out of town sources and not very large blocks. As the prices moved down to about half a point, some of the big savings banks and insurance companies showed their interest in the market for large blocks and they are still behind the market, so that although it is still easy now, there is the support from those institutions. Right now it is about - the long bonds are about three-quarters of a point off and are easing slightly.

H.M.Jr: There is a market?

Hadley: There is a backlog behind the market and this decline started at the peak of the year, so that we have got a big cushion. It is the highest point since last year.

H.M.Jr: You don't think it is necessary, do you?

Hadley: I don't think so. I think we have got a margin of about two points before we even consider it. It has moved up about that much in the last month, just right up.

H.M.Jr: You stay in at lunch today, please.

Hadley: Yes.

HSM

PLAIW

London

Dated April 9, 1940

Rec'd 1:20 p. m.

Secretary of State,  
Washington.

889, April 9, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Financial houses in the city have been notified by the Bank of England that Denmark is to be considered for purposes of transactions as an enemy country and therefore the Trading with the Enemy Regulations apply. Also all withdrawals from Norwegian accounts have been prohibited for the time being. The city seems to have been taken by surprise by the German action and prices of all securities have been marked down but there has been no panicky selling and jobbers have resorted to their usual crisis tactics of widening the spread between buying and selling prices to such an extent as to make trading attractive.

KENNEDY

CSB



HSM

PLAIN

London

Dated April 9, 1940

Rec'd 1:58 p. m.

Secretary of State,  
Washington.

888, April 9, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The Chancellor of the Exchequer was asked a great many questions in the House of Commons this afternoon about the British exchange control which he answered by circulating the following prepared statement:

"I am glad to have this opportunity of making a statement which will I hope serve to correct some of the misapprehensions current, both at home and abroad, on this subject.

"The recent fall in the unofficial rate for sterling on foreign markets was in no way a sign of financial weakness or difficulties on the part of this country. It was the natural result of the recent regulation providing that exports of tin, rubber and certain other commodities must be paid for in foreign currencies or in sterling obtained from authorized dealers in exchange

for

hsm -2- No. 888, April 9, 6 p. m., from London

for foreign currencies. The object of the regulation was to ensure that these exports contribute directly to our foreign exchange resources. The fall in the quotation was the incidental result of tightening up the exchange control.

"Sterling is the basic currency of vast areas in many parts of the world and the problem of controlling it is thereby rendered both more important and more difficult. The House will appreciate that this fall is limited to a very small proportion of sterling, namely, that held by such foreigners as choose to dispose of it to another foreigner at the rate current on foreign markets. Our policy is to maintain the purchasing power of sterling for the national needs and in pursuit of that policy we have arranged that the vast bulk of transactions between sterling and other currencies shall be conducted in London through our control and at our official rates. That may have the incidental result that any outside market for sterling becomes a very thin market and a thin market is always erratic and fluctuating. If our general policy is sound as I am convinced that it is we must not be deflected from it by secondary considerations. By far the greater part of sterling transactions are carried through at the official rate. I am satisfied that the proportion

of

of transactions carried through outside the official market is a very small one.

"The proportion becomes very much smaller still if we allow for the fact that a very great proportion of our purchases are made from the sterling and franc using areas and do not involve the intervention of foreign currencies at all. Any suggestion that the rates quoted in the free market are important in the cost of living in this country cannot be sustained.

"I think that it would be a wrong policy altogether to intervene in support of sterling in the free market.

"As regards the question whether we should block sterling assets belonging to foreigners a great deal of foreign money has been invested in this country in securities or entrusted to our banking system because sterling is and remains a currency in international use. At the outbreak of war we assumed complete control over the international uses to which the money belonging to our own people might be put, but we left the foreigner-- by which I mean people living outside the sterling area-- free to dispose of his assets here or elsewhere. That decision was in accord with the principles and traditions on which in this market foreigners have always felt able to rely. We were of course under no obligation to convert such foreign holdings into gold or into foreign currencies  
at



hsm -4- No.838, April 9, 6 p. m., from London

at the expense of our RESERVES: EVERY foreign holder was aware that he held sterling and nothing else. But we could have prevented him from taking his money or his securities home. To do this, we should have had to make it impossible for him to deliver to another foreign buyer. In other words we should have had to put an embargo upon the use of his money or his securities. On a balanced review of all the considerations we chose not to do so exposing ourselves no doubt thereby to the risk that some foreign holders would use their freedom in order to dispose of their sterling assets. That has not happened to any substantial extent and it would not be to our advantage to take the action suggested in the direction of blocking these assets. Sterling I maintain is good to hold; and I believe that this opinion is spreading in neutral countries. The best way of ensuring that it will continue to spread is to maintain for ourselves and others, so far as we can, the essential liberties which in the financial and every other field are traditional in this country. I have considered this matter very carefully and am satisfied that our policy is in the best interests of this country--the test by which of course all our policy has to be settled."

KENNEDY

HPD

TREASURY DEPARTMENT

371

INTER OFFICE COMMUNICATION

DATE April 9, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4:15 this afternoon Mr. Gifford telephoned me from New York to let us know that a second vesting of securities by the British Government, which he had told us through Pinsent might come at an early date, has now been set for Saturday, April 13. Mr. Gifford is still in communication with London as to the contents of the list. Once the list is finally made up, he will send a copy thereof in his pouch to the British Embassy for delivery to the Secretary. He will also send us a copy of the short press communique which he contemplates giving out. This will be to the effect that, as was anticipated, a further vesting is taking place, but that no change in procedure is anticipated.

Mr. Gifford seemed well pleased with the manner in which his business had developed, that is, he has been able to increase his sales and dispose of rather important amounts of securities recently without any injurious effect on the New York market, and without attracting any attention.

Mr. Gifford asked that I tell Secretary Morgenthau that while he feels that this next vesting will be somewhat of a routine matter, he is entirely at the disposition of the Secretary, and would come down to Washington to discuss the matter if the Secretary might desire. In closing, Mr. Gifford stated that if there are this week developments of such a character that there might be serious repercussions on the New York market, the vesting order might not take place on Saturday. Otherwise, it will go as scheduled.

A few minutes after receiving this message from Mr. Gifford, I conveyed it to Secretary Morgenthau who came in to my office. At the Secretary's request, I called Mr. Gifford back and told him that the Secretary hoped he would consider the idea of making some sort of an announcement whenever there might be liquidated a certain number of some of the American securities which have been taken over by the British Government. Mr. Gifford stated that he understood the Secretary's interest in wanting the market to benefit from such an announcement, and that he would keep the idea in mind, but that to date progress has not been made to such a point that a statement of this kind could be issued.

FS

GRAY

Paris

Dated April 9, 1940

Rec'd 2:05 p.m.

Secretary of State,  
Washington.

446, April 9, 7 p.m. (SECTION ONE).

FOR THE TREASURY FROM MATTHEWS.

This morning's AGENCE ECONOMIQUE ET FINANCIERE and this afternoon's LE TEMPS carry the following news item without comment:

"Declarations of Mr. Morgenthau on sterling. The Secretary of the Treasury stated at a press conference that an inquiry among American importers and exporters concerning the effects of the depreciation of Sterling on the free market has not shown that this depreciation has been prejudicial to their interests.

WWC

MURPHY



MP

GRAY

Paris

Dated April 9, 1940

Rec'd 2:47 p. m.

Secretary of State,  
Washington

446, April 9, 7 p. m. (SECTION TWO)

Mr. Morgenthau added that he had no reason to believe that England desired the depreciation of its currency and he concluded that the spirit of the tripartite monetary agreement has <sup>not</sup> been affected."

The bank of France has announced that upon the request of the Minister of France, as a temporary measure, Danish and Norwegian accounts have been blocked until further notice.

The securities market today was, of course, entirely dominated by the German invasion of Denmark and Norway. Losses in some cases reached 10% and ranged from 4% to 6% on the average; several Scandinavian issues could not be quoted. Rentes were down from 65 centimes to 2 francs. There was no sign of panic on the bourse however.

MURPHY

PEG

REB

GRAY

Paris

Dated April 9, 1940

Rec'd 2:44 p. m.

Secretary of State,  
Washington.

446, April 9, 7 p. m. (SECTION THREE)

It is much too early and information reaching France is much too fragmentary for either financial circles or the public in general to evaluate the events of last night. There are persistent rumors that an important naval battle is now in progress. Reynaud and Daladier have flown to London and there is, of course, great eagerness to learn the Allies' next move.

I have just telephoned our friend at the Bank of France. He seems to feel that reaction on the markets in Paris has on the whole been quite satisfactory. He said incidentally that the Danish and Norwegian accounts referred to above are very small.

(END OF MESSAGE)

MURPHY

PEG